

# Creditreform Bank Rating

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

Rating Object	Rating Information			
<b>Nordea Bank Abp (Group)</b> as parent of <b>Nordea Mortgage Bank Plc</b>  Creditreform ID: 400990550 Incorporation: 2000 (Main-) Industry: Banks Management: Frank Vang-Jensen (CEO)	Long Term Issuer Rating / Outlook:		Short Term:	Type:
	<b>A+ / stable</b>		<b>L2</b>	Update unsolicited
	Rating of Bank Capital and Unsecured Debt Instruments:			
	Preferred Senior Unsecured:	Non-Preferred Senior Unsecured:	Tier 2:	Additional Tier 1:
<b>A</b>	<b>A-</b>	<b>BBB</b>	<b>BBB-</b>	
Rating Date:		<b>31 August 2020</b>		
Monitoring until:		withdrawal of the rating		
Rating Methodology:		CRA "Bank Ratings v.2.0" CRA "Rating of Bank Capital and Unsecured Debt Instruments v.2.0" CRA "Environmental, Social and Governance Score for Banks v.1.0" CRA "Rating Criteria and Definitions v.1.3"		
Rating History:		www.creditreform-rating.de		
<b>Our rating of Nordea Mortgage Bank Plc is reflected by our rating opinion of Nordea Bank Abp (Group) due to its group structure. Therefore we refer to our rating report of Nordea Bank Abp (Group) from 31 August 2020:</b>				

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## Key Rating Driver

### Strengths

- + Outstanding asset quality figures for FY 2019
- + Diversified by income sources and by geography in the Scandinavian countries
- + Sound capitalization
- + Remarkably low NPL ratio
- + Resilient profitability

### Weaknesses

- Persistently low net interest margin
- Decreasing profitability
- Increasing cost of risk due to the corona pandemic impact

### Opportunities / Threats

- + Ongoing digitalization investments enabling cost efficiency and meet customer needs
- + ESG product offerings
- Economic downturn due to the Corona crisis leads to decreasing asset quality and lower profitability
- Low-interest rate environment puts pressure on profitability

## Company Overview

Nordea Bank Abp (hereafter Nordea) is a full-service universal 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. Nordea has a presence in 19 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.

Nordea re-domiciled the parent company of the Nordea Group from Stockholm (SWE) to Helsinki (FIN) in October 2018 and has been under the supervision of the ECB since then. Nordea is considered as an "Other Systemically Important Institution" (OSII) and must therefore comply with additional regulatory capital requirements. With 29.000 employees (full-time equivalents - end of year 2019) the Group serves approximately 9.3 million household customers as well as 530,000 SME's and had total assets of €554.68 billion in 2019.

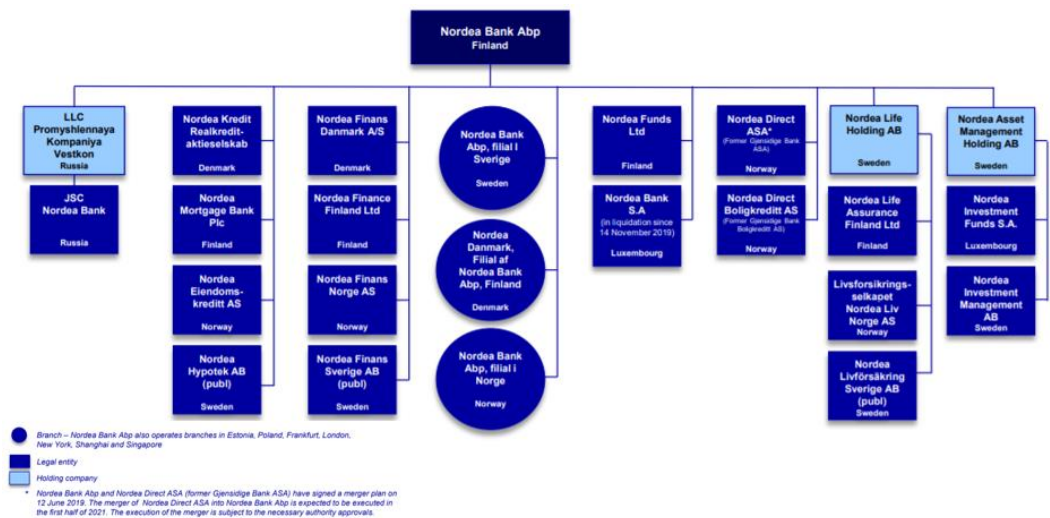
The Group is divided into four main business areas: *Personal Banking*, *Business Banking*, *Large Corporates & Institutions* and *Asset & Wealth Management*. In addition, Nordea maintains a *Group Functions and Other* business unit. *Personal Banking* serves Nordea's household customers through various channels with a range of financial and advisory services. *Business Banking* is responsible for servicing small and medium-sized corporates. Against this, Nordea's *Large Corporates & Institutions* unit provides financial solutions to large and international customers with a diverse range of financing and advisory services. *Asset & Wealth Management* is responsible for Nordea's affluent and high net worth individuals as well as institutional investors, and provides individual investment, savings and pensions 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.

Nordea's updated business plan considers the following three group priorities: optimize operational efficiency, drive income growth initiatives, and create great customer experience. These targets aim to achieve a cost income ratio of 50% and a ROE of >10% in FY2020. In addition, the bank aims to maintain a 150-200bp management buffer above the capital requirements and a dividend policy of a targeted payout ratio of 60-70% in FY2020.

On 01 March 2019, Nordea acquired Gjensidige Bank ASA (NOR), which provides financial services in the area of insurance, savings, funding, online and mobile banking as well as loans and mortgage services. The effective date of the merger of Gjensidige Bank into Nordea is expected to be in the first half of 2021. Moreover, due to Nordea's intended focus on the Nordic countries, the bank closed its sale of its Baltic operations (Luminor Bank AS) in the end of 2019.

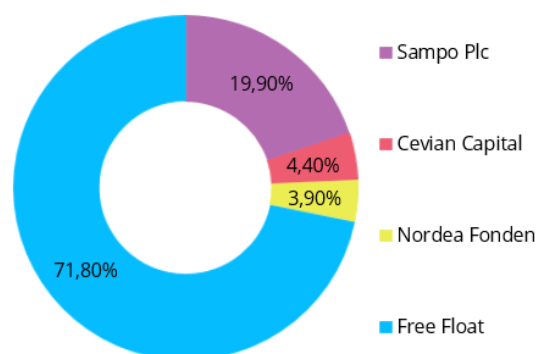
The main legal structure of Nordea as of 05 March 2020 can be found in the following chart:

Chart 1: Legal Structure of Nordea Bank Abp. | Source: Website of Nordea Bank Abp.



The shareholder structure of Nordea as of July 2020 is as follows:

Chart 2: Major shareholders of Nordea Bank Abp as of July 2020. | Source: Own presentation based on data of Nordea Bank Abp.

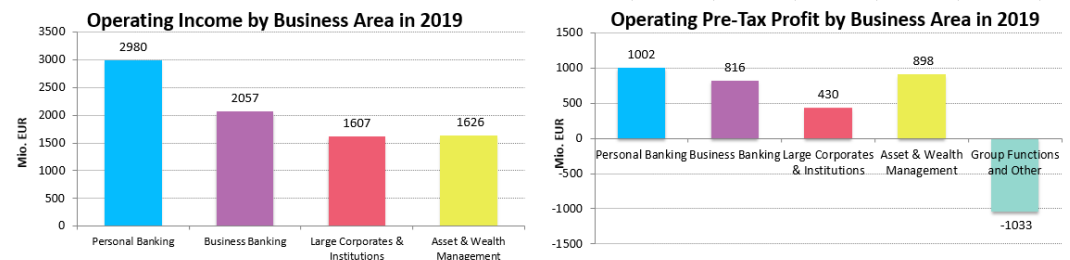


## Business Development

### Profitability

Nordea's operating income amounted to €8.5 billion in 2019, decreasing by 3.3% in a year-over-year comparison (€290 million). In addition, this is Nordea's third reduction of operating income in a row. See chart 3 for the contributions of each business area to Nordea's operating income and operating pre-tax profit in 2019.

Chart 3: Nordea's operating income and operating pre-tax profit by its business areas. | Source: Own presentation based on Data of Annual Report 2019 of Nordea Bank Abp.



Net interest income as Nordea's major source of income contributed almost half of the operating income, accounting for 51% and reducing by about 4% year-over-year. The pressure on Nordea's margins is evident here, with increasing interest expenses being noteworthy. Fees and commissions is Nordea's second major source of income and accounted for 36% of operating income in 2019. Asset Management Commissions account for almost half of these revenues (1,455m EUR) and represent a stable source of income.

Operating expenses amounted to €5.9 billion in 2019, increasing by remarkable 18.6% YOY (€940 million). This increase is primarily due to the impairment on Nordea's global IT platform for 735m EUR, which was due to the impairment test, which revealed significant shorter expected lifetime of some IT systems. By contrast, Nordea's personnel expense remain roughly stable with about 3bn EUR.

Nordea's pre-impairment operating profit amounted to €2.5 billion in the fiscal year 2019. Thus, pre-impairment profit has almost halved since 2016. As a result, Nordea's competitive position significantly worsened.

In addition, the bank's asset write-downs increased significantly in 2019 and amounted to about 536m EUR in 2019. This development is on one hand due to large reversals of loan loss provisions in 2018. On the other hand, Nordea adjusted its collective provision models in relation with the Asset Quality Review findings of the ECB, which ultimately led to a weaker outlook in certain sectors and thus to increased Nordea's net loan loss provisions by about 282m EUR in Q3-2019. We therefore assume that the bank's profitability remains to be weaker in the future as well.

Considering the current Corona pandemic impact and Nordea's half-year 2020 results, Nordea expects full year net loan losses to be below 1bn EUR as a result of its prudent approach. The bank's half year 2020 loan loss provision amounts already to 852m EUR (698m EUR in Q2-20 and 154m EUR in Q1-20). Comparing to the H1-2019 results, Nordea reveals currently costs of risk, which are three to four times as high as in the previous year. However, the final impact of Corona is still uncertain.

A detailed group income statement for the years of 2016 through 2019 can be found in Figure 1 below:

Figure 1: Group income statement | Source: eValueRate.

Income Statement	2016	2017	2018	%	2019
<b>Income (€000)</b>					
Net Interest Income	4.727.000	4.666.000	4.491.000	-3,9	4.318.000
Net Fee & Commission Income	3.238.000	3.369.000	2.993.000	+0,6	3.011.000
Net Insurance Income	275.000	229.000	123.000	-37,4	77.000
Net Trading Income	1.441.000	1.102.000	965.000	-1,9	947.000
Equity Accounted Results	112.000	23.000	124.000	-59,7	50.000
Dividends from Equity Instruments	-	-	-	-	-
Other Income	125.000	67.000	82.000	+3,7	85.000
<b>Operating Income</b>	<b>9.918.000</b>	<b>9.456.000</b>	<b>8.778.000</b>	<b>-3,3</b>	<b>8.488.000</b>
<b>Expenses (€000)</b>					
Depreciation and Amortisation	228.000	268.000	482.000	> +100	1.330.000
Personnel Expense	2.926.000	3.212.000	2.998.000	+0,6	3.017.000
Tech & Communications Expense	698.000	666.000	567.000	+5,1	596.000
Marketing and Promotion Expense	79.000	66.000	60.000	-1,7	59.000
Other Provisions	-	-	-	-	-
Other Expense	870.000	893.000	939.000	+4,8	984.000
<b>Operating Expense</b>	<b>4.801.000</b>	<b>5.105.000</b>	<b>5.046.000</b>	<b>+18,6</b>	<b>5.986.000</b>
<b>Operating Profit &amp; Impairment (€000)</b>					
<b>Pre-impairment Operating Profit</b>	<b>5.117.000</b>	<b>4.351.000</b>	<b>3.732.000</b>	<b>-33,0</b>	<b>2.502.000</b>
Asset Writedowns	502.000	369.000	173.000	> +100	536.000
<b>Net Income (€000)</b>					
Non-Recurring Income	10.000	16.000	394.000	-62,7	147.000
Non-Recurring Expense	-	-	-	-	-
<b>Pre-tax Profit</b>	<b>4.625.000</b>	<b>3.998.000</b>	<b>3.953.000</b>	<b>-46,5</b>	<b>2.113.000</b>
Income Tax Expense	859.000	950.000	872.000	-34,5	571.000
Discontinued Operations	-	-	-	-	-
<b>Net Profit (€000)</b>	<b>3.766.000</b>	<b>3.048.000</b>	<b>3.081.000</b>	<b>-50,0</b>	<b>1.542.000</b>
Attributable to minority interest (non-controlling interest)	-	17.000	4.000	< -100	-3.000
Attributable to owners of the parent	3.766.000	3.031.000	3.070.000	-50,5	1.519.000

Due to Nordea's steady decline of its net profit, the bank's earnings ratios worsened again, but to a larger extent than in the previous years. Thus, the Group's earnings figures reached a below peer group average level.

The values for ROAA, ROAE and RoRWA (before and after taxes) of Nordea deteriorated in a year-over-year comparison clearly and are now below the average of the peer group. However, the Group's Cost-income-ratios are still in line with the average of the peer group despite the strong worsening. This negative development is partly due to the aforementioned one-off effect of the impairment of the bank's IT system. However, independent of this one-off, the profitability of the Group clearly decreased

over the previous year's. In addition, in particular the Nordic peer banks are distinctly ahead of Nordea in terms of the earnings figures. Due to the Corona pandemic and its impact on the economies all over the world, we do not expect Nordea to reach its previous profitability level due to the necessity of increasing loan loss provisions.

A detailed overview of the income ratios for the years of 2016 through 2019 can be found in Figure 2 below:

Figure 2: Group key earnings figures | Source: eValueRate.

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	48,41	53,99	57,48	+13,04	70,52
Cost Income Ratio ex. Trading (CIRex)	56,64	61,11	64,58	+14,79	79,38
Return on Assets (ROA)	0,61	0,52	0,56	-0,28	0,28
Return on Equity (ROE)	11,62	9,15	9,36	-4,47	4,89
Return on Assets before Taxes (ROAbT)	0,75	0,69	0,72	-0,34	0,38
Return on Equity before Taxes (ROEbT)	14,27	12,00	12,01	-5,31	6,70
Return on Risk-Weighted Assets (RORWA)	2,83	2,42	1,98	-0,95	1,03
Return on Risk-Weighted Assets before Taxes (RORWAbT)	3,47	3,18	2,54	-1,13	1,41
Net Interest Margin (NIM)	1,11	1,13	1,09	-0,04	1,05
Pre-Impairment Operating Profit / Assets	0,83	0,75	0,68	-0,23	0,45
Cost of Funds (COF)	0,62	0,65	0,65	+0,10	0,74
Change in %-Points					

## Asset Situation and Asset Quality

Nordea's financial assets accounted for 90% of total assets in 2019. Net loans to customers represent the largest share of Nordea's assets, accounting for 60% and increasing by 4.7% YOY (€14.4 billion). However, this increase was significantly driven by the acquisition of Gjensidige Bank ASA (Norway), which was closed on 01 March 2019. Moreover, 41% of Nordeas loans are corporate loans, thereof about 20% in relation to the corporate real estate sector. In view of the Corona pandemic impact, this could pose a particular risk in the short run. Total securities, as the second largest asset, represents 14% of Nordea's total assets and decreased significantly by 10.8% YOY (€9.5 billion). The decrease in this position over the past years is mainly attributable to the decreased amount of interest bearing securities (64.9bn EUR in 2019), whereas equity instruments (14.2bn EUR in 2019) remained roughly stable. The balance sheet item of noncurrent assets held for sale & discontinued operations in 2017 largely comprises Nordea's sale of the shares of its subsidiary Danish Nordea Liv & Pension Livsforsikringsselskab A/S.

The group's total assets amounted to €554.8 billion in 2019, remaining almost unchanged YOY.

A detailed look at the development of the asset side of the balance sheet for the years of 2016 through 2019 can be taken in Figure 3 below:

Figure 3: Development of assets | Source: eValueRate.

Assets (€000)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	43.334.000	47.877.000	49.220.000	-9,2	44.716.000
Net Loans to Banks	9.026.000	8.592.000	11.320.000	-24,8	8.516.000
Net Loans to Customers	317.689.000	310.158.000	308.304.000	+4,7	322.740.000
Total Securities	109.225.000	92.474.000	88.674.000	-10,8	79.114.000
Total Derivative Assets	70.137.000	46.274.000	37.194.000	+5,7	39.328.000
Other Financial Assets	5.108.000	6.489.000	7.568.000	-5,5	7.151.000
<b>Financial Assets</b>	<b>554.519.000</b>	<b>511.864.000</b>	<b>502.280.000</b>	<b>-0,1</b>	<b>501.565.000</b>
Equity Accounted Investments	588.000	1.235.000	1.601.000	-64,3	572.000
Other Investments	3.119.000	1.448.000	1.607.000	-1,4	1.585.000
Insurance Assets	23.102.000	25.879.000	24.583.000	+25,3	30.799.000
Non-current Assets & Discontinued Ops	8.897.000	22.186.000	-	-	-
Tangible and Intangible Assets	4.358.000	4.607.000	4.581.000	+24,4	5.697.000
Tax Assets	348.000	239.000	448.000	+89,5	849.000
Total Other Assets	20.728.000	14.154.000	16.308.000	-15,5	13.781.000
<b>Total Assets</b>	<b>615.659.000</b>	<b>581.612.000</b>	<b>551.408.000</b>	<b>+0,6</b>	<b>554.848.000</b>

Nordea's asset quality remained in 2019 at a sound level in 2019. The NPL ratio of 1.4%, as well as the NPL / RWA ratio (3.1%), are clearly better than those of its peers. In addition, the bank reveals relatively low potential problem loans in relation to its net customer loans. The Group's RWA ratio as well as its net write-off ratio, despite its deterioration, are still considerably better than the peer group average. Only Nordea's reserves / NPL ratio stands out negatively, and is lower than the average of the peer group.

However, considering the current Corona pandemic impact, we expect a significant increase in this ratios and thereby a distinct worsening of asset quality in the short and medium term. Comparing to the H1-2019 results, Nordea reveals currently costs of risk, which are three to four times as high as in the previous year. However, the final impact of Corona is still uncertain.

Overall, Nordea's asset quality figures of 2019 are the best performers in any of the areas analyzed.

A detailed overview of the asset quality for the years of 2016 through 2019 can be found in Figure 4 below:

Figure 4: Development of asset quality | Source: eValueRate.

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	51,60	53,33	55,91	+2,26	58,17
Risk-weighted Assets/ Assets	21,63	21,63	28,27	-1,20	27,07
NPLs*/ Net Loans to Customers	1,83	2,06	1,51	-0,08	1,43
NPLs*/ Risk-weighted Assets	4,36	5,08	2,98	+0,09	3,07
Potential Problem Loans**/ Net Loans to Customers	0,58	0,55	4,77	-1,46	3,31
Reserves/ NPLs*	41,79	36,49	43,91	+3,46	47,36
Reserves/ Net Loans	0,76	0,75	0,66	+0,01	0,68
Net Write-offs/ Net Loans	0,16	0,12	0,06	+0,11	0,17
Net Write-offs/ Risk-weighted Assets	0,38	0,29	0,11	+0,25	0,36
Change in %- Points					

\* NPLs are represented from 2017 onwards by Stage 3 Loans.

\*\* Potential Problem Loans are Stage 2 Loans where available.



## Refinancing and Capital Quality

Nordea's financial liabilities accounted for 86% of total liabilities in 2019, remaining approximately constant year-over-year. Total debt represents the largest share of the Group's liabilities with 39%, remaining roughly unchanged YOY, and consists primarily of covered bonds (€115bn). Total deposits from customers correspond to 32% of Nordea's liabilities, increasing by 4% in comparison to the previous year (€6.2 billion) partially due to the aforementioned acquisition of Gjensidige Bank (2.3bn EUR). The item of non-current liabilities & discontinued operations in 2017 relates to the sale of the shares of its subsidiary Danish Nordea Liv & Pension Livsforsikringselskab A/S. The increase in insurance assets in 2019 (+7.2bn EUR) results from the increased liabilities in unit-linked investment contracts of the Life Group and Nordea Denmark, whereas the Group has the asset and liabilities on its balance sheet for which customer bear the risk.

A detailed overview of the development of liabilities for the years of 2016 through 2019 can be found in Figure 5 below:

Figure 5: Development of refinancing and capital adequacy | Source: eValueRate.

Liabilities (€000)	2016	2017	2018	%	2019
Total Deposits from Banks	38.136.000	39.983.000	42.419.000	-23,8	32.304.000
Total Deposits from Customers	170.030.000	165.418.000	160.228.000	+3,9	166.426.000
Total Debt	202.209.000	188.101.000	199.577.000	+2,0	203.545.000
Derivative Liabilities	71.102.000	44.163.000	40.820.000	+7,9	44.065.000
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	3.998.000	7.016.000	4.730.000	-51,4	2.299.000
<b>Total Financial Liabilities</b>	<b>485.475.000</b>	<b>444.681.000</b>	<b>447.774.000</b>	<b>+0,2</b>	<b>448.639.000</b>
Insurance Liabilities	64.790.000	45.745.000	43.883.000	+16,5	51.105.000
Non-current Liabilities & Discontinued Ops	4.888.000	26.031.000	-	-	-
Tax Liabilities	1.317.000	1.111.000	1.120.000	+9,2	1.223.000
Provisions	608.000	610.000	719.000	+40,3	1.009.000
Total Other Liabilities	26.171.000	30.118.000	25.011.000	-14,7	21.344.000
<b>Total Liabilities</b>	<b>583.249.000</b>	<b>548.296.000</b>	<b>518.507.000</b>	<b>+0,9</b>	<b>523.320.000</b>
<b>Total Equity</b>	<b>32.410.000</b>	<b>33.316.000</b>	<b>32.901.000</b>	<b>-4,2</b>	<b>31.528.000</b>
<b>Total Liabilities and Equity</b>	<b>615.659.000</b>	<b>581.612.000</b>	<b>551.408.000</b>	<b>+0,6</b>	<b>554.848.000</b>

Nordea's regulatory capital ratios increased continuously over the past year and exceed the average of the peer group. The Group's improvement in its ratios is primarily a result of de-risking its assets by reducing its total risk weighted assets from 155bn EUR to 150bn EUR year-over-year. Nordea manages a very solid capital buffer in relation to its requirements. In addition, Nordeas declared goal is to maintain a management buffer of 150-200 bps above the required CET1 capital ratio from January 2020 on. The drop in Nordeas regulatory capital ratios in 2018 is a result from Nordea's redomiciliation from Sweden to Finland and thereby moving to another regulatory basis. Nordea's total equity / total assets ratio, however, is somewhat below the average of the peer group, whereas the Group is not able to catch up to its peers over the last years. The Group's leverage ratio is in line with the average of the peer group and complies with the regulatory requirements with a solid buffer.



Overall, with regard to the bank's capitalization, we acknowledge solid capital ratios. However, the intended dividend payment for 2019, which corresponds to a payout ratio of 105%, and the 2020 dividend policy of 60-70% pay-out of its profits, prevents the Group to ascend to the top level peer banks. Thus, Nordea misses the opportunity for further improvements in its capital ratios.

However, due to the Corona crisis the Board of Directors of Nordea decided to follow the recommendations adopted by the European Central Bank and refrains from deciding on a dividend payment based on the authorization before 1 October 2020.

A detailed overview of the development of capital ratios for the years 2016 through 2019 can be found in Figure 6 below:

Figure 6: Development of capital ratios | Source: eValueRate.

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	5,26	5,73	5,97	-0,28	5,68
Leverage Ratio	5,00	5,20	5,10	+0,20	5,30
Fully Loaded: Common Equity Tier 1 Ratio (CET1)	18,40	19,50	15,50	+0,80	16,30
Fully Loaded: Tier 1 Ratio (CET1 + AT1)	20,70	22,30	17,30	+1,00	18,30
Fully Loaded: Total Capital Ratio (CET1 + AT1 + T2)	24,70	25,20	19,90	+0,90	20,80
Change in %-Points					

The down notch of Nordea's long-term issuer rating is reflected in the ratings of Nordea's bank capital and debt instruments, which thereby were down notched by one notch as well in accordance with our rating methodology. Thus, the Group's Tier 2 capital rating (BBB) is four notches below the long-term issuer rating based on the bank's capital structure and seniority. Additional Tier 1 capital is rated (BBB-) five notches below the long-term issuer rating, reflecting a high bail-in risk in the event of resolution. By contrast, the Group's preferred senior unsecured debt instruments have been downgraded down by two notches to "A" in comparison to the long-term issuer rating due to the reduced amount of subordinated capital by about € 4.5bn, in particular as a result of lower AT1 and Tier 2 capital. Due to the seniority structure, Nordea's non-preferred senior unsecured debt has been thereby notched down by two notches to "A-".

## Liquidity

Nordea's liquidity situation remains sufficient. The group's liquidity coverage ratio is distinctly better than the average of the peer group. By contrast, the NSFR is below the peer group average. However, both ratios meet the regulatory requirements. In addition, we are confident that Nordea will meet the regulatory liquidity requirements comfortably in the future as well and will maintain its liquidity position.

Nordea's loan to deposit ratio is clearly above the average of its competitors and has remained at a stable level over the past years. Thus, Nordea manages to convert its liquidity through deposits in loans, whereas there is even room to gather more customer deposits.

A detailed overview of the development of liquidity for the years of 2016 through 2019 can be found in Figure 7 below.

Figure 7: Development of liquidity | Source: eValueRate.

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	186,84	187,50	192,42	+1,51	193,92
Interbank Ratio	23,67	21,49	26,69	-0,32	26,36
Liquidity Coverage Ratio	159,00	152,00	185,00	-19,00	166,00
Customer Deposits / Total Funding (excl. Derivates)	33,20	32,81	33,54	+1,18	34,73
Net Stable Funding Ratio (NSFR)	-	-	-	-	109,00
Change in %- Points					

## Environmental, Social and Governance (ESG) Score Card

Nordea Bank Abp (Group) has two moderate and one significant ESG rating driver

- Corporate Governance is identified as a significant rating driver. The relevance for the credit rating results from the impact of the corporate governance factor on all other ESG factors. This sub-factor is rated positive due to Nordea's strong economic track record, the bank's diversity program as well as the implemented ESG policies and targets.

- Corporate Behaviour and Green Financing / Promoting are identified as moderate rating drivers. While Green Financing / Promoting is rated neutral due to the still relatively low volume of green and sustainable bonds, Corporate Behaviour is rated negative due to the recent misconduct in relation with money laundering.

### ESG Score

3,5 / 5

ESG Score Guidance	
> 4,25	Outstanding
>3,5 - 4,25	Above-average
>2,5 - 3,5	Average
>1,75 - 2,5	Substandard
<= 1,75	Poor

Factor	Sub-Factor	Consideration	Relevance Scale 2020	Eval.
Environmental	1.1 Green Financing / Promoting	The sub-factor "Green Financing/Promoting" has a moderate relevance for the credit rating and is rated neutral in terms of the CRA ESG criteria.	3	( )
	1.2 Exposure to Environmental Factors	The sub-factor "Exposure to Environmental Factors" has low relevance for the credit rating and is rated positive in terms of the CRA ESG criteria.	2	(+)
	1.3 Resource Efficiency	The sub-factor "Resource Efficiency" has no significant relevance for the credit rating, but is rated positive in terms of the CRA ESG criteria.	1	(+)

Social	2.1 Human Capital	The sub-factor "Human Capital" has low relevance for the credit rating and is rated positive in terms of the CRA ESG criteria.	2	(+)
	2.2 Social Responsibility	The sub-factor "Social Responsibility" has no significant relevance for the credit rating, but is rated positive in terms of the CRA ESG criteria.	1	(+)

Governance	3.1 Corporate Governance	The sub-factor "Corporate Governance" has high relevance for the credit rating and is rated positive in terms of the CRA ESG criteria.	4	(+)
	3.2 Corporate Behaviour	The sub-factor "Corporate Behaviour" has moderate relevance for the credit rating and is rated negative in terms of the CRA ESG criteria.	3	(-)
	3.3 Corporate Transparency	The sub-factor "Corporate Transparency" has no significant relevance for the credit rating, but is rated strongly positive in terms of the CRA ESG criteria.	1	(+ +)

ESG Relevance Scale	
5	Highest Relevance
4	High Relevance
3	Moderate Relevance
2	Low Relevance
1	No significant Relevance

ESG Evaluation Guidance	
(+ +)	Strong positive
(+)	Positive
( )	Neutral
(-)	Negative
(- -)	Strong negativ

The ESG Score is based on the Methodology "Environmental, Social and Governance Score of Banken (Version 1.0)" of Creditreform Rating AG, which is available on our homepage <https://creditreform-rating.de/en/about-us/regulatory-requirements.html>. In addition, we refer to CRA's position paper "Considering the Impact of ESG Factors".

## Conclusion

Overall, Nordea Bank AB had a subdued year of performance in 2019, partially driven by one off effects in relation with the impairment on the IT systems and loan loss provisions. However, even without these one-off effects, Nordea performed below our expectations. In addition, the uncertainties in relation with the Corona pandemic are the major driver of the rating downgrade. Nevertheless, Nordea shows a comfortable capitalization, and maintains a well-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 a further decline in its net interest income in 2019, which could not be compensated by the other sources of income. On the other hand, Nordea's operating expenses increased – primarily due to the impairments on the IT systems – which lead ultimately to a significant worsening of the earnings figures. In addition, Nordea shows a normalization of the asset-write-downs.

Considering the current Corona pandemic impact, Nordea expects a net loan loss provision of below 1bn in FY 2020, which corresponds to a cost of risk of about 40bp in FY 2020 and a roughly doubling compared to FY 2019. As of the first half-year 2020, Nordea published a net loan loss provision of 852m EUR, with management judgement buffer of about 388m EUR. Major driver of the loan losses are up to date individual provisions at the oil, gas and shipping area. Additional risk may arise, though the bank's business in the commercial real estate sector. Except of the Group's Asset and Wealth management are all Group business areas adverse affected by the Corona pandemic.

The asset quality of Nordea was outstanding in 2019. In particular, the Group reveals a very low NPL ratio in comparison to its peers for 2019. However, this may change due to the Corona crisis. Even though Nordea seems to be well prepared through its prudent approach to credit risk a high level of uncertainty exist with regard to the further economic development. Nordea will likely benefit from its diversified business model with operations in a variety of industries as well as in economically strong countries, which can absorb some economic effects. In addition, Instalment-free periods may help Nordea's mortgage customer to overcome the difficult economic situation. Furthermore, Nordea benefits from its continuous digitalization efforts.

On the liabilities side, Nordea records a steady development of total deposits from customers as a favorable source of financing with still enough leeway for further enhancements. Moreover, Nordea reveals competitive regulatory capital ratios, especially in comparison to banks in the Eurozone. However, we acknowledge the decline of the Groups regulatory capital ratio recently (H1-2020: CET 15.8%) and the intended

payout ratio of 60-70%, which is likely to bring back Nordea on an average level of capitalization. Furthermore, the liquidity situation of Nordea remains satisfactory.

It remains to be seen to what extent the Corona pandemic eventually has an impact on Nordea. Up to now, Nordea seems to be well prepared, and the impact appears to be manageable. The Group sticks still to its targets for FY 2022 and the postponed dividend payment for FY 2019 shall be paid by instalments. Nevertheless, a high level of uncertainty exists due to the Corona pandemic and requires a close monitoring of the development.

### Outlook

We consider the outlook of Nordea Bank Abp (Group) long-term issuer rating and its bank capital and debt instruments as stable. This reflects our view that the bank is likely to keep being profitable in the upcoming years while operating in the current low interest rate environment. However, we will observe how the bank will deal with the Corona pandemic effects on the economy. In addition, we assume no significant economic worsening due to the Corona pandemic and stable political environment in the banks markets of operations.

### Scenario Analysis:

In a scenario analysis, the bank is able to reach an "AA-" rating in the "best case" scenario and an "BBB" rating in the "worst case" scenario. The ratings of bank capital and senior unsecured debt would behave similarly based on our rating mechanism. These ratings are especially sensitive to changes in total equity and to the bank capital and debt structure in general.

We might upgrade Nordea Banks Abp`s (Group) long-term issuer credit rating and its bank capital and debt instruments if we see that Nordea is able to reach a sustainable higher level of profitability in addition to increased capital ratios while maintaining its sound asset quality.

By contrast, a downgrade of the Group`s long-term issuer credit rating and its bank capital and debt instruments is likely if we see declining capital ratios. In particular, we will observe the ongoing Corona pandemic impact on Nordea's asset quality and its earnings figures.

Best-case scenario: AA-

Worst-case scenario: BBB

Please note:

The scenarios are based on information available at the time of the rating. Within the forecast horizon, circumstances may occur that could lead to a change of the rating out of the indicated range.

## Appendix

### 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 / Outlook / Short-Term **A+ / stable / L2**

### 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.

Preferred Senior Unsecured Debt (PSU): **A**

Non-Preferred Senior Unsecured Debt (NPS): **A-**

Tier 2 (T2): **BBB**

Additional Tier 1 (AT1): **BBB-**

### Rating History

Please consult our website [www.creditreform-rating.de](http://www.creditreform-rating.de) for additional information regarding the dates of publication.

Figure 8: Rating History

Bank Issuer Rating	Rating Date	Result
Initialrating	27.04.2018	AA- / stabil / L1
Rating Update	02.07.2019	AA- / stabil / L1
Monitoring	24.03.2020	AA- / NEW / L1
Rating Update	31.08.2020	A+ / stable / L2
Bank Capital and Debt Instruments	Rating Date	Result
Senior Unsecured / T2 / AT1 (Initial)	27.04.2018	AA- / BBB+ / BBB
PSU / NPS / T2 / AT1	02.07.2019	AA- / A+ / BBB+ / BBB
Monitoring	24.03.2020	AA- / A+ / BBB+ / BBB (NEW)
Rating Update	31.08.2020	A / A- / BBB / BBB-
Subsidiaries of the Bank	Rating Date	Result
<b>Nordea Mortgage Bank PLC</b>		
Initialrating	27.04.2018	AA- / stabil / L1
Rating Update	02.07.2019	AA- / stabil / L1
Monitoring	24.03.2020	AA- / NEW / L1
Rating Update	31.08.2020	A+ / stable / L2
<b>Bank Capital and Debt Instruments of Nordea Mortgage Bank PLC</b>		
Senior Unsecured / T2 / AT1 (Initial)	31.08.2018	AA- / BBB+ / BBB
PSU / NPS / T2 / AT1	02.07.2019	AA- / A+ / BBB+ / BBB
Monitoring	24.03.2020	AA- / A+ / BBB+ / BBB (NEW)
Rating Update	31.08.2020	A / A- / BBB / BBB-

Figure 9: Nordea Mortgage Bank Plc income statement | Source: eValueRate.

Income Statement	2016	2017	2018	%	2019
<b>Income (€000)</b>					
Net Interest Income	51.400	192.100	219.800	-0,0	219.700
Net Fee & Commission Income	200	-11.000	-9.500	-20,0	-7.600
Net Insurance Income	-	-	-	-	-
Net Trading Income	-4.800	-2.400	-1.800	<-100	600
Equity Accounted Results	-	-	-	-	-
Dividends from Equity Instruments	-	-	-	-	-
Other Income	-	-	-	-	100
<b>Operating Income</b>	<b>46.800</b>	<b>178.700</b>	<b>208.500</b>	<b>+2,1</b>	<b>212.800</b>
<b>Expenses (€000)</b>					
Depreciation and Amortisation	-	-	-	-	-
Personnel Expense	300	1.900	1.900	+0,0	1.900
Tech & Communications Expense	-	200	-	-	-
Marketing and Promotion Expense	-	100	-	-	100
Other Provisions	-	-	-	-	-
Other Expense	11.500	45.600	52.200	+27,0	66.300
<b>Operating Expense</b>	<b>11.800</b>	<b>47.800</b>	<b>54.100</b>	<b>+26,2</b>	<b>68.300</b>
<b>Operating Profit &amp; Impairment (€000)</b>					
<b>Pre-impairment Operating Profit</b>	<b>35.000</b>	<b>130.900</b>	<b>154.400</b>	<b>-6,4</b>	<b>144.500</b>
Asset Writedowns	-400	-700	11.400	<-100	-10.300
<b>Net Income (€000)</b>					
Non-Recurring Income	-	-	-	-	-
Non-Recurring Expense	-	-	-	-	-
<b>Pre-tax Profit</b>	<b>35.400</b>	<b>131.600</b>	<b>143.000</b>	<b>+8,3</b>	<b>154.800</b>
Income Tax Expense	7.100	26.300	29.600	+18,6	35.100
Discontinued Operations	-	-	-	-	-
<b>Net Profit (€000)</b>	<b>28.300</b>	<b>105.300</b>	<b>113.400</b>	<b>+5,6</b>	<b>119.700</b>
Attributable to minority interest (non-controlling interest)	-	-	-	-	-
Attributable to owners of the parent	28.300	105.300	113.400	+5,6	119.700

Figure 10: Nordea Mortgage Bank Plc key earnings figures | Source: eValueRate.

Income Ratios (%)	2016	2017	2018	%	2019
Cost Income Ratio (CIR)	25,21	26,75	25,95	+6,15	32,10
Cost Income Ratio ex. Trading (CIRex)	22,87	26,39	25,73	+6,46	32,19
Return on Assets (ROA)	0,11	0,42	0,43	-0,03	0,40
Return on Equity (ROE)	2,62	8,92	9,63	+0,92	10,55
Return on Assets before Taxes (ROAbT)	0,14	0,53	0,54	-0,03	0,52
Return on Equity before Taxes (ROEbT)	3,28	11,15	12,14	+1,50	13,64
Return on Risk-Weighted Assets (RORWA)	1,02	3,31	2,61	-0,01	2,59
Return on Risk-Weighted Assets before Taxes (RORWAbT)	1,28	4,13	3,29	+0,07	3,36
Net Interest Margin (NIM)	0,18	0,76	0,83	-0,09	0,74
Pre-Impairment Operating Profit / Assets	0,14	0,52	0,59	-0,10	0,48
Cost of Funds (COF)	0,07	0,27	0,20	-0,03	0,17
Change in %- Points					



Figure 11: Development of assets of Nordea Mortgage Bank Plc | Source: eValueRate.

Assets (€000)	2016	2017	2018	%	2019
Cash and Balances with Central Banks	200.000	198.200	1.696.400	-0,1	1.694.400
Net Loans to Banks	494.200	647.600	899.500	-25,9	666.100
Net Loans to Customers	23.912.400	23.530.100	23.106.700	+15,6	26.719.900
Total Securities	-	-	-	-	-
Total Derivative Assets	888.900	617.700	603.100	+46,9	886.000
Other Financial Assets	-	-	-	-	-
<b>Financial Assets</b>	<b>25.495.500</b>	<b>24.993.600</b>	<b>26.305.700</b>	<b>+13,9</b>	<b>29.966.400</b>
Equity Accounted Investments	-	-	-	-	-
Other Investments	-	-	-	-	-
Insurance Assets	-	-	-	-	-
Non-current Assets & Discontinued Ops	-	-	-	-	-
Tangible and Intangible Assets	-	-	-	-	-
Tax Assets	13.900	14.700	16.200	-43,2	9.200
Total Other Assets	76.800	16.900	69.800	-34,1	46.000
<b>Total Assets</b>	<b>25.586.200</b>	<b>25.025.200</b>	<b>26.391.700</b>	<b>+13,8</b>	<b>30.021.600</b>

Figure 12: Development of asset quality of Nordea Mortgage Bank Plc | Source: eValueRate.

Asset Ratios (%)	2016	2017	2018	%	2019
Net Loans/ Assets	93,46	94,03	87,55	+1,45	89,00
Risk-weighted Assets/ Assets	10,83	12,72	16,47	-1,11	15,37
NPLs*/ Net Loans to Customers	0,31	0,63	0,84	+0,06	0,90
NPLs*/ Risk-weighted Assets	2,69	4,68	4,45	+0,77	5,22
Potential Problem Loans**/ Net Loans to Customers	0,66	0,66	9,63	-3,19	6,44
Reserves/ NPLs*	15,84	7,45	24,69	-19,83	4,86
Reserves/ Net Loans	0,05	0,05	0,21	-0,16	0,04
Net Write-offs/ Net Loans	0,00	0,00	0,05	-0,09	-0,04
Net Write-offs/ Risk-weighted Assets	-0,01	-0,02	0,26	-0,49	-0,22

Change in %- Points

\* NPLs are represented from 2017 onwards by Stage 3 Loans.

\*\* Potential Problem Loans are Stage 2 Loans where available.

Figure 12: Development of refinancing and capital adequacy of Nordea Mortgage Bank Plc | Source: eValueRate.

Liabilities (€000)	2016	2017	2018	%	2019
Total Deposits from Banks	7.200.000	7.557.600	7.667.600	+50,8	11.560.400
Total Deposits from Customers	-	-	0	-	0
Total Debt	16.500.500	15.670.100	16.961.100	-3,8	16.312.200
Derivative Liabilities	711.200	486.300	446.300	+66,7	743.800
Securities Sold, not yet Purchased	-	-	-	-	-
Other Financial Liabilities	-	-	-	-	-
<b>Total Financial Liabilities</b>	<b>24.411.700</b>	<b>23.714.000</b>	<b>25.075.000</b>	<b>+14,1</b>	<b>28.616.400</b>
Insurance Liabilities	-	-	-	-	-
Non-current Liabilities & Discontinued Ops	-	-	-	-	-
Tax Liabilities	6.600	-	-	-	9.400
Provisions	-	-	300	+0,0	300
Total Other Liabilities	89.400	130.700	138.600	+88,2	260.900
<b>Total Liabilities</b>	<b>24.507.700</b>	<b>23.844.700</b>	<b>25.213.900</b>	<b>+14,6</b>	<b>28.887.000</b>
<b>Total Equity</b>	<b>1.078.500</b>	<b>1.180.500</b>	<b>1.177.800</b>	<b>-3,7</b>	<b>1.134.600</b>
<b>Total Liabilities and Equity</b>	<b>25.586.200</b>	<b>25.025.200</b>	<b>26.391.700</b>	<b>+13,8</b>	<b>30.021.600</b>

Figure 13: Development of capital ratios of Nordea Mortgage Bank Plc | Source: eValueRate.

Capital Ratios (%)	2016	2017	2018	%	2019
Total Equity/ Total Assets	4,22	4,72	4,46	-0,68	3,78
Leverage Ratio	4,10	4,10	4,00	-0,40	3,60
Common Equity Tier 1 Ratio (CET1)	37,90	32,70	24,10	-0,60	23,50
Tier 1 Ratio (CET1 + AT1)	37,90	32,70	24,10	-0,60	23,50
Total Capital Ratio (CET1 + AT1 + T2)	45,20	39,20	29,10	-1,20	27,90
Change in %-Points					

Figure 14: Development of liquidity of Nordea Mortgage Bank Plc | Source: eValueRate.

Liquidity (%)	2016	2017	2018	%	2019
Net Loans/ Deposits (LTD)	-	-	-	-	-
Interbank Ratio	6,86	8,57	11,73	-5,97	5,76
Liquidity Coverage Ratio	2076,00	1585,00	151,00	+7,00	158,00
Customer Deposits / Total Funding (excl. Derivates)	-	-	-	-	-
Net Stable Funding Ratio (NSFR)	-	-	-	-	-
Change in %-Points					

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Unsolicited Credit Rating	
With Rated Entity or Related Third Party Participation	No
With Access to Internal Documents	No
With Access to Management	No

The rating is based on publicly available information and internal evaluation methods for the rated bank. The quantitative analysis is based mainly on the latest annual accounts, interim reports, other investor relations information of the bank, and calculated key figures by eValueRate / CRA. Subject to a peer group analysis were 24 competing institutes.

The information and documents processed met the requirements of the rating system of Creditreform Rating AG as published on the website [www.creditreform-rating.de](http://www.creditreform-rating.de). The rating was carried out on the basis of the rating methodology for [bank ratings as \(Version 2.0\)](#), the methodology for the [rating of bank capital and unsecured debt instruments \(Version 2.0\)](#) as well as the rating methodology for [Environmental, Social and Governance Score for Banks \(Version 1.0\)](#) in conjunction with Creditreform's basic document [Rating Criteria and Definitions \(Version 1.3\)](#).

The complete presentation of the rating methodologies used by Creditreform Rating AG and the basic document Rating Criteria and Definitions (Version 1.3) are published on our homepage:

<https://www.creditreform-rating.de/en/about-us/regulatory-requirements.html>

On 31 August 2020, the rating was presented by the analysts to the rating committee and adopted in a resolution.

The rating result was communicated to Nordea Bank Abp (Group) and its subsidiary, and the preliminary rating report was made available to the bank. There was no change in the rating score.

The rating is valid until withdrawal and is subject to monitoring from the rating date (see cover page). The rating will be comprehensively reviewed at least once every year. Within this period, the rating can be updated.

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

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