

Long-Term Issuer Rating: AA-
Outlook: stable

Short-Term Rating: L1

Preferred Sen. Unsec. Debt: AA-
Non-Preferred Sen. Unsec. Debt: A+
Tier 2 Capital: BBB+
AT1 Capital: BBB

02 July 2019

Rating Action:

Creditreform Rating (CRA) affirms Nordea Bank Abp`s (Group) long-term issuer rating at 'AA-' (Outlook: stable). In addition, CRA affirms the credit rating of the group's subsidiary Nordea Mortgage Bank PLC at 'AA-' (outlook: stable). However, our ratings of the Group's bank capital and debt instruments are affected by the change in our rating methodology.

Creditreform Rating has affirmed Nordea Banks Abp`s (Group) long-term issuer rating at 'AA-' and the short-term rating at 'L1'. The rating outlook is stable. Moreover, CRA affirms the long-term issuer rating of the group's subsidiary Nordea Mortgage Bank PLC at 'AA-' and the short-term rating at 'L1', which reflects the rating of Nordea Bank Abp (Group), in line with our methodology.

At the same time, we confirm the rating of the Tier 2 capital at 'BBB+' and the rating of AT1 capital at 'BBB' of Nordea Bank Abp (Group) and the aforementioned subsidiary. However, adjustments in our rating methodology for bank capital and debt instruments occurred because of legislative alterations in the European Union. As a result, CRA reclassifies its rating of senior unsecured debt to preferred senior unsecured debt and affirms it at 'AA-'. In addition, CRA assigns non-preferred senior unsecured debt, which ranks junior to preferred senior unsecured debt, the following rating: 'A+'.

Please find a complete list of rating actions regarding the bank and its affected subsidiaries at the end of this rating action paper.

Key Rating Drivers

CRA has affirmed the rating of Nordea Bank Abp (Group) and its bank capital and debt instruments as a result of our updating process for the following reasons:

- Outstanding asset-quality
- Sound earnings figures
- Average capitalization
- Significant increase in its risk-weighted assets due to its re-domiciliation to Finland and therewith under the supervision of the ECB

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Rating Rationale

The affirmation of Nordea Bank Abp (Group) credit rating is a result of the bank's stable performance with regard to its income ratios as well as its sound asset quality in the most recent year. However, the increase in its risk-weighted assets leads to declining regulatory capital ratios.

Profitability

The bank's remains at a sound level with its earnings figures, however, its RORWA as well as its RORWA before taxes declined due to the significant increase in its risk-weighted assets. Moreover, the bank displays a slight worsening of its cost-income ratios, however, these ratios are still better than the peer group average. In addition, the bank faces declining net interest and fee and commission income.

For details regarding the banks profitability, we refer to figure 2 and figure 3 in the appendix.

Asset Situation and Asset Quality

The Group's non-performing loans ratio (measured due to changes in IFRS as follows: [stage 3 + POCI Loans] / Net Loans to customers) reduced year-over-year, however Nordea faces a relatively high ratio of potential problem loans (measured due to changes in IFRS as follows: stage 2 Loans / Net Loans to customers). Moreover, the banks displays a strong increase in its risk-weighted assets due to its re-domiciliation to an ECB supervised country and the resulting implementation of internal rating based (IRB) floors. Nevertheless, the Groups asset-quality figures are significantly better than the average of the peer group. We expect that Nordea Bank Abp (Group) will maintain strong capital figures.

For details regarding the banks asset situation and asset quality, we refer to figure 4 and figure 5 in the appendix.

Refinancing and Capital Quality

We note that Nordea Bank Abp (Group) faces declining regulatory capital ratios because of its increase in its risk-weighted assets. The regulatory ratios as well as its leverage ratio and the total equity to total assets ratio are now just in line with the peer group average.

The ratings of Nordea Bank Abp's (Group) bank capital and debt instruments are affected due to our rating mechanism and the recent change in our methodology.

For details regarding the banks refinancing and capital quality, we refer to figure 6 and figure 7 in the appendix.

Liquidity

In our opinion, the overall liquidity situation of the bank remains satisfactory.

For details regarding the banks liquidity, we refer to figure 8 in the appendix.

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 prof-

itable in the upcoming years while operating in the current low interest rate environment. However, we will observe how the bank will adjust to the new regulatory playing field, supervised by the ECB, and how the bank will work on its risk weighted assets and its capital ratios.

In addition, we assume a stable political and economic environment in the banks markets of operations.

Scenario Analysis

In a scenario analysis, the bank's rating developed slightly better in the "best case" scenario and considerably worse 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 a significant improvement of the bank's capital ratios and a further improvement of its 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 that the bank capital ratios continue to decline, the bank displays a worsening of its income ratios or its asset quality. In particular, we will observe the development of the banks risk-weighted assets.

CRA's rating actions at a glance

Nordea Banks Abp`s (Group):

- Long-Term Issuer Rating affirmed at 'AA-', stable outlook
- Short-term rating affirmed at 'L1'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'AA-'
- Non-preferred senior unsecured debt rated at 'A+'
- Tier 2 capital affirmed at 'BBB+'
- AT1 capital affirmed at 'BBB'

Nordea Mortgage Bank PLC:

- Long-Term Issuer Rating affirmed at 'AA-', stable outlook
- Short-term rating affirmed at 'L1'
- Senior unsecured debt reclassified to preferred senior unsecured debt and affirmed at 'AA-'
- Non-preferred senior unsecured debt rated at 'A+'
- Tier 2 capital affirmed at 'BBB+'
- AT1 capital affirmed at 'BBB'

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 / Outlook / Short-Term **AA- / stable / L1**

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): **AA-**
 Non-preferred senior unsecured debt (NPS): **A+**
 Tier 2 (T2): **BBB+**
 Additional Tier 1 (AT1): **BBB**

Ratings Detail and History

Please consult our website www.creditreform-rating.de for additional information regarding the dates of publication.

Figure 1: Ratings Detail and History

Bank Issuer Rating	Rating Date	Publication Date	Result
Initialrating	27.04.2018	08.05.2018	AA- / stabil / L1
Rating Update	02.07.2019	05.07.2019	AA- / stabil / L1
Bank Capital and Debt Instruments	Rating Date	Publication Date	Result
Senior Unsecured / T2 / AT1 (Initial)	27.04.2018	08.05.2018	AA- / BBB+ / BBB
PSU / NPS / T2 / AT1	02.07.2019	05.07.2019	AA- / A+ / BBB+ / BBB
Subsidiaries of the Bank	Rating Date	Publication Date	Result
Nordea Mortgage Bank PLC:			
Initialrating	27.04.2018	08.05.2018	AA- / stabil / L1
Rating Update	02.07.2019	05.07.2019	AA- / stabil / L1
Bank Capital and Debt Instruments of Nordea Mortgage Bank PLC			
Senior Unsecured / T2 / AT1 (Initial)	31.08.2018	05.09.2018	AA- / BBB+ / BBB
PSU / NPS / T2 / AT1	02.07.2019	05.07.2019	AA- / A+ / BBB+ / BBB

Appendix

Figure 2: Group income statement | Source: CRA / eValueRate

Income Statement	2015	2016	2017	%	2018
Income (€000)					
Net Interest Income	4.963.000	4.727.000	4.666.000	-7,3	4.324.000
Net Fee & Commission Income	3.230.000	3.238.000	3.369.000	-11,2	2.993.000
Net Insurance Income	245.000	275.000	229.000	-46,3	123.000
Net Trading Income	1.400.000	1.440.000	1.099.000	-12,2	965.000
Equity Accounted Results	39.000	112.000	23.000	> +100	124.000
Dividends from Equity Instruments	-	-	-	-	-
Other Income	87.000	59.000	76.000	+19,7	91.000
Operating Income	9.964.000	9.851.000	9.462.000	-8,9	8.620.000
Expenses (€000)					
Depreciation and Amortisation	209.000	228.000	268.000	+79,9	482.000
Personnel Expense	3.263.000	2.926.000	3.212.000	-6,7	2.998.000
Tech & Communications Expense	485.000	573.000	565.000	-14,3	484.000
Marketing and Promotion Expense	84.000	79.000	66.000	-9,1	60.000
Provisions	-	-	-	-	-
Other Expense	916.000	994.000	991.000	-13,7	855.000
Operating Expense	4.957.000	4.800.000	5.102.000	-4,4	4.879.000
Operating Profit & Impairment (€000)					
Pre-impairment Operating Profit	5.007.000	5.051.000	4.360.000	-14,2	3.741.000
Asset Writedowns	479.000	502.000	369.000	-53,1	173.000
Net Income (€000)					
Non-Recurring Revenue	176.000	76.000	7.000	> +100	385.000
Non-Recurring Expense	-	-	-	-	-
Pre-tax Profit	4.704.000	4.625.000	3.998.000	-1,1	3.953.000
Income Tax Expense	1.042.000	859.000	950.000	-8,2	872.000
Discontinued Operations	-	-	-	-	-
Net Profit	3.662.000	3.766.000	3.048.000	+1,1	3.081.000
Attributable to minority interest (non-controlling interest)	-	-	17.000	-76,5	4.000
Attributable to owners of the parent	3.662.000	3.766.000	3.031.000	+1,5	3.077.000

Figure 3: Group key earnings figures | Source: CRA / eValueRate

Income Ratios (%)	2015	2016	2017	%	2018
Cost Income Ratio (CIR)	49,75	48,73	53,88	+2,72	56,60
Cost Income Ratio ex. Trading (CIRex)	57,88	57,07	60,96	+2,78	63,74
Return on Assets (ROA)	0,57	0,61	0,52	+0,03	0,56
Return on Assets before Taxes (ROAbT)	0,73	0,75	0,69	+0,03	0,72
Return on Equity (ROE)	11,80	11,62	9,15	+0,22	9,36
Return on Equity before Taxes (ROEbT)	15,16	14,27	12,00	+0,01	12,01
Return on Risk-Weighted Assets (RORWA)	2,56	2,83	2,42	-0,45	1,98
Return on Risk-Weighted Assets before Taxes (RORWAbT)	3,28	3,47	3,18	-0,64	2,54
Net Interest Margin (NIM)	1,06	1,11	1,13	-0,07	1,05
Pre-Impairment Operating Profit / Assets	0,77	0,82	0,75	-0,07	0,68
Cost of Funds (COF)	0,67	0,61	0,64	+0,00	0,64
Change in %Points					

Figure 4: Development of assets | Source: CRA / eValueRate

Assets (€000)	2015	2016	2017	%	2018
Cash and Balances with Central Banks	48.724.000	43.334.000	47.877.000	+2,8	49.220.000
Net Loans to Banks	10.762.000	9.026.000	8.592.000	+31,8	11.320.000
Net Loans to Customers	340.920.000	317.689.000	310.158.000	-0,6	308.304.000
Total Securities	117.149.000	114.333.000	98.963.000	-2,7	96.242.000
Total Derivative Assets	80.892.000	70.137.000	46.274.000	-19,6	37.194.000
Other Financial Assets	-	-	-	-	-
Financial Assets	598.447.000	554.519.000	511.864.000	-1,9	502.280.000
Equity Accounted Investments	515.000	588.000	1.235.000	+29,6	1.601.000
Other Investments	3.054.000	3.119.000	1.448.000	+11,0	1.607.000
Insurance Assets	20.434.000	23.102.000	25.879.000	-5,0	24.583.000
Non-current Assets & Discontinued Ops	-	8.897.000	22.186.000	-	-
Tangible and Intangible Assets	3.765.000	4.358.000	4.607.000	-0,6	4.581.000
Tax Assets	163.000	348.000	239.000	+87,4	448.000
Total Other Assets	20.490.000	20.728.000	14.154.100	+15,2	16.308.000
Total Assets	646.868.000	615.659.000	581.612.100	-5,2	551.408.000

Figure 5: Development of asset quality | Source: CRA / eValueRate

Asset Ratios (%)	2015	2016	2017	%	2018
Net Loans / Total Assets	52,70	51,60	53,33	+2,58	55,91
Non-Performing Loans (NPL) / Net Loans to Customers	1,85	1,83	2,38	-0,29	2,09
Impairments/ Net loans to customers (%)	0,78	0,76	0,75	-0,09	0,66
Potential Problem Loans / NPL	35,55	31,98	190,50	+106,53	297,03
Risk-Weighted Assets (RWA) / Total Assets	22,15	21,63	21,63	+6,64	28,27
Non-Performing Loans / Risk-Weighted Assets	4,40	4,36	5,86	-1,73	4,13
Net Write-offs / Net Loans to Customers	0,14	0,15	0,11	-0,05	0,06
Net Write-offs / Risk-Weighted Assets	0,33	0,36	0,27	-0,15	0,12
Impairments/ Impaired Loans (%)	42,25	41,79	31,66	+0,00	31,66
Level 3 Assets / Total Assets	1,54	1,45	0,87	+0,03	0,89
Change in %Points					

Figure 6: Development of refinancing and capital adequacy | Source: CRA / eValueRate

Liabilities (€000)	2015	2016	2017	%	2018
Total Deposits from Banks	44.209.000	38.136.000	39.983.000	+6,1	42.419.000
Total Deposits from Customers	189.049.000	174.028.000	172.434.000	-4,3	164.958.000
Total Debt	211.137.000	202.209.000	188.101.000	+6,1	199.577.000
Derivative Liabilities	82.099.000	71.102.000	44.163.000	-7,6	40.820.000
Securities Sold, not yet Purchased	8.824.000	8.024.000	13.400.000	-6,8	12.495.000
Other Financial Liabilities	-	-	-	-	-
Total Financial Liabilities	535.318.000	493.499.000	458.081.000	+0,5	460.269.000
Insurance Liabilities	59.795.000	64.790.000	45.745.000	-4,1	43.883.000
Non-current Liabilities & Discontinued Ops	-	4.888.000	26.031.000	-	-
Tax Liabilities	1.253.000	1.317.000	1.111.000	+0,8	1.120.000
Provisions	415.000	306.000	329.000	-2,4	321.000
Total Other Liabilities	19.055.000	18.449.000	16.999.100	-24,0	12.914.000
Total Liabilities	615.836.000	583.249.000	548.296.100	-5,4	518.507.000
Total Equity	31.032.000	32.410.000	33.316.000	-1,2	32.901.000
Total Liabilities and Equity	646.868.000	615.659.000	581.612.100	-5,2	551.408.000

Figure 7: Development of capital ratios | Source: CRA / eValueRate

Capital Ratios (€000)	2015	2016	2017	%	2018
Total Equity/ Total Assets	4,80	5,26	5,73	+0,24	5,97
Leverage Ratio	4,60	5,00	5,20	-0,10	5,10
Phased-in: Common Equity Tier 1 Ratio (CET1)	16,50	18,40	19,50	-4,00	15,50
Phased-in: Tier 1 Ratio (CET1 + AT1)	18,50	20,70	22,30	-5,00	17,30
Phased-in: Total Capital Ratio (CET1 + AT1 + T2)	21,60	24,70	25,20	-5,30	19,90
Change in %Points					

Figure 8: Development of liquidity | Source: CRA / eValueRate

Liquidity (%)	2015	2016	2017	%	2018
Net Loans / Deposits (LTD)	180,33	182,55	179,87	+7,03	186,90
Interbank Ratio	24,34	23,67	21,49	+5,20	26,69
Liquidity Coverage Ratio (LCR)	201,00	159,00	147,00	+38,00	185,00
Customer Deposits / Total Funding (excl. Derivatives)	35,42	33,98	34,20	+0,33	34,53
Change in %Points					

Regulatory

Creditreform Rating AG was neither commissioned by the rating object nor by any other third party 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 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 36 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. 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 02 July 2019, 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 subject to one-year monitoring from the rating date and is valid until withdrawal of the rating. Within this period, the rating can be updated. At the latest after one year, a monitoring 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 this registration, Creditreform Rating AG (CRA) is permitted to issue credit ratings within the EU, and is obligated 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 nor any other natural persons 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.

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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 the 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 the 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.

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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.

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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.

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