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Half-Year Financial Report 2020

Nordea Bank Abp - Half-year financial report

Summary of the quarter:

- **Solid result − high activity resulted in revenues largely unchanged.** Profit before loan losses was 4% higher than last year. Net interest income increased by 2%, supported by volume growth, especially in mortgages, in all countries. Net fair value result recovered, increasing 12%, mainly from improved trading activities. However, the lockdowns and market turbulence had a negative financial impact, primarily affecting net fee and commission income which declined by 9%. Costs decreased by 8%. Operating profit was EUR 306m − significantly impacted by loan loss provisions.

- **Continued progress according to business plan**. Cost to income ratio improved to 52%, down from 58% in the same quarter last year. Return on equity was significantly impacted by increased loan loss provisions.

- **Strong financial position maintained.** Nordea entered the COVID-19 pandemic with a strong financial position, which is maintained. Common equity tier 1 ratio of 15.8%, which is 5.6%-points above the regulatory requirement. Nordea has undertaken an additional severe stress test confirming the ability to continue supporting customers, while maintaining dividend capacity.

- **Full year net loan losses estimated to be below EUR 1bn.** As communicated in the first quarter report, Nordea has updated macro-economic scenarios, analysed the impact

  of the economic downturn and concluded a thorough review of the loan book. As a result, Nordea also updated the credit quality outlook and estimates total net loan losses for the full year 2020 to be below EUR 1bn.

- **The credit quality of Nordea's loan book remains strong.** Underlying net loan losses were EUR 310m impacted by individual provisions, particularly for the Oil, Gas and Offshore sector, and updated macro-economic scenarios in the IFRS 9 provisioning models.

- **Significant buffer to cover for future loan losses.** Based on different models and scenarios, the management judgement buffer has been increased by EUR 388m, leading to total Q2 net loan losses of EUR 698m. Nordea now has a management judgement buffer of EUR 650m in place to cover for future loan losses, IFRS 9 model improvements and the European Central Bank's new guidance on non-performing loans. Nordea deems this proactive approach to be prudent and provides predictability, given the current economic uncertainty.

- **Committed to delivering on business plan and financial targets for 2022.** It is too early to conclude on the longer-term consequences of the COVID-19 pandemic. Nordea remains committed to delivering on targets whilst supporting customers, employees and stakeholders through the crisis.

(For further viewpoints, see the CEO comment on page 4. For definitions, see page 58 in Q2 2020 Report)

Second quarter 2020 vs. second quarter 2019 results

Net interest income EUR 1,091m, 2%
Total operating income EUR 2,092m, -2%
Total operating expense EUR -1,088m, -8%
Net loan losses EUR -698m vs EUR -61m
Operating profit EUR 306m, -66%
Common Equity Tier 1 capital ratio[1,2] 15.8% vs.14.8%
Cost/income ratio 52% vs. 55%
Cost/income ratio[3] 52% vs. 58%
Net loan loss ratio, amortised cost 115 bps vs. 10 bps
Return on equity 3.1% vs 9.1%
Return on equity[3] 3.0% vs 8.5%

Second quarter 2020 vs. first quarter 2020 results

Net interest income EUR 1,091m, -2%
Total operating income EUR 2,092m, +5%
Total operating expense EUR -1,088m, -13%
Net loan losses EUR -698m vs EUR -154m
Operating profit EUR 306m, -49%
Common Equity Tier 1 capital ratio[1,2] 15.8% vs.16.0%
Cost/income ratio 52% vs. 62%
Cost/income ratio[3] 52% vs. 57%
Net loan loss ratio, amortised cost 115 bps vs. 26 bps
Return on equity 3.1% vs 5.9%
Return on equity[3] 3.0% vs 6.9%

1 End of period.
2 For more detailed information regarding ratios and key figures defined as alternative performance measures, see https://www.nordea.com/en/investor-relations/reports-and-presentations/group-interim-reports.
3 Including the result for the period.

Income statement

	Q2 2020	Q2 2019	Chg %	Q1 2020	Chg %	Jan-Jun 2020	Jan-Jun 2019	Chg %
EURm								
Net interest income	1,091	1,071	2	1,109	-2	2,200	2,127	3
Net fee and commission income	673	743	-9	765	-12	1,438	1,480	-3
Net result from items at fair value	318	283	12	109		427	547	-22
Profit from associated undertakings and joint ventures accounted for under the equity method	-10	24		-2		-12	38	
Other operating income	20	20	0	20	0	40	64	-38
Total operating income	**2,092**	**2,141**	**-2**	**2,001**	**5**	**4,093**	**4,256**	**-4**
Staff costs	-645	-727	-11	-699	-8	-1,344	-1,445	-7
Other expenses	-303	-304	0	-419	-28	-722	-898	-20
Depreciation, amortisation and impairment charges of tangible and intangible assets	-140	-149	-6	-130	8	-270	-289	-7
Total operating expenses	**-1,088**	**-1,180**	**-8**	**-1,248**	**-13**	**-2,336**	**-2,632**	**-11**
Profit before loan losses	**1,004**	**961**	**4**	**753**	**33**	**1,757**	**1,624**	**8**

Net loan losses	-698	-61		-154		-852	-103	
Operating profit	**306**	**900**	**-66**	**599**	**-49**	**905**	**1,521**	**-40**
Income tax expense	-63	-219		-139	-55	-202	-397	-49
Net profit for the period	**243**	**681**	**-64**	**460**	**-47**	**703**	**1,124**	**-37**

Business volumes, key items[1]

	30 Jun 2020	30 Jun 2019	Chg %	31 Mar 2020	Chg %
EURbn					
Loans to the public	327.7	323.8	1	324.0	1
Loans to the public, excl. repos	304.4	300.2	1	295.1	3
Deposits and borrowings from the public	188.5	176.5	7	174.0	8
Deposits from the public, excl. repos	180.7	167.0	8	169.2	7
Total assets	587.3	582.9	1	600.4	-2
Assets under management	311.4	306.9	1	280.4	11
Equity	31.8	31.1	2	31.5	1

Ratios and key figures[2]

	Q2 2020	Q2 2019	Chg %	Q1 2020	Chg %	Jan-Jun 2020	Jan-Jun 2019	Chg %
Diluted earnings per share, EUR	0.06	0.17	-65	0.11	-45	0.17	0.27	-37
EPS, rolling 12 months up to period end, EUR	0.27	0.58	-53	0.38	-29	0.27	0.58	-53
Share price[1], EUR	6.15	6.39	-4	5.13	20	6.15	6.39	-4
Equity per share[1], EUR	7.86	7.69	2	7.79	1	7.86	7.69	2
Potential shares outstanding[1], million	4,050	4,050	0	4,050	0	4,050	4,050	0
Weighted average number of diluted shares, mn	4,039	4,032	0	4,038	0	4,038	4,033	0
Return on Equity, %	3.1	9.1		5.9		4.5	7.2	
Return on tangible Equity, %	3.5	10.6		6.7		5.0	8.4	
Return on Risk Exposure Amount, %	0.6	1.7		1.2		0.9	1.4	
Return on Equity with amortised resolution fees, %	3.0	8.5		6.9		4.9	7.7	
Cost/income ratio, %	52	55		62		57	62	
Cost/income ratio with amortised resolution fees, %	52	58		57		55	59	
Net loan loss ratio, amortised cost, bps	115	10		26		70	9	
Common Equity Tier 1 capital ratio[1,3], %	15.8	14.8		16.0		15.8	14.8	
Tier 1 capital ratio[1,3], %	17.6	17.3		17.8		17.6	17.3	
Total capital ratio[1,3], %	20.1	19.8		20.2		20.1	19.8	
Tier 1 capital[1,3], EURbn	27.2	27.6	-1	27.1	0	27.2	27.6	-1
Risk exposure amount[1], EURbn	155	160	-3	152	2	155	160	-3
Number of employees (FTEs)[1]	27,954	29,550	-5	28,292	-1	27,954	29,550	-5
Economic capital[1], EURbn	24.2	27.8	-13	25.8	-6	24.2	27.8	-13

1 End of period.
2 For more detailed information regarding ratios and key figures defined as alternative performance measures, see https://www.nordea.com/en/investor-relations/reports-and-presentations/group-interim-reports.
3 Including the result for the period.

CEO comment

"The impacts of COVID-19 have become increasingly evident during the second quarter and the pandemic continues to severely affect individuals, businesses and societies. It is nevertheless encouraging that an increasing number of countries are starting to gradually re-open, and that business sentiment has recovered towards the end of the quarter, even though uncertainty still remains high.

During the past months, societies have adapted to new ways of living, working and consuming. As a bank we have witnessed an increasing trend for e-commerce, mobile payments and digital customer interaction. Most of our customer meetings have been online while we have been fully operational with more than 70% of our staff working remotely. The common denominator for our actions has remained clear - everything we do, we do to support our customers and employees. The dedication and engagement of our employees have been remarkable and I am proud to see their extraordinary efforts paying off through improving customer satisfaction in all business areas.

These challenging societal and economic conditions have furthermore tested and proven the resilience of our business model. In the second quarter we reported another solid result and continue the progress towards our 2022 targets.

Our high activity level has made it possible to keep
revenues largely unchanged. Net interest income increased by 2%, supported by sound volume growth. Net fair value result recovered, increasing 12%, mainly from improved trading activities. However, the lockdowns and market turbulence had a negative financial impact, primarily affecting net fee and commission income which declined by 9%. Sizeable cost reductions led to profit before loan losses 4% higher than last year. All key activities to improve our operational efficiency are delivering on target. Costs decreased by 8% from the previous year resulting in a steady reduction in our cost to income ratio to 52%.

We entered the COVID-19 crisis with a strong financial position which we have maintained. At the end of the second quarter, our liquidity buffer was EUR 105bn, equivalent to a liquidity coverage ratio of 160% and our capital position remains very strong with a common equity tier 1 ratio of 15.8%, which is 5.6%-points above requirement. We have undertaken an additional severe stress test, reinforcing our confidence that our strong capital position enables us to continue supporting our customers while at the same time maintaining our dividend capacity.

The credit quality of our loan book remains strong. We have now updated our macro-economic scenarios, including our longer-term view of the expected impact of the economic downturn. Furthermore, we have concluded a thorough review of our loan book. Based on this analysis we project total net loan losses for the full year 2020 below EUR 1bn, equivalent to less than 41 bps.

In the quarter underlying net loan losses were EUR 310m. On top of that we have made additional management judgement allowances of EUR 388m leading to total Q2 net loan losses of EUR 698m.

Including earlier management judgement allowances we now have a total buffer of EUR 650m to cover for estimated future loan losses, IFRS 9 model improvements
and the European Central Bank's new guidance on non-performing loans.
All in all, we deem this proactive approach to be prudent and appropriate given the current economic uncertainty.

The development in business areas remains promising, even though there are still further improvements to be made to reach our financial targets.

In Personal Banking, mortgage volume growth continued steadily in all four countries, and especially strong in Norway and Sweden. However, total revenues declined by 5% primarily due to lower payment fees and lower deposit margins. Our focus on improving operational efficiency continued and costs decreased by 5% leading to a decrease in the cost to income ratio by 3%-points to 54%.

In Business Banking, lending volumes increased and deposit volume growth was strong. Revenues decreased by 1%, due to the impact of lockdowns on fee and commission income. Costs declined by 5%, leading to an improved cost to income ratio to 48%.

Large Corporates and Institutions continued to execute on its re-positioning plan to create a focused, less complex and more profitable business. Revenues grew by 19%, driven by trading income, despite lower fee and commission income due to the market turmoil. Costs were significantly decreased by 14%. Economic capital was adversely affected by an increase in market volatility, impacting profitability. The cost to income ratio improved significantly to 44% and our focus remains on improving profitability.

In Asset and Wealth Management revenues declined 4% due to the market turmoil. High customer activity and market development with good net inflow increased assets under management by EUR 31bn compared to the previous quarter to EUR 311bn. Costs continued to decrease, and the cost to income ratio improved by 3%-points to 55%.

The Annual General Meeting on 28 May 2020 mandated the Board of Directors to decide on a dividend payment of a maximum of EUR 0.40 per share for the financial year 2019 to be distributed in one or several instalments. This authorisation will remain until the beginning of the next AGM. Clearly, our financial strength allows us to support our customers and pay a dividend. However, the Board of Directors intends to follow recommendations adopted by the European Central Bank and will refrain from deciding on a dividend payment based on the authorisation before 1 October 2020.

We are fully focused on fulfilling our social responsibility by supporting our customers, employees and stakeholders through this crisis. Our three key priorities are unchanged - to optimise operational efficiency, drive income growth initiatives and create great customer experiences.

The COVID-19 pandemic has created challenges for businesses, and it is too early to conclude on the longer-term consequences of the crisis. However, we remain committed to our plan and are ready to act to ensure we meet both our three key priorities and financial targets for 2022."

Frank Vang-Jensen
President and Group CEO

Outlook

Key priorities to succeed and meet the financial targets

Nordea's business plan focuses on three key priorities to deliver on our 2022 financial targets: 1) to optimise operational efficiency, 2) to drive income growth initiatives, and 3) to create great customer experiences.

Financial targets 2022

Nordea's financial targets for 2022 are -

- a return on equity above 10%
- a cost to income ratio of 50%

Costs

In 2020, Nordea expects to reach a cost base of below EUR 4.7bn with planned continued net cost reductions beyond 2020.

Capital policy

A management buffer of 150-200 bps above the regulatory CET1 requirement, from 1 January 2020.

Dividend policy

Our dividend policy stipulates a dividend payout ratio of 60-70%, applicable to profit generated from 1 January 2020. Nordea will continuously assess the opportunity to use share buy-backs as a tool to distribute excess capital.

Credit quality

New: 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. In the first half of 2020, Nordea has reported total net loan losses of EUR 852m.

Previous: It is too early to give an outlook for loan losses, as the economic impact of the COVID-19 is still very uncertain.

http://www.rns-pdf.londonstockexchange.com/rns/3259T_1-2020-7-17.pdf

http://www.rns-pdf.londonstockexchange.com/rns/3259T_2-2020-7-17.pdf

http://www.rns-pdf.londonstockexchange.com/rns/3259T_3-2020-7-17.pdf

The entire report can be found on the below link on our website.
Nordea Group Q2 2020 Report

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