Nordea

Initiation of coverage

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This report is a translation of the report "Hinnan ja arvon välillä suuri epäsuhta" published on 6/12/2023 at 8:15 am.

A major discrepancy between price and value

Nordea has achieved a convincing performance turnaround in recent years and its profitability has risen close to its peers. The company is currently performing strongly and although we expect the earnings peak to be close, profitability remains strong in our estimates over the next few years as well. There is no doubt that the operating environment is currently subject to uncertainty, but we believe the valuation of the company (2023e: P/E 7.1x and P/B 1.1x) gives an unreasonably pessimistic picture of the earnings outlook for the coming years. We initiate coverage of Nordea with a target price of EUR 12.5 and a Buy recommendation.

Largest universal bank in the Nordic countries

Nordea is the largest universal bank in the Nordic countries, which has been formed through several M&A transactions. Today, Nordea serves over 10 million customers in the Nordic countries and the company's loan portfolio was about EUR 339.7 billion at the end of Q1'23. Nordea's comparable operating income was EUR 10.3 billion last year and comparable operating profit was EUR 5.4 billion.

An impressive turnaround

Compared to its Nordic peers, Nordea was a clear underperformer in the past, but under the new management, the company has achieved a convincing turnaround and profitability has risen close to the peers' levels. The turnaround is explained by a stronger customer focus, income that has turned to a growth path and a clear change in the cost culture. In addition, earnings development has also received clear support from the strongly increased interest rate level. Nordea published its strategy update for 2022-25 last year, where it highlighted offering the best omnichannel customer experience in the industry, focused and profitable growth, and increasing operational and capital efficiency. As part of increasing capital efficiency, Nordea will return a significant amount of capital to its shareholders in the strategy period and we estimate that the total profit distribution during the strategy period 2022-2025 will rise to over EUR 18.0 billion.

We expect the performance to remain strong in the coming years

Thanks to the improved operational efficiency and significantly increased interest rates Nordea's performance is dazzling and we expect the company to reach the best result in its history this year (2023e: comparable EBIT: 6356 MEUR). However, we anticipate that the earnings peak is near, and due to rising loan losses and a decline in market rates, we expect EBIT to decline by about 2-5% p.a. in 2024-25. Although we see EBIT peaking in 2023, the bank's performance will remain strong in absolute terms also in the coming years. In addition, EPS development is supported by share buybacks, which reduces the number of outstanding shares by about 3-4% p.a. We expect that Nordea's ROE will reach 14-16% in the next few years and CET1 ratio will reach 16.4-16.6%.

The valuation paints an overly pessimistic picture of the earnings outlook for the next few years

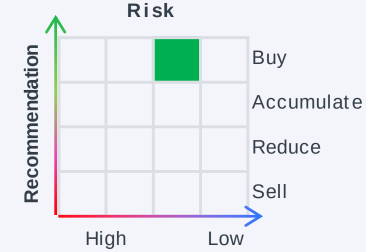
We have examined Nordea's valuation through P/E and P/B valuation multiples and the peer group. Just like the rest of the banking sector, Nordea is price is exceptionally low (2023e: P/E 7.1x and P/B 1.1x) and we believe the valuation provides an unreasonably pessimistic picture of the earnings outlook for the coming years. Thus, we feel the upside in the valuation multiples and the profit distribution of 13-14% in the next few years offer investors a very good expected return at the current share price.

Recommendation

Buy
(previous -)

12.50 EUR
(previous -)

Share price:
EUR 9.73



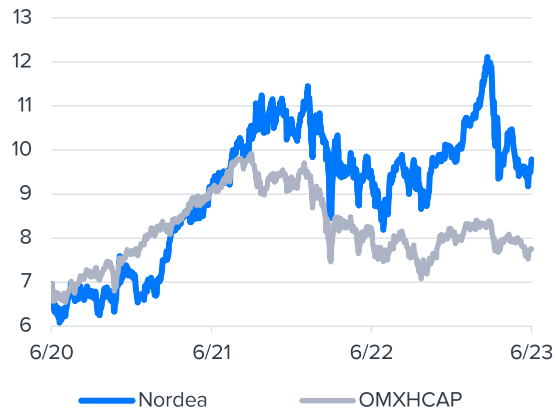
Key figures

	2022	2023e	2024e	2025e
Total operating income	9 721	11 770	11 910	11 663
growth-%	1 %	21 %	1 %	-2 %
Total operating expenses	4 834	5 068	5 192	5 355
Cost/income ratio	50 %	43 %	44 %	46 %
Adjusted operating profit	5 299	6 356	6 199	5 864
Net profit	3 587	4 903	4 773	4 515
EPS (adj.)	1,11	1,37	1,39	1,35
Dividend per share	0,80	0,92	0,97	0,95
Payout ratio	72 %	67 %	70 %	70 %
ROE-%	12 %	16 %	15 %	14 %
P/E (adj.)	9,0	7,1	7,0	7,2
P/B	1,2	1,1	1,1	1,0
Dividend yield	8,0 %	9,5 %	10,0 %	9,7 %

Guidance (Unchanged)

Nordea expects the return on equity to be above 13%.

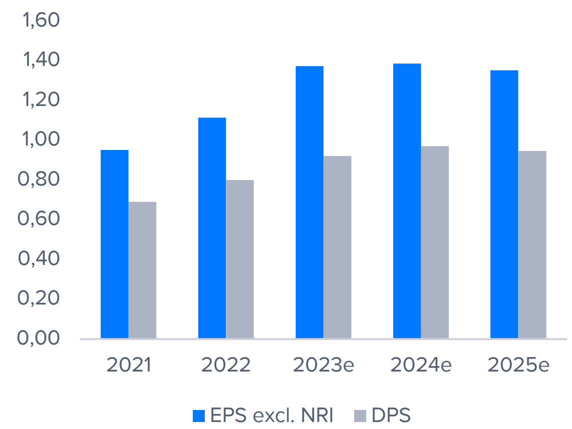
Share price



Source: Millistream Market Data AB

Operating income and EBIT

EPS and dividend



Value drivers

- Increased interest rate levels and strong growth in net interest income
- Winning market shares
- Growth in asset management
- Retention for improved cost efficiency
- Efficient use of capital and distribution of excess capital

Risk factors

- Risks related to general economic development in the Nordic region
- Decrease in interest rates
- Development of housing and real estate markets
- Regulatory risks
- General capital market development

Valuation	2023e	2024e	2025e
Share price	9,73	9,73	9,73
Number of shares, millions	3 572	3 444	3 339
Market cap	34 024	33 000	31 975
P/E (adj.)	7,1	7,0	7,2
P/B	1,1	1,1	1,0
Dividend yield-%	9,5 %	10,0 %	9,7 %

Source: Inderes

Contents

Nordea in brief

Nordea is the leading universal bank in the Nordic countries and one of the largest banks in the eurozone measured by market cap.

1997–2001
The present form of Nordea was born in the merger of Merita, Nordbanken, Unibank and Christiania Bank og Kreditkasse

10,258 MEUR (+6.6% vs. 2021)
Comparable operating income 2022

+6% 2017-2022
Average increase in comparable operating profit (CAGR)

EUR 339.7 billion
Loans to the public at the end of Q1'23

EUR 362.4 billion
Assets under management (AUM) at the end of Q1'23

28,922 (+6.8% vs. Q1'2022)
Personnel (FTE) at end of Q1'23

Business Areas

Personal Banking	Business Banking
Large Corporates & Institutions	Asset & Wealth Management

Over 10 million
customers in the Nordic countries

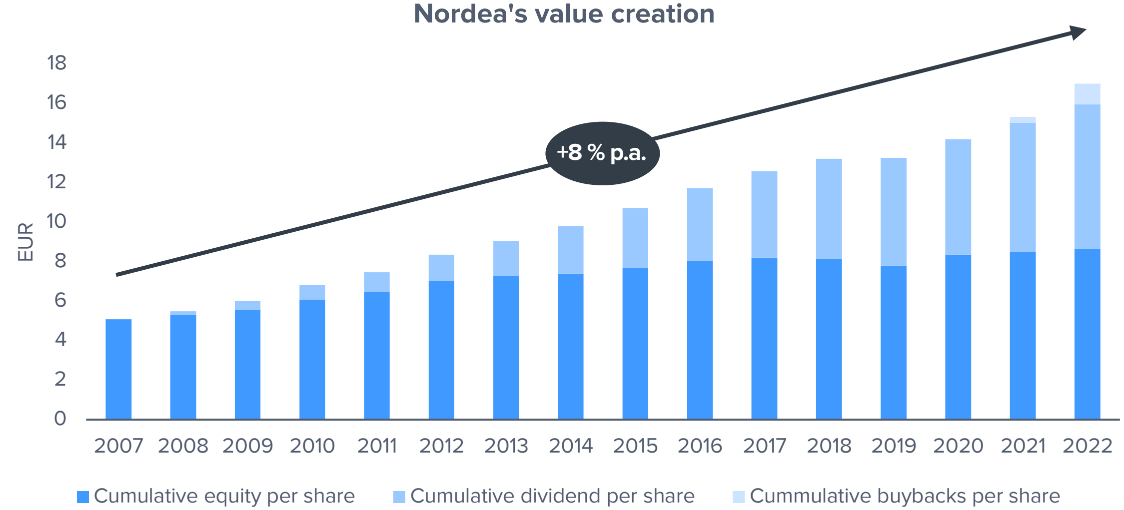
Main market areas

	Sweden	Finland	Denmark	Norway
Operating income[1]	29%	23%	29%	20%
Breakdown of loan portfolio	30%	26%	23%	20%

Breakdown of loan portfolio

- **48%** mortgages
- **44%** corporate loans
- **8%** consumer credit

Nordea's value creation



Source: Nordea / Inderes

[1]2022 income distribution based on the old reporting standard

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Largest universal bank in the Nordic countries

Nordea is the largest universal bank in the Nordic countries and one of the largest banks in the eurozone measured by market cap. The company's roots extend back to the beginning of the 1800s, but the present form of Nordea was born at the turn of the millennium in the merger of Merita, Nordbanken, Unibank and Christiania Bank og Kreditkasse.

Today, Nordea serves over 10 million customers in the Nordic countries and the company's loan portfolio was about EUR 339.7 billion at the end of March. Nordea is also the largest asset manager in the Nordic countries and at the end of March the company had around EUR 362.4 billion in AUM. Nordea's comparable operating income was about EUR 10.3 billion last year and comparable operating profit was some EUR 5.4 billion.

Four main markets

Nordea's main market areas are Sweden, Finland, Denmark and Norway. Measured by the loan portfolio, the company's largest market is Sweden, whose share of the loan portfolio at the end of Q1'23 was around 30%. At the end of Q1, Finland represented about 26% of lending and Denmark 23%. At the end of March, Norway's share of the Group's loan portfolio was about 20%.

Measured by income, Denmark and Sweden are the largest markets for Nordea, both representing some 29% of the Group's income (calculated based on the old IFRS 4 standard) last year. Finland's share of operating income was about 23% last year and Norway's share about 20%.

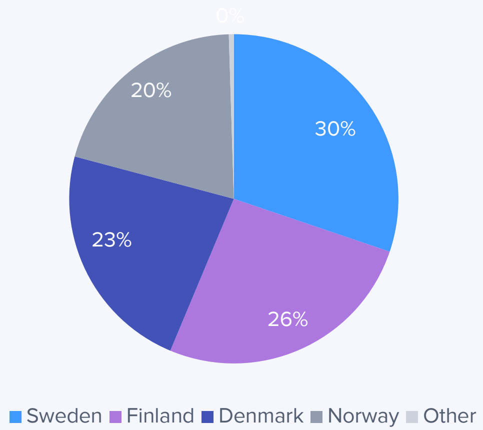
The business is divided into four business areas

Nordea divides its business into four areas: Personal Banking, Business Banking, Large Corporates & Institutions, and Asset & Wealth Management.

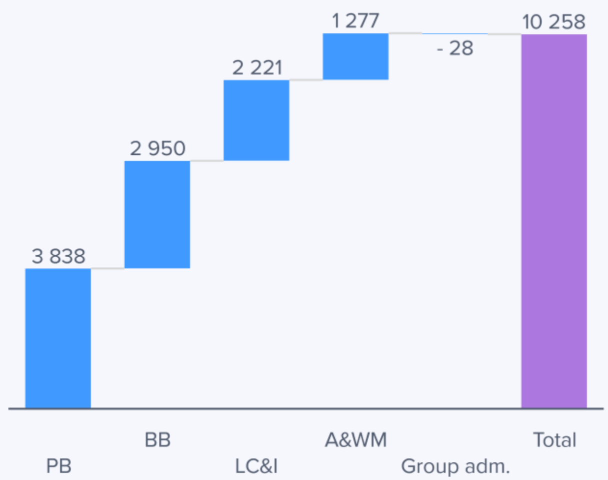
The **Personal Banking** business area is Nordea's largest business area and provides a full range of financial services to meet the daily financial needs of private customers in all four Nordic home markets. Last year, the Personal Banking business area accounted for about 37% of Nordea's comparable operating income and about 35% of comparable operating profit. The business area's return on capital at risk (ROCAR) was about 19% last year.

The **Business Banking** business area provides banking and financial services to SMEs. The business area also includes a product and specialist unit, Transaction Banking, which provides payment, cash management and trade finance services. In addition, Nordea Finance that is part of the business area offers equipment, car, retail and receivables finance. Last year, the Business Banking business area accounted for some 29% of Nordea's comparable operating income and about 31% of comparable operating profit. The business area's return on capital at risk (ROCAR) was about 19% in 2022.

Loan portfolio distribution by country (Q1'2023)



Comparable operating income by business area (2022, MEUR)



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The **Large Corporates & Institutions** business area provides financial solutions for large Nordic and international corporations and institutional customers. The business area is the largest bank for corporations and institutional customers in the Nordic countries. The Corporate & Investment Banking unit that is part of the business area offers large corporations financial solutions and advice, e.g., in M&A transactions, equity capital markets and debt capital markets. The unit also includes Nordea Markets and its research and trading services. The Large Corporates & Institutions business area has operations in all four Nordic countries, as well as branches in New York, London and Shanghai.

Last year, the Large Corporates & Institutions business area accounted for about 22% of Nordea's comparable operating income and about 27% of comparable operating profit. The business area has improved its profitability in recent years and reached approximately 18% in return on capital at risk in 2022 (ROCAR).

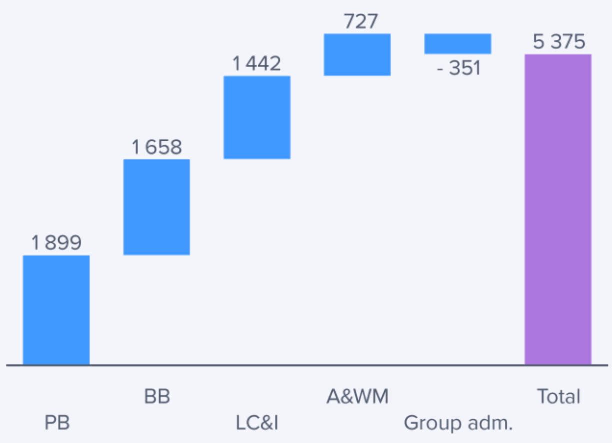
Nordea's Asset & Wealth Management offers savings and investment products and manages customers' accumulated wealth. The Asset & Wealth Management business area includes the Private Banking, Life & Pension and Asset Management units. The business area is the largest provider of private banking, life and pension, and wealth management services in the Nordic countries.

At the end of Q1'23, the AUM of Nordea's Asset & Wealth Management amounted to EUR 362.4 billion and thus customer assets are larger than the Group's loan portfolio (Q1'23: EUR 339.7 bn).

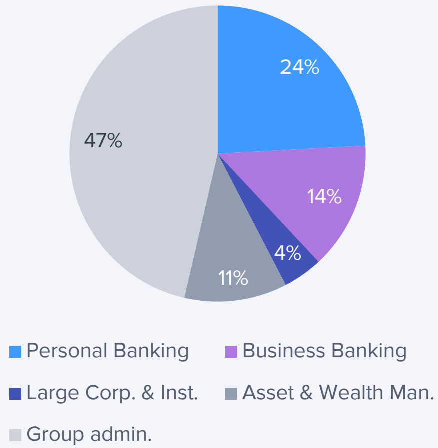
Last year, the Asset & Wealth Management business area accounted for about 12% of the Group's comparable operating income and about 14% of comparable operating profit. The asset management business only ties up limited capital and was the most profitable unit in Nordea last year with 34% return on capital at risk (ROCAR).

Group Management consists of Nordea's support functions, such as HR, brand communications and marketing, risk management and compliance, legal affairs, and Group personnel. The comparable operating loss of Group operations was EUR -351 million last year (-6.5% of the Group's comparable operating profit).

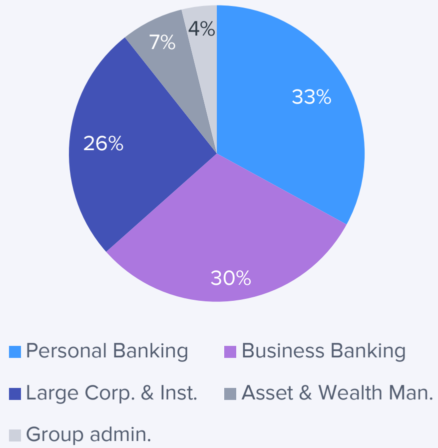
Comparable operating proft by business area (2022, MEUR)



Number of personnel by business area (2022, FTE)



Economic capital by business area (2022)



Company description and business model 3/9

Net interest income the main source of income

Net interest income is Nordea's main source of income and it accounted for about 58% of income last year. In recent years, the importance of net interest income has been somewhat smaller for Nordea than for its Nordic peers (Danske, DNB, Swedbank, SEB, Handelsbanken) as in the last five years, net interest income has represented on average some 61% of the income of peers, compared to about 52% for Nordea.

Net interest income is the difference between the bank's interest income and interest expenses. It consists of interest income from the bank's interest-bearing receivables while the bank pays interest expenses on its interest-bearing liabilities. The development of net interest income is mainly influenced by the increase in lending and deposits and the change in the interest margin between them. The interest rate difference between the bank's receivables and liabilities is measured by the interest margin expressed in percentage points. The interest margin of banks is divided into two parts by deducting the short-term market rate (lending margin) from the loan rates and by deducting the deposit rate (deposit margin) from the short-term market rates.

Last year, Nordea's net interest income (2022: 5,664 MEUR) was supported by increases in policy rates by central banks, which was reflected positively in the development of deposit margins (impact +895 MEUR). Nordea has estimated that the increase in policy rates will continue to improve the bank's net interest income in 2023 by about EUR 1.2-1.6 billion and by about EUR 100 million in 2024.

Asset management dominates net commission income

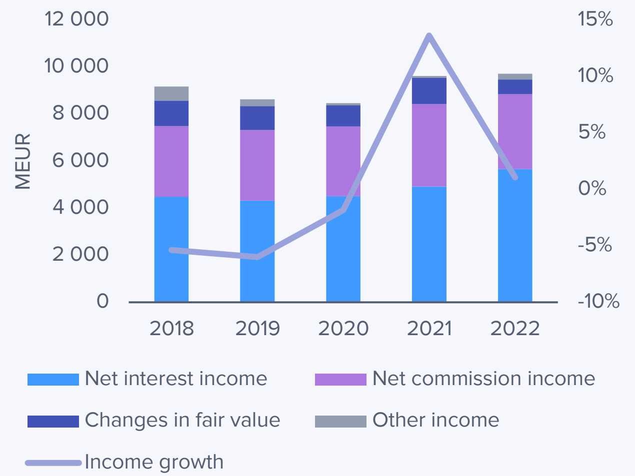
Nordea's second key source of income is net commission income that generated about one-third of the company's income in 2022. Nordea's commission income was dominated by commissions from Asset & Wealth Management, as commissions from wealth management and life insurance accounted for about 58% of total net commission income last year. Asset & Wealth Management growth has been a key driver for commission income growth in recent years and in 2017-2022 the customer assets managed by Nordea grew by some 9%. About 65% of the growth in AUM is explained by new sales and 35% by changes in market values.

Other important sources of commission income are card and payment traffic (about 18% of net commission income) and lending commissions (about 15% of net commission income). Other net commission income consists of fees and other smaller items related to brokerage, issuance of securities and Corporate Finance.

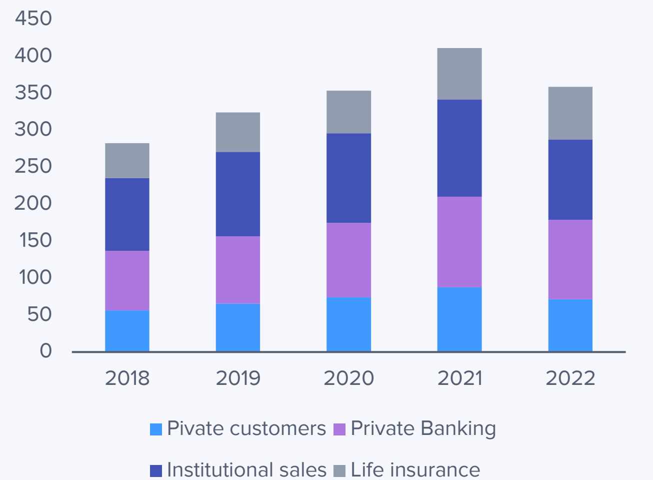
Items measured at fair value are the most volatile component

Nordea's most cyclical component of income is fair value changes, which accounted for about 6% of income last year. The predictability of changes in fair value is relatively weak at quarterly level and strongly depends on general capital market development. Changes in fair value are mainly attributable to customer-driven capital markets operations, market making and changes in the value of Treasury's investment portfolio and liquidity portfolio.

Development of operating income



Assets under management (EUR bn)



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Personnel and IT expenses biggest expense items

Nordea's biggest expense item is personnel expenses, which last year amounted to EUR 2.8 billion, representing about 27% of the bank's comparable income. In 2019-2021, Nordea's personnel decreased by some 7% but in 2022 the number of personnel increased by about 5%. According to the company, the increase in the number of personnel seen last year was explained by, e.g., increasing risk management resources.

The second largest expense item for Nordea is IT expenses, which are reported in other operating expenses in the consolidated income statement. Nordea's IT expenses recognized in profit or loss totaled EUR 569 million last year, or about 6% of comparable income. It should also be noted that in recent years Nordea has capitalized roughly EUR 300-500 million in IT expenses annually in its balance sheet. Nordea's other operating expenses consist of several smaller items, the key ones being regulatory fees, expert and office expenses and other expenses.

Nordea's operational depreciation level has been around EUR 550-600 million in recent years. Approximately two-thirds of this depreciation consists of amortization of intangible assets and the remainder consists of depreciation of tangible assets (incl. IFRS 16 right-of-use asset items).

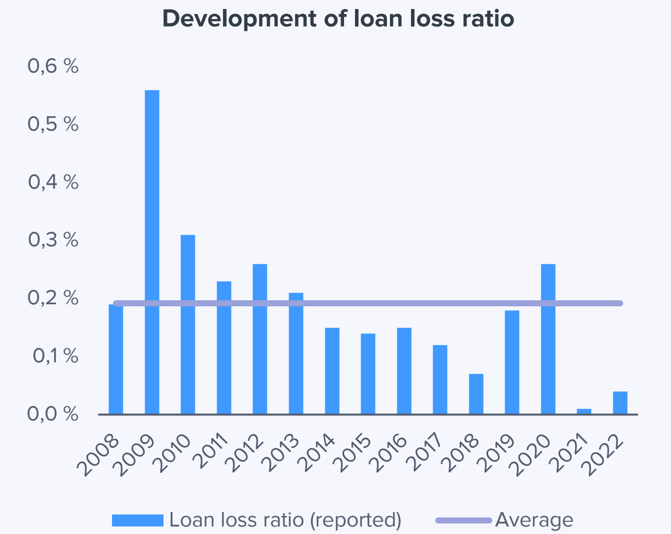
Cost-efficiency

Nordea's profitability development was still weak in past years, as in 2017-2020 the company's comparable cost/income ratio was in the 55-57% range and far from the relevant peers (p. 21). However, under the new management since 2019, Nordea has managed to turn income back to growth, which, together with improved operational efficiency, has had a positive impact on profitability. Last year, Nordea achieved a comparable cost/income ratio of 47.5%, while the company's financial targets for 2025 are based on a 45-47% level.

Loan loss provisions

Loan loss provisions recognized by banks through profit or loss consist of expected credit losses (so-called ECL provisions) as well as final loan losses and possible recoveries. Since 2018, banks have applied the IFRS 9 standard for the calculation of loan loss provisions, and as a result, loan loss recognition is more frontloaded.

Nordea's annual loan loss ratio has been on average 0.19% over the last 15 years and, according to our calculations, it has been in line with other Nordic banks (p. 22). In 2020 during the COVID pandemic, Nordea made significant loan loss provisions based on management discretion and at the end of Q1'23, EUR 585 million of these provisions were available. In 2021-2022, recorded loan loss provisions were historically very low.



Company description and business model 5/9

Loan portfolio consists mainly of household loans

At the end of March 2023, Nordea's loan portfolio was EUR 339.7 billion. Household loans account for some 52% of Nordea's loan portfolio and these loans consist mainly of secured mortgages that are generally considered low risk. At the end of Q1'23, corporate loans accounted for some 41% of the loan portfolio and the remainder (7%) includes loans to the public sector and repurchase commitments.

In a country-specific examination some anomalies can be seen in Nordea's loan portfolio. In Denmark, household loans hold the highest weight as they account for about 58% of the loan portfolio. In Sweden, the share of household loans at the end of Q1'23 was some 53%, while in Norway and Finland it was 52% and 47%.

Corporate lending focuses on the real estate sector and industrials

Nordea's corporate loan portfolio at the end of March was approximately EUR 138 billion. The corporate loan portfolio is fairly well diversified between industries, although the importance of the real estate sector and industrials are emphasized in corporate lending. At the end of Q1, the real estate sector represented about 32% of Nordea's corporate loan portfolio (13% of the Group's total loan portfolio). The weight of industrials in the corporate loan portfolio was 26% at the end of March (10% of the Group's total loan portfolio). Other significant customer sectors were financial institutions (11% of the corporate loan portfolio) and non-essential consumer goods and services (9% of the corporate loan portfolio).

Market shares have remained stable or developed positively in recent years

Nordea does not publish detailed market shares, but according to data from interest groups, national central banks and statistical offices, rough estimates can be made of market shares in Nordea's home markets.

Based on information from the Swedish Banking Association, Nordea's market share in Sweden was 12.6% of all household and corporate loans (excl. financial institutions) at the end of 2022. The market share has been growing in recent years, as only five years ago Nordea's market share was around 11.9%. In Finland, Nordea's market share has remained very stable and according to statistics from the Bank of Finland, the company's share of all loans has been around 25-26% in recent years.

In Denmark, we estimate Nordea's market share of all loans (excl. financial institutions) to be around 17.0-18.0%, and we estimate that the market share has remained relatively stable in recent years. In Norway, we estimate that Nordea's market share has been growing in recent years and according to our calculations, the company's market share in household and corporate loans is around 11.5-12.0%. For Denmark and Norway, our market share assessment is based on data reported by Nordea on the geographical distribution of the company's lending portfolio and on the national statistical authorities' data on household and corporate loan portfolio in the countries concerned.

Risks in the loan portfolio have been systematically reduced in recent years

In recent years, Nordea has taken a number of measures to reduce the risks in its loan portfolio and the lower balance sheet risk level has been positively reflected in the quality of the loan portfolio. This is, e.g., visible as a fall in the number of non-performing loans (stage 3) and as an increase in the coverage rates of these loans (ratio of provisions to gross receivables).

Key actions to reduce the risks in the loan portfolio have been:

- Increasing the relative share of household loans
- Selling Polish operations in 2013-2014
- Reducing credit risks in the Shipping, Oil & Offshore sectors
- Decision to cease operations in Russia in 2019
- Selling of Baltic operations
- Reducing credit risks in the Danish agricultural sector
- Selling and securitization of NPL-portfolios

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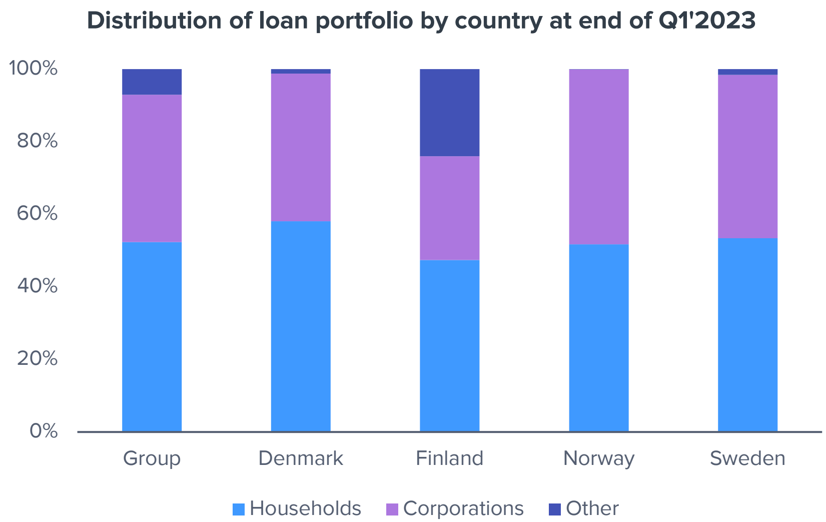
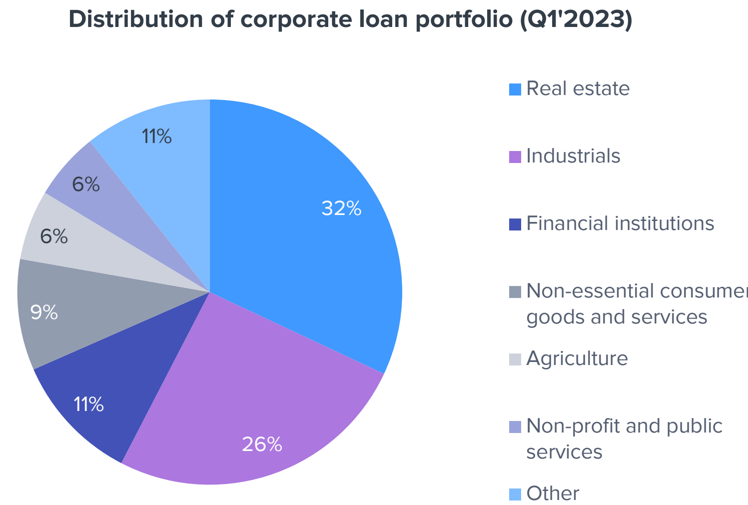
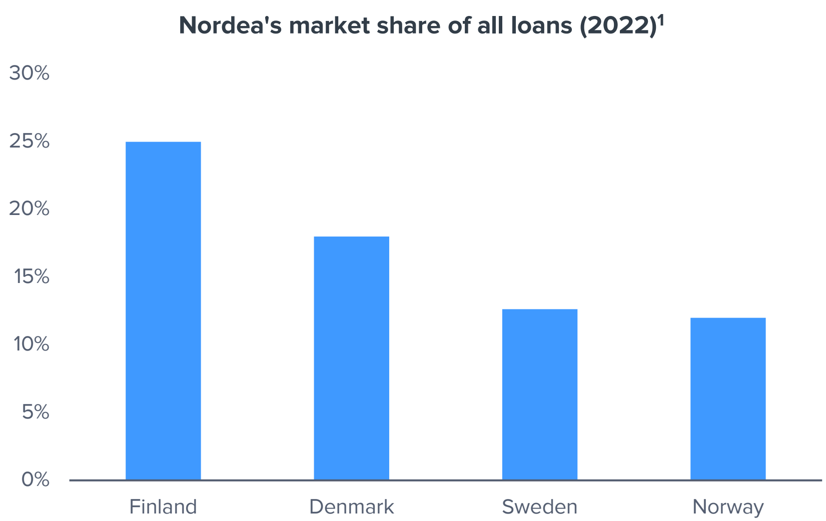
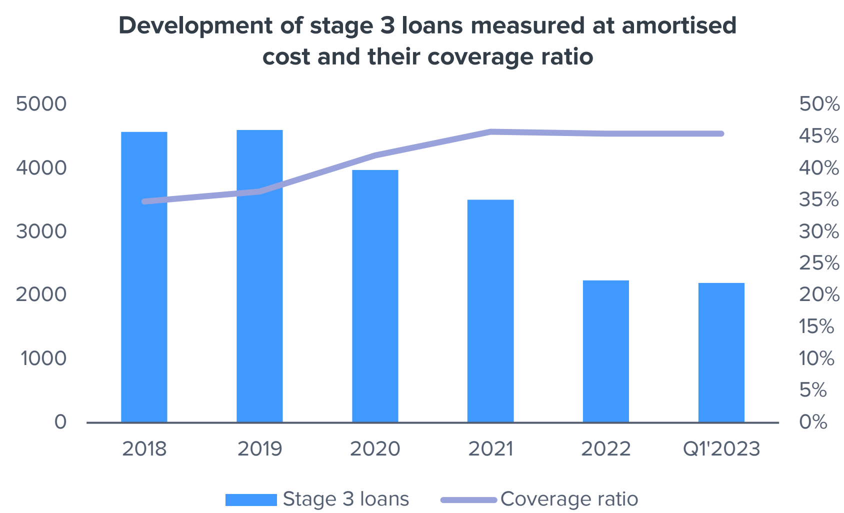








[1]Source: Estimates by the Bank of Finland, Swedish Bankers Association, Danmarks Nationalbank, Statistics Norway and Inderes

Company description and business model 7/9

Loan portfolio the largest item in the balance sheet

The loan portfolio is the largest single item in Nordea's balance sheet and represented 56% of the balance sheet total at the end of March 2023. Other key assets in Nordea's balance sheet consist mainly of the company's liquidity and investment assets and investments related to insurance and investment contracts of life insurance companies.

At the end of Q1, Nordea had interest-bearing securities worth about EUR 76 billion, consisting mainly of investments in the company's liquidity buffer (EUR 125.1 bn). Interest-bearing securities include, e.g., government and municipal bonds, mortgage loans and debt securities of other credit institutions. At the end of Q1, Nordea had cash and central bank deposits and receivables worth about EUR 66 billion, representing about 11% of the balance sheet.

At the end of March, Nordea had investments related to unit-linked insurance contracts amounting of approximately EUR 45 billion, representing 7% of the balance sheet total. In unit-linked policies, the policy holder bears the investment risk by picking the investment targets to which the contract performance is linked.

Other assets in Nordea's balance sheet (13% of the balance sheet) consist of derivative contracts (5% of the balance sheet) and other smaller items such as equity investments and investment properties (4% of the balance sheet). At the end of March, Nordea had intangible assets in the balance sheet worth some EUR 3.9 billion (1% of the balance sheet total and 14 % of equity).

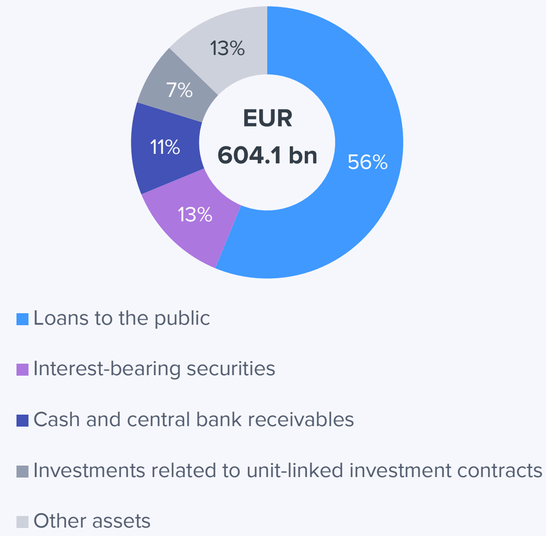
Deposits and bond financing emphasized in funding

At the end of Q1'23, Nordea's liabilities in the balance sheet were EUR 575.9 billion. Deposits from the public are Nordea's largest funding item, as they accounted for about 38% of all liabilities at the end of Q1. The financing cost of the deposits has been very low in recent years due to the interest-rate environment and, according to our calculations, Nordea's annual deposit cost in 2018-2022 was only about 0.2% on average.

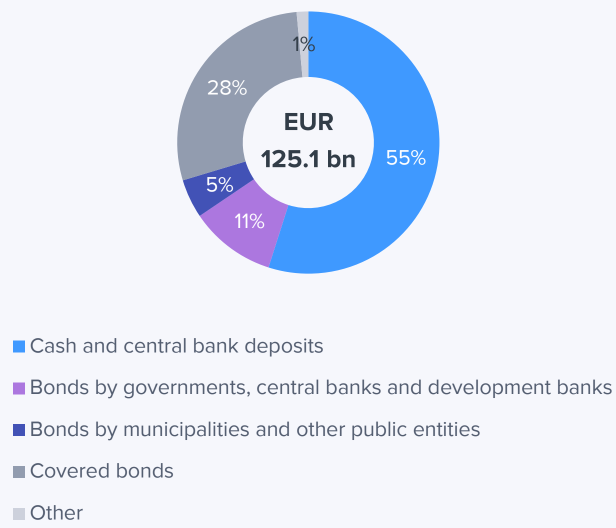
With the increased interest rate, banks have started to offer deposit rates on fixed-term and deposit accounts, but no interest has so far been paid on a large scale on ordinary current accounts. When we consider, e.g., the clearly higher costs of bond financing, we believe it is very possible that the deposit competition between banks will tighten before long.

In addition to deposits, Nordea's second main source of funding is wholesale funding and at the end of Q1 the company had publicly issued bonds worth approximately EUR 190 billion, representing about 33% of Nordea's total liabilities. The majority of issued bonds are covered bonds (Q1'23: EUR 108 bn). In addition, debt securities financing also includes certificate of deposits and commercial papers, unsecured senior bonds and senior non-preferred debt instruments.

Balance sheet assets (at end of Q1'2023)



Liquidity buffer (at end of Q1'2023)



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In recent years, Nordea has been able to obtain debt financing on very favorable terms and, e.g., in the issuance of senior bonds, the company's credit risk spread has been among the lowest in the European and Nordic banking sectors. We believe this is based on the high level of confidence of the debt investors in the bank's business model, capitalization and debt servicing capacity.

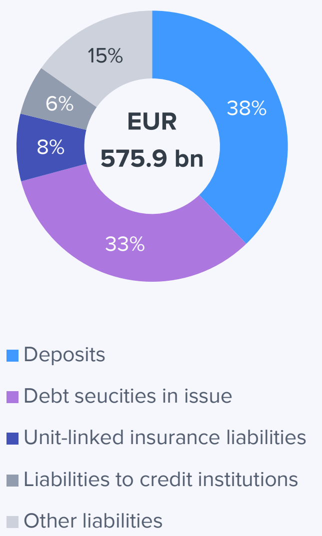
In addition to deposits and debt security financing, a noteworthy liability item in Nordea's balance sheet is the insurance liability of unit-linked insurance policies, which at the end of Q1'23 accounted for 8% of all liabilities. The insurance liability consists of the provision for unearned premiums and the claims provision. Credit institution liabilities (6% of total liabilities) and derivative liabilities (6% of total liabilities) are also among the largest items in the balance sheet.

CET1 capital ratio was 15.7% at the end of Q1

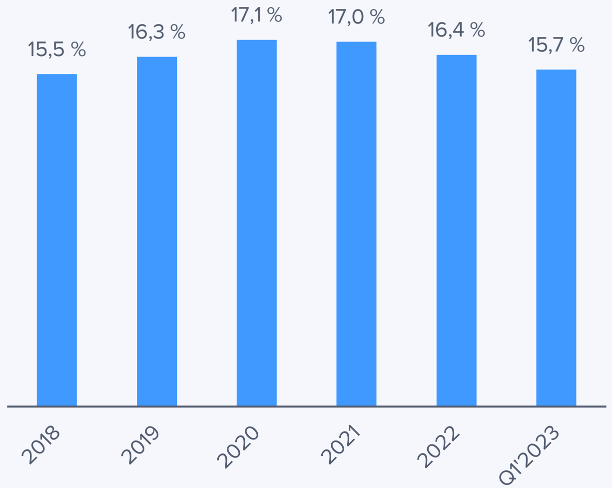
Nordea's Common Equity Tier 1 (CET1) capital ratio was 15.7% at the end of March and exceeded the regulatory minimum requirement by 4.0 percentage points. Nordea's own target is to maintain a buffer of at least 1.5-2.0 percentage points on the minimum requirement (11.7%) and considering this, the floor for the CET1 ratio is currently 13.2-13.7%.

Nordea has reported that it expects its CET1 capital ratio (including a buffer based on management discretion) to rise to around 15.0% in the neutral scenario of the strategy period ending in 2025. In practice, the CET1 capital requirement would rise over the next two and a half years by about 1.5 percentage points in the neutral scenario and would settle at pre-COVID levels. Nordea's capital requirements are raised by the re-activation of additional capital buffers (CCyB) that will change in the coming years and increasing systemic risk buffers (O-SII and SyRB). At its highest, Nordea expects the CET1 requirement to rise to 16.0% and this scenario would require an increase in the Swedish countercyclical capital buffer (CCyB) to 2.5% (Q1'23: 1.0%) and full implementation of the Norwegian systemic risk buffer.

Balance sheet liabilities (at end of Q1'2023)

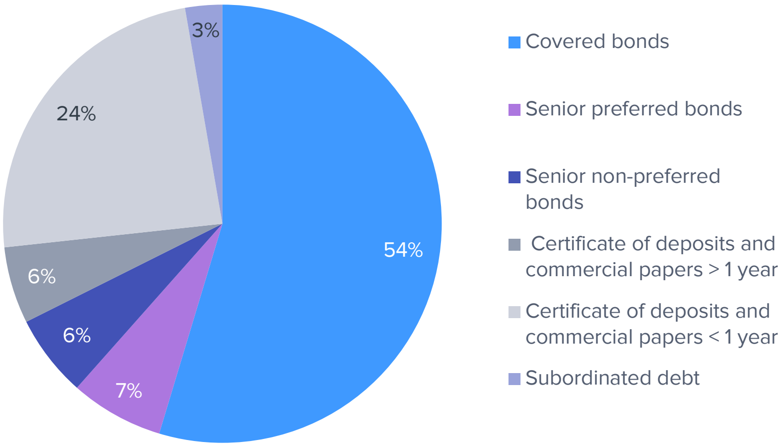


CET1 capital ratio

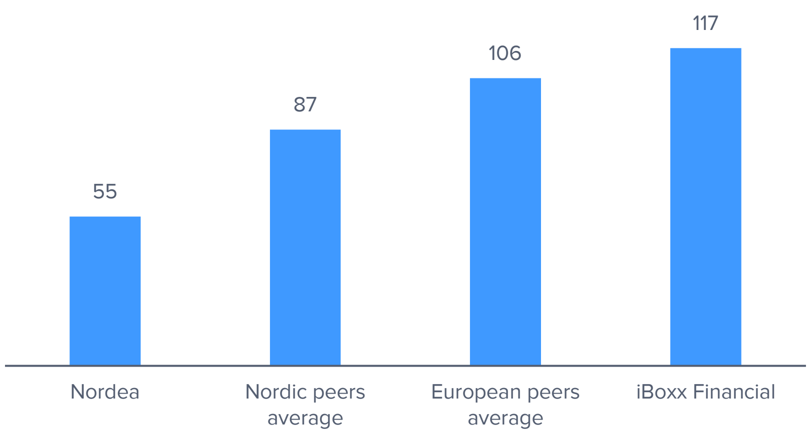


Company description and business model 9/9

Structure of wholesale funding



Funding costs (basis points)[1]



[1] Credit risk spread in a 5-year senior-preferred bond issue

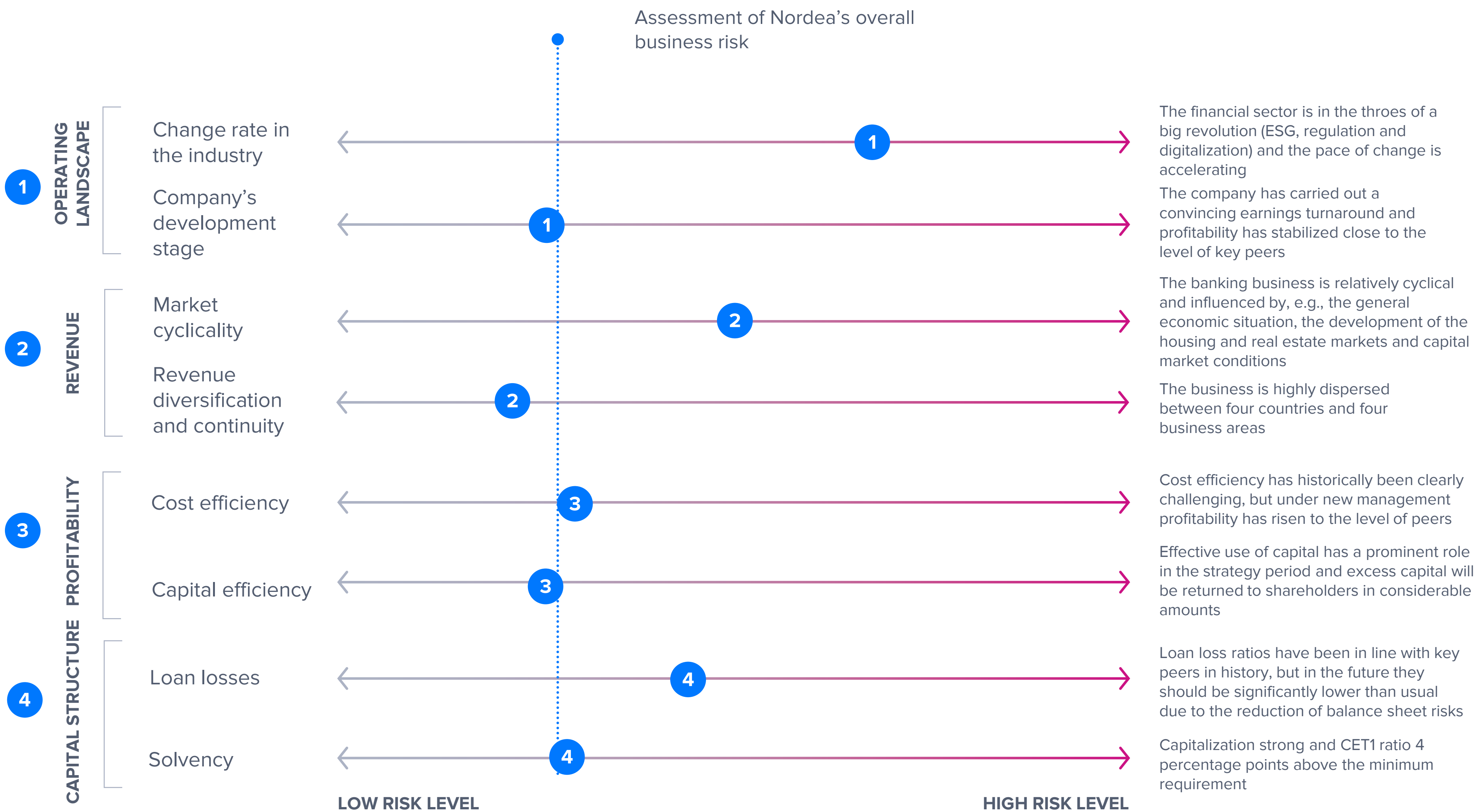
Source: Nordea, Inderes

Credit ratings at end of Q1'2023

Nordea's credit rating

	Long-term funding			Short-term funding		
	S&P	Moody's	Fitch	S&P	Moody's	Fitch
Investment grade	AAA	Aaa	AAA	**A-1+**	**P-1**	**F1+**
	AA+	Aa1	AA+	A-1	P-2	F1
	AA	Aa2	AA	A-2	P-3	F2
	AA-	**Aa3**	**AA-**	A-3	Not Prime	F3
	A+	A1	A+	B		B
	A	A2	A	C		C
	A-	A3	A-	D		D
	BBB+	Baa1	BBB+			
	BBB	Baa2	BBB			
	BBB-	Baa3	BBB-			
Not in investment grade	BB+	Ba1	BB+			
	BB	Ba2	BB			
	BB-	Ba3	BB-			
	B+	B1	B+			
	B	B2	B			
	B-	B3	B-			
	CCC+	Caa1	CCC+			
	CCC	Caa2	CCC			
	CCC-	Caa3	CCC-			
	CC	Ca	CC			
	C	C	C			
	D		D			

Risk profile of the business model



Source: Inderes

Market overview 1/7

Concentrated market

The Nordic banking sector is characterized by strong concentration. For example, in Finland the combined market share of the three largest banks of all loans was close to 70% at the end of 2022. According to the Swedish Bankers Association, the three largest banks in Sweden held a market share of 51% of total lending in 2022. Precise figures are not available for Norway and Denmark, but we estimate that the corresponding ratio in these markets is around 60%.

This concentration increases the vulnerability of the banking sector somewhat, as the problems of a single large bank could have a significant impact on the whole market. In addition, many large Nordic banks have operations in more than one Nordic country. In practice, the problems of banks could spread across countries through this link, i.e. the banking sector has a risk of contagion.

Dependence on market-based financing

Nordic banks show a deposit deficit, i.e. the difference between deposits and loans to the public is negative. For large, listed Nordic banks, the average ratio of loans to deposits at the end of 2022 was 148%. In practice, banks finance this deposit deficit with financing from the market. This increases the vulnerability of the banking sector, as in a possible crisis market-based financing could dry up.

High importance of the real estate market

A significant share of the credit risk in the Nordic banking sector relates to mortgage-backed lending and, e.g., according to a study by the Bank of Finland, lending to the Nordic real estate sector (incl. mortgages) account for 50-70% of banks' loan portfolios. In mortgages, loan losses have traditionally been limited, but commercial real estate is a cyclical sector and can generate loan losses in recessions. An example of this is Stockholm, where the rents of commercial properties fell by about 47% downtown in 2000-2004[1]. Noteworthy here is that risks associated with the real estate sector have clearly increased lately as interest rates have risen.

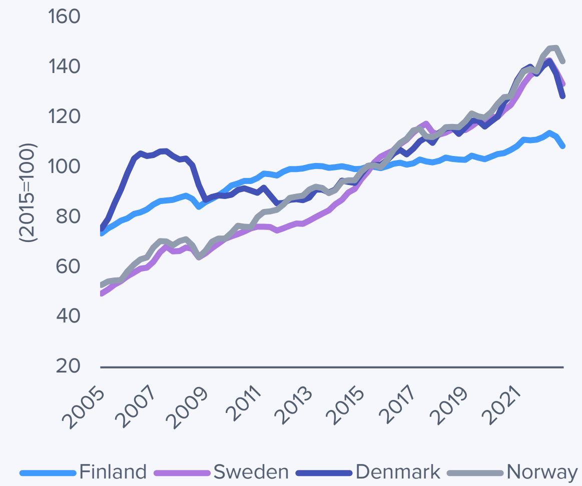
Nordea's exposure to the real estate sector (excl. mortgages) is slightly more moderate than for listed peers, as at the end of 2022 commercial properties, the housing and property management sector, construction and housing association loans accounted for 16% of the loan portfolio. According to our calculations, the combined weight of the corresponding industries was 24% for the peers at the end of last year. CRE risks that have recently attracted a lot of attention are limited for Nordea as commercial properties account for about 7% of the loan portfolio. We also believe the risk level of the CRE portfolio is moderate (e.g., the average LTV 53% and low level of non-performing loans).

The volume of non-performing loans has remained low in the Nordic countries

In the Nordic countries, the volume of non-performing loans has remained low in recent years and the volume of non-performing loans is well below the average of the eurozone. According to EBA statistics, NPL ratios were 0.2%-1.4% in the Nordic countries at the end of 2022, compared to 1.8% in the eurozone as a whole.

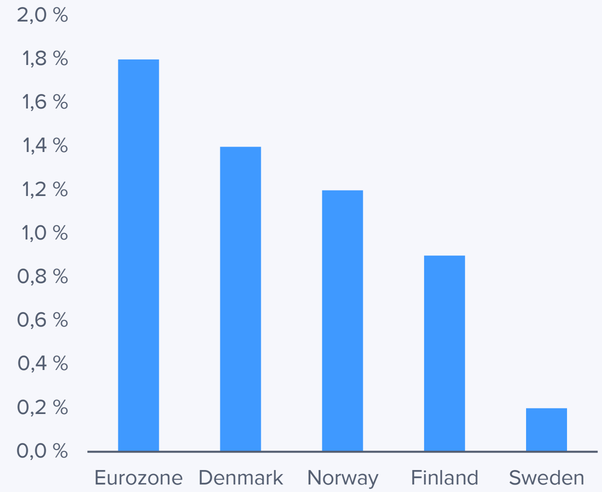
[1] Source: Hufvustaden annual reports and Seligson & Co Fund Management

Housing prices in the Nordic countries



Source: Bloomberg

Share of non-performing loans (Q4'2022)



Source: EBA

Market overview 2/7

Nordic listed banks as peers

A good peer group consisting of Nordic banks is available for Nordea on the stock exchange. Key peers for Nordea are Danske Bank in Denmark, DNB in Norway and Swedbank, SEB and Handelsbanken (SHB) in Sweden. In the following paragraphs, we will briefly review Nordea's longer-term development relative to its main competitors.

Nordea's income growth has lagged behind the peers in the longer term

Nordea's growth in operating income is lagging behind the main peers in the longer term. Over the past 15 years, Nordea's income has grown at an average annual rate of about 2% while the average annual growth in income in the peer group has reached slightly over 3%.

Nordea's income increased faster than for the peers in 2007-2012 (4.9% p.a. vs. 2.8% p.a.) and the reasons for the modest income growth can be found in the past ten years, during which the bank's income has been largely stagnate (Nordea 0.4% p.a. vs. peers 3.1% p.a.). Nordea's rigid growth in the past 10 years is mainly explained by the fact that the company's lending has not increased practically at all during the review period, which has led to net interest income growth being clearly below peers. The loan portfolios of peers have increased by an average of about 3% per year over the last decade. We estimate that Nordea's systematic risk reduction that began in the early 2010s is reflected in the modest lending growth.

Nordea's net commission income has increased by an average of about 2.7% annually over the last 15 years and the growth has been slightly faster than for the peer group (CAGR 2.3%). We believe that Nordea's largest growth driver for net commission income has been asset management, where the company has increased the AUM by approximately 6% per year over the past 15 years. On the other hand, we estimate that Nordea's commission income has faced pressure, e.g., in the fields of card and payment traffic and brokerage over the same period.

Profitability has risen to the level of peers in recent years

In 2007-2015, Nordea's cost/income ratio was close to the peers, but in 2016-2019 efficiency levels were well below those of the peers. Nordea's profitability was depressed by operating income being on a downward trend in the past reflecting weak volume development, low interest rates, and the margin pressure in private customer financing. In addition, we feel that under the former management the company focused too much on pure cost control, which took the focus off customer work and resulted in market share losses. In the past, cost pressure was caused by the major overhaul of the basic banking system launched in 2015 and by the investments in compliance activities.

Under the new management Nordea has managed to improve its cost efficiency clearly and the bank's comparable cost/income ratio (2022: 47.5%) was close to the peer group level already last year. We estimate that the turnaround in profitability is explained by stronger customer focus and the operating income turning to growth. In addition, we believe the company's cost culture has undergone a clear change under the new management and all business units now have clear profit responsibility. Nordea's improved operational profitability, together with improved capital efficiency, has also been positively reflected in the return on equity and last year the company reached ROE of around 12% which is in line with the peer group.

In the long term, loan loss ratios have been close to the peer group average

According to our calculations, Nordea's loan losses over the past 15 years have averaged about 0.19% of the loan portfolio and the level has been in line with the Nordic peers (average 0.20% of the loan portfolio). Nordea estimates that its normalized annual loan loss ratio will be about 0.10% of the loan portfolio in the future and the company justifies this by a systematic reduction of balance sheet risks in the past.

Earnings volatility among the lowest in the peer group and good geographic dispersion in the loan portfolio

Nordea's earnings volatility[1] has been the second lowest in the peer group over the past 15 years. We believe that low earnings volatility partly reflects the company's moderate risk profile and we also see it as a supportive factor for Nordea's valuation in the peer group. As a positive factor, we also highlight the good geographical dispersion of the loan portfolio. Nordea's largest market area (Sweden) represented about 30% of lending last year, while the biggest country's weight among peers ranged from 45% to 88%.

[1]Volatility was examined through the operating profit coefficient of variation.

Market overview 3/7

The Q1 earnings period was strong for Nordic banks

The Q1 earnings period was strong for Nordic banks as the results of the companies increased by about 43% from the median level of the comparison period. Earnings growth was driven by a significant increase in interest rates, especially during the last year, which inflated net interest income (+43% y-o-y). Earnings were also supported by high changes in fair value. The increased interest rates and uncertain economic situation were reflected in the development of loan portfolios, which remained stable compared to the situation at the end of the year (+4% y-o-y).

In Q1, the development of commission income of the sector (median -4% y-o-y) was slowed down by the fact that banks' customer AUM was at a lower level at the start of the year than in the comparison period. In addition, decreased credit demand was negatively reflected in the development of commissions linked to lending. DNB's and Swedbank's commission income continued growing year-on-year unlike for other peers supported by card and payment traffic commissions.

Cost inflation was still reflected in the cost structures of banks and, costs were growing some 12% on the median level in Q1 (Q4'22: 10% y-o-y) Costs rose in particular due to increased personnel costs caused by wage pressure and an increase in the number of employees. Loan loss provisions for Nordic banks were still very moderate in Q1, and the quality of loan portfolios also remained stable across the board.

2023 is expected to be the earnings peak

The 2023 outlook for Nordic banks remains positive despite uncertain economic conditions, and consensus estimates expect operating results to grow by some 23% on median this year. However, based on consensus estimates, the results of Nordic banks are expected to peak this year and in 2024 the operating results are expected to decline by about 4%. Expectations of growing loan losses is the underlying reason for weaker results. Consensus expectations also suggest that the net interest income of Nordic banks will decrease by about 0,7 % next year at the median level.

Key figures of Nordic banks (Q1'23, YoY change)

Company	Net interest income	Net commission income	Changes in fair value	Income	Costs	Comparable operating profit
Danske	43 %	-13 %	136 %	32 %	-1 %	95 %
DNB	40 %	2 %	58 %	36 %	18 %	38 %
Swedbank	77 %	3 %	559 %	56 %	30 %	73 %
SEB	60 %	-4 %	4 %	29 %	12 %	48 %
Handelsbanken	43 %	-4 %	43 %	22 %	12 %	29 %
Nordea	35 %	-8 %	27 %	19 %	4 %	34 %
Median	**43 %**	**-4 %**	**51 %**	**30 %**	**12 %**	**43 %**

Source: Inderes, companies

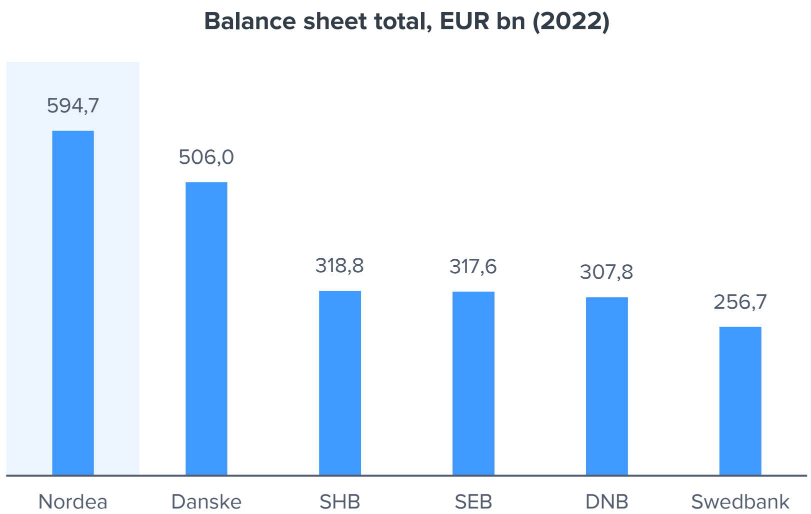
Q1 interview with Nordea's CFO

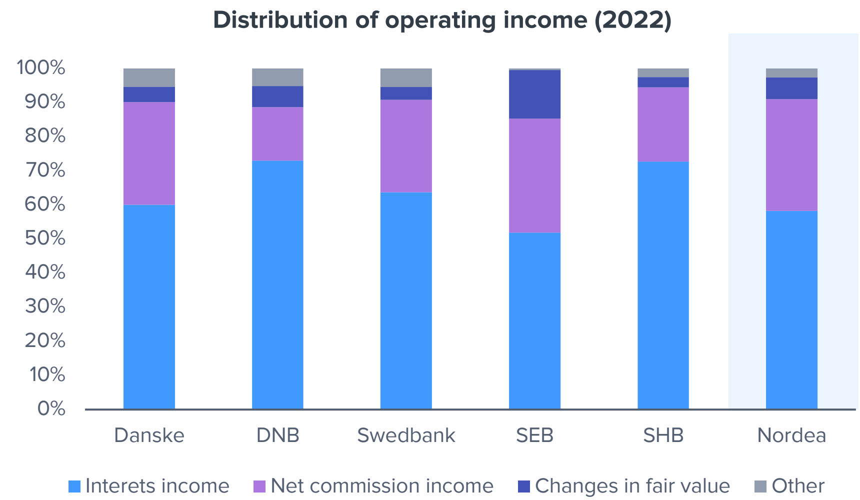
Market overview 4/7

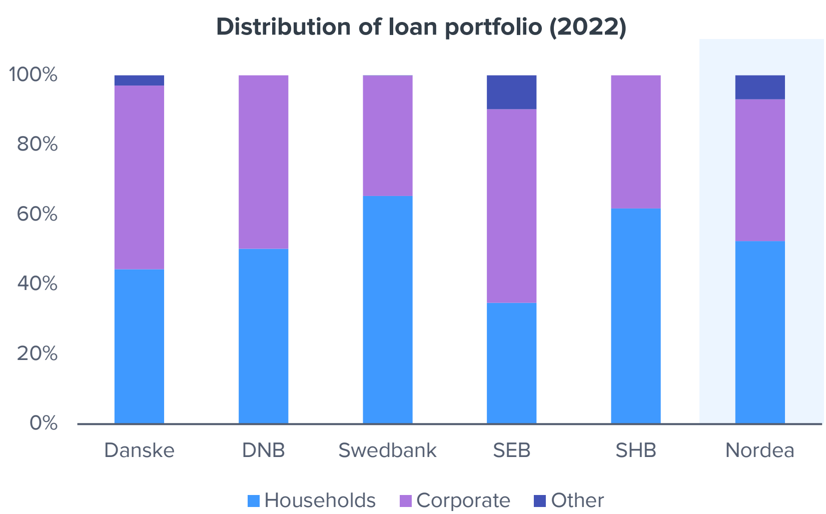
	Nordea	Danske Bank	DNB	Swedbank	SEB	Handelsbanken
Company description	The largest bank in the Nordic countries that offers financial and banking services and savings and investment products to its customers	The largest bank in Denmark offering financial, banking and investment services to both private and corporate customers	The largest bank in Norway offering a wide range of financial services to both private and corporate customers	A Swedish bank, whose operations mainly focus on lending, payment traffic and savings services	Nordic provider of financial services, as well as corporate and institutional banking services	A Swedish bank offering banking services to private and corporate customers, such as deposit, loan and investment services
Main market areas						
Loans to the public (Q4'2022, EUR bn)	340	243	187	166	186	208
Income growth (CAGR 2008-2022)	2%	-1%	5%	3%	4%	4%
Comparable cost/income ratio (average 2008-2022)	52%	59%	46%	46%	54%	48%
ROE (average 2008-2022)	11%	6%	12%	12%	11%	13%

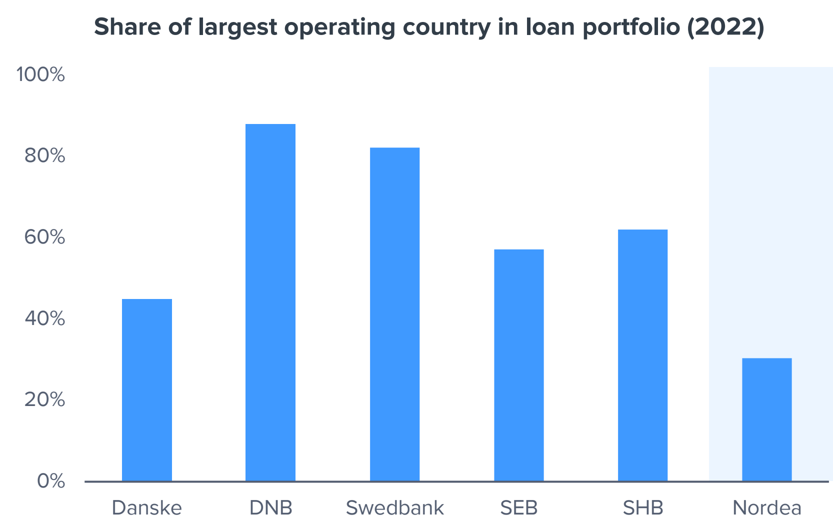
Source: Inderes

Market overview 5/7

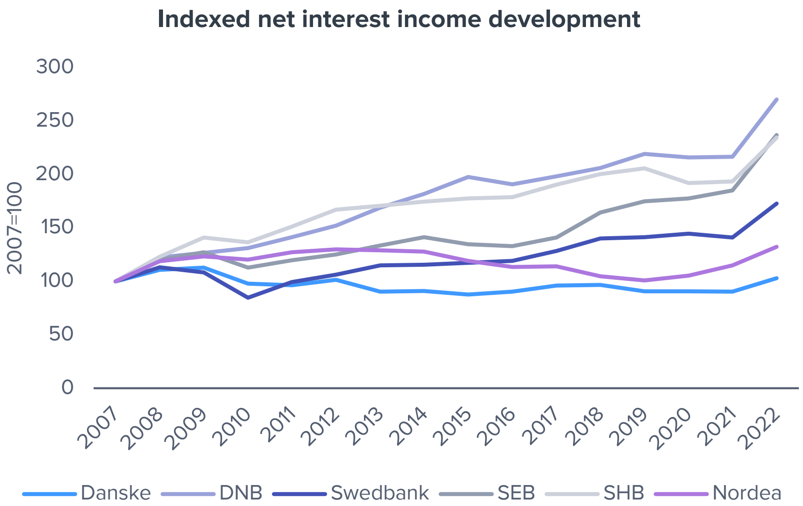


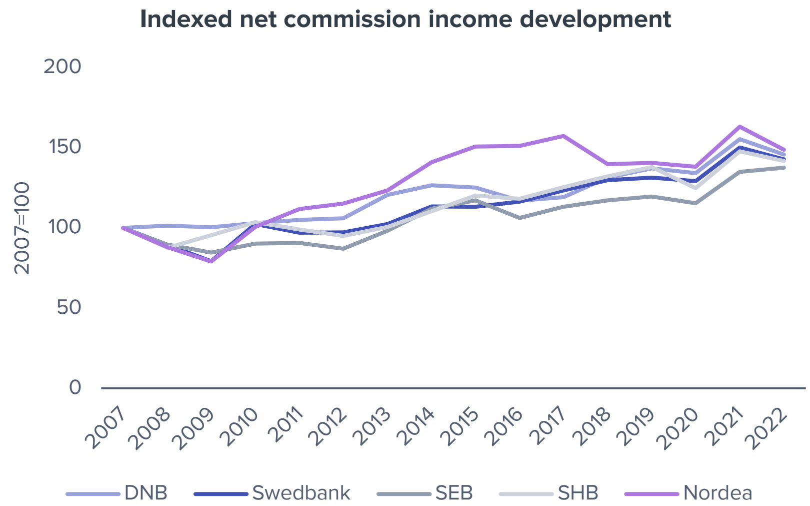


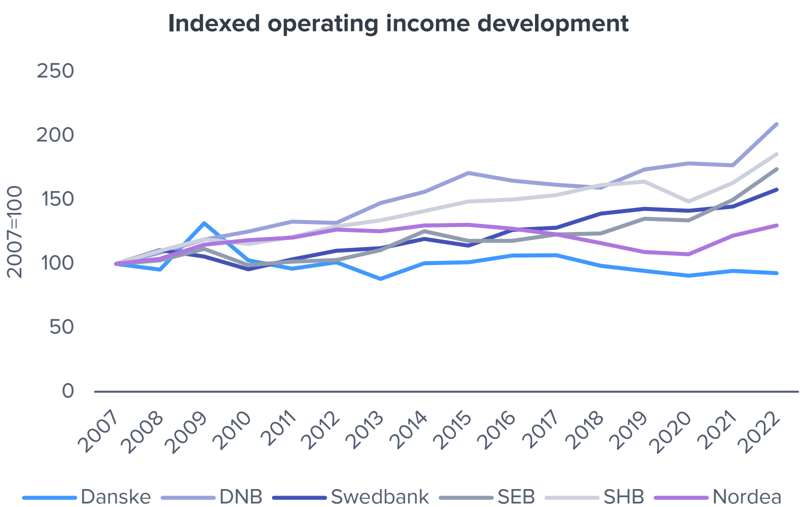


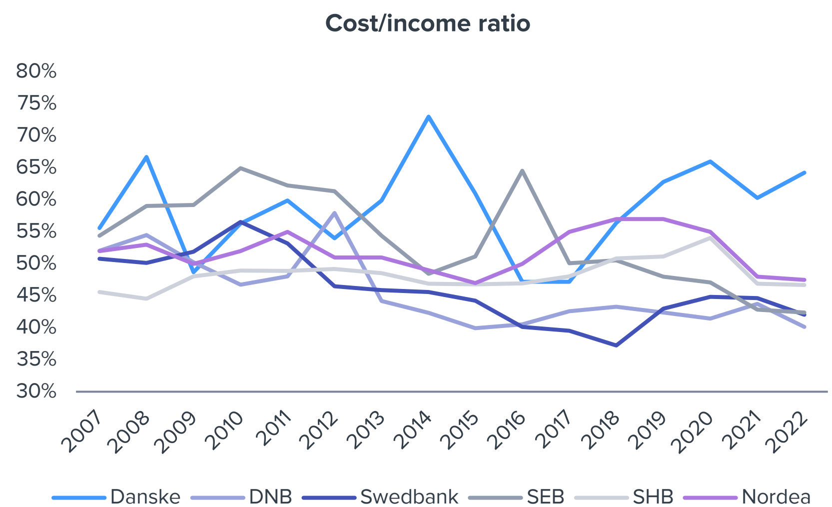


Market overview 6/7



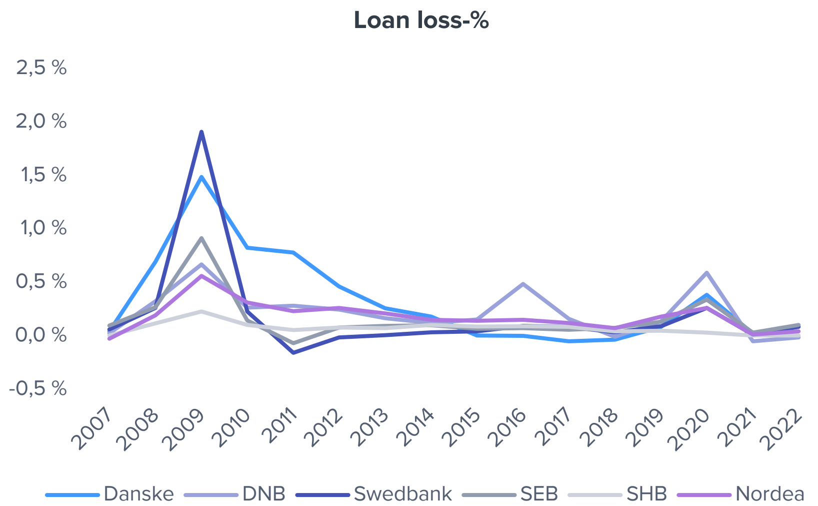


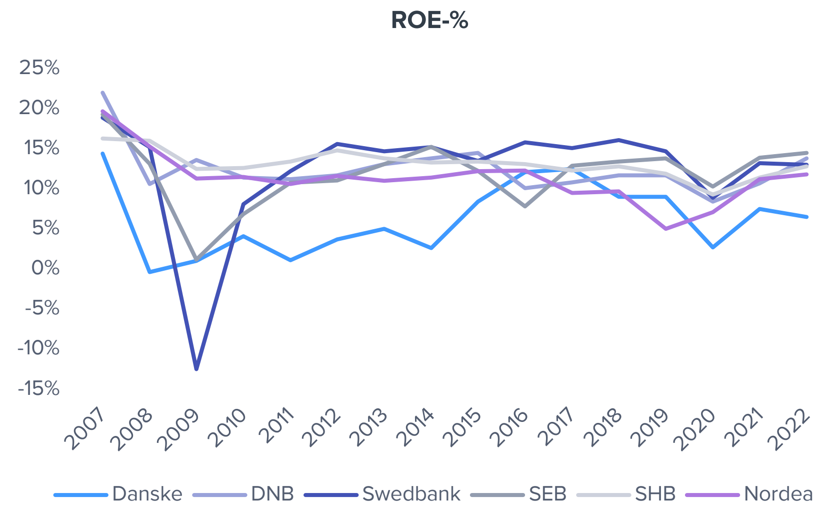


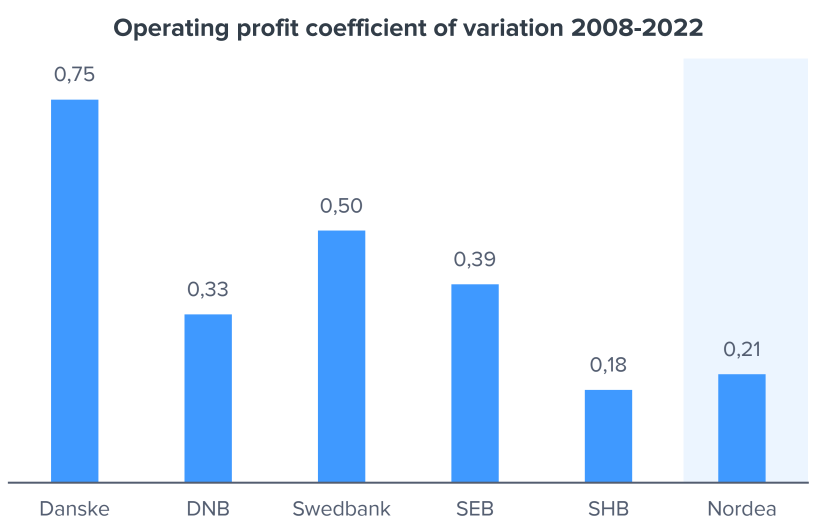


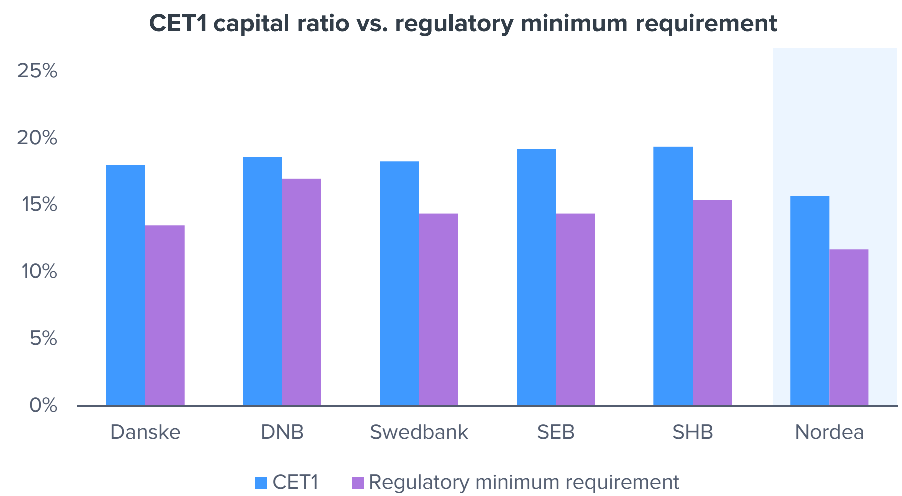
NB! Danske was excluded from the examination of net commission income development as the development is not comparable between years due to reclassification in the income statement.

Market overview 7/7









Strategy and financial objectives 1/2

Focus areas for the 2022-2025 strategy period

Nordea's aim is to become the preferred banking partner in the Nordic countries in the strategy period 2022-2025. The key focus areas for the strategy period are offering an omnichannel customer experience, focused and profitable growth, and increase operational and capital efficiency.

To offer an omnichannel customer experience, Nordea plans to invest in digitalization, data and sales and service-related areas. The key objective is to, e.g., fully digitize mortgage processes. In addition, the company's target for 2025 is to increase the number of digital customers by at least 25% (on the latest CMD, Nordea had 4 million digital customers) and double the number of digital products and services by 2025. In addition, Nordea intends to expand its digital offering for corporate customers.

During the strategy period Nordea aims to grow in a focused and profitable manner. In lending, the company aims for faster volume growth than market growth of about 4% per year. The company says it sees growth opportunities especially in mortgages and SME customers. In savings, the company expects AUM to grow by about 4-6% each year, and growth is driven in particular by strong new sales.

In addition to organic growth, the company believes its strong balance sheet and accumulated income also enable smaller complementary acquisitions. Examples of recent add-on acquisitions by Nordea include, e.g., Gjensidige Bank and SG Finans acquired in 2019, the acquisition of Topdanmark's life insurance business last year and the recently announced Advinans acquisition.

During the strategy period, Nordea expects its costs to increase by about 1-2% annually. The company aims to manage expenses through increased operational efficiency, digitalization and automation, as well as a tight spending culture. Nordea expects income growth in the strategy period to be 2 percentage points higher than expense growth, i.e. about 3-4% per year.

Nordea expects growth to be achieved in a capital-efficient way during the strategy period, as while the company expects the loan portfolio to grow by about 4% per year, risk-weighted assets are estimated to grow by only 1.9-2.5% per year. The main reasons for a more moderate increase in risk-weighted items than in the loan portfolio are the lower capital intensity in corporate lending, active market risk management and model development, which is expected to be positively reflected in risk weights.

Financial objectives

By the end of 2025, Nordea aims for a return on equity of over 13%. The basis for this objective is the 45-47% cost/income ratio sought by the company, the assumption of normalized 10 basis point loan losses and efficient use of capital. It should be noted that Nordea's financial targets set at the CMD were based on interest expectations at that time (2/2022). Since the CMD, interest rates have increased significantly which has been positively reflected in the bank's profitability (Q1'23: ROE 15.3%). The company has reported that the financial targets for 2025 will be updated by the end of this year if the economic outlook becomes clearer.

Abundant profit distribution expected in the strategy period

Nordea's management has commented that the bank is strongly overcapitalized and as part of efficient use of capital, the company also published a huge profit distribution plan in the CMD. Nordea's objective is to return to shareholders a total of approximately EUR 15-17 billion during the strategy period and the total amount is some 40% of the market cap of the bank on the CMD. Roughly two-thirds of the profit distribution during the strategy period is to be made through dividend distribution and about one-third through share buybacks. No changes were made to the dividend policy in the CMD and the company's objective is to distribute approximately 60-70% of its earnings annually in dividends.

To date, the company has implemented three share buyback programs totaling EUR 4.5 billion. In addition, Nordea announced at the end of April that it would launch a fourth share buyback program of up to EUR 1.0 billion. Nordea's performance after the CMD has been clearly stronger than what was indicated at that time, and earnings development has been especially bolstered by interest rates that have risen considerably more than expected. Therefore, we find it very likely that Nordea's overall profit distribution will exceed the level communicated at the CMD during the strategy period.

Strategy and financial objectives 2/2

Cornerstones of Nordea's strategy in 2022-2025

Offering the best omnichannel customer experience in the industry	Focused and profitable growth	Increase operational and capital efficiency
Combining strong technological expertise with personal expert services	Increasing market shares in selected areas and investing in saving and investing	Aiming for cost savings through automation and digitalization and a tight cost culture
Increasing the number of digital customers by at least 25% by 2025	A strong balance sheet and accumulated income enable complementary acquisitions to strengthen business operations	The goal is to increase income by 2 percentage points faster than the cost increase
Doubling the number of digital products and services by 2025	The objective is 4% average annual growth in credit volumes and 4-6% in savings	Achieving the cost/income ratio of 45-47% by 2025

Return on equity (ROE) > 13% by the end of 2025

Estimates 1/4

We estimate that comparable income will grow by 4% annually in 2022-2025

Nordea's net interest income increased strongly (+35% y-o-y) in Q1, and growth was supported by the further widening interest margin. Nordea's management has commented that the interest rate hikes of central banks will improve the bank's net interest income throughout 2023 by some EUR 1.2-1.6 billion and further by about EUR 100 million in 2024. The increase in wholesale funding costs and hedging costs are estimated to have a negative impact on net interest income. In terms of loan portfolio development, we expect the weakening economic cycle and the weakness of the housing market to contract Nordea's loan portfolio by about 1% this year. In 2024-2025, we expect the loan portfolio to gradually recover to a growth of some 2-3%.

We estimate that the final effects of increasing interest rates to be at the top of Nordea's management's estimate and our own estimate expects the bank's net interest income to grow by about 29% to EUR 7,291 million this year. We expect Nordea's net interest income to peak in early 2024 and to turn to a moderate decline thereafter. For 2024, we expect the bank's net interest income to develop relatively stably (+0.5%) and be at EUR 7,324 million. In 2025, we expect the bank's net interest income to decrease by about 6% to EUR 6,919 million due to the expected decrease in interest rates.

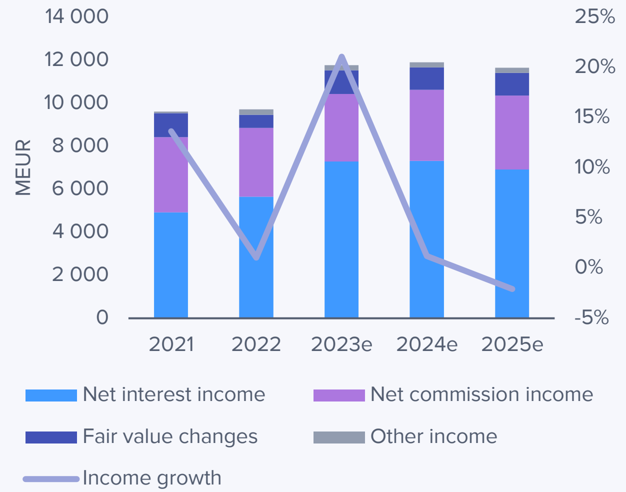
In terms of net commission income, we expect accumulated commission income to remain below the comparison period this year at EUR 3,143 million (-1% y-o-y). The decrease in net commission income is explained in particular by the lower commission income (-2% y-o-y) in Asset & Wealth Management than in the comparison period due to the lower average AUM. In addition, we predict that the uncertain and deteriorating economic situation will reduce certain advisory fees, payment traffic and lending commissions. In 2024-2025, we expect Nordea's net commission income to increase by about 4-5% per year, especially with the growth of AUM in Asset & Wealth Management.

We expect Nordea's fair value changes to normalize from the strong levels of the last quarters (LTM: 1,233 MEUR) and settle in EUR 2023-2025 at EUR 1,040-1,098 million. Nordea's other income consists of the insurance result under IFRS 17, associated company income and other smaller items. We predict that this income will be around EUR 238-242 million in 2023-2025 (2022: 248 MEUR).

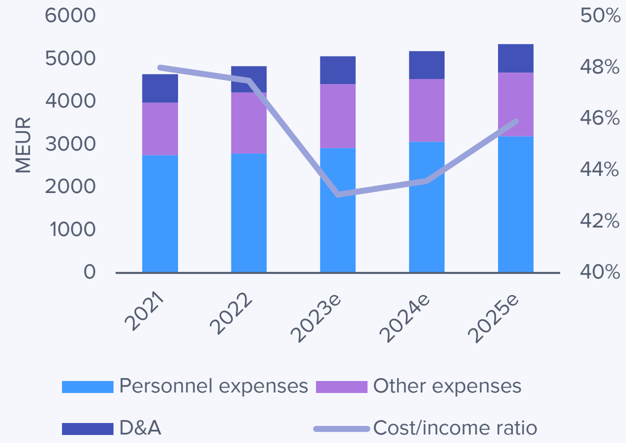
The cost/income ratio is around 43-44% in 2023-2024 and rises to 46% after that

In connection with the CMD organized in February 2022, Nordea estimated that its total operating expenses would increase by an average of 1-2% annually over the strategy period. We find the objective unrealistic in the current inflationary environment, and it is noteworthy that Nordea's number of personnel started to increase last year (+5% y-o-y) after the 2020-2021 staff reductions. We believe the number of personnel has increased, particularly as risk management resources have increased.

Development of operating income



Cost development and comparable cost/income ratio



Estimates 2/4

We estimate that Nordea's operating expenses will increase by about 3% annually between 2022-2025 (CAGR). It is noteworthy that in 2024 we expect cost growth to slow down clearly compared to the current year (2024e: +2% vs . 2023e: +5%). In 2024, the increase in costs is slowed down by other operating costs that we estimate will decrease by approximately 2%, which is explained by regulatory fees decreasing clearly from 2023. Nordea's comparable cost/income ratio improves in our estimates in 2023-2024 to around 43-44% (2022: 47.5%) and then settles to 46% in line with the company's financial targets.

We expect loan losses to increase clearly next year

In 2021-2022, Nordea's loan loss provisions were historically very low. Although the quality of Nordea's and other Nordic banks' loan portfolios has so far remained good, we believe that the increased interest level and the likely recession will increase loan losses in the sector in the coming quarters.

We expect that Nordea's loan losses will settle at around EUR 346 million this year (0.1% of the loan portfolio) and will rise to EUR 519 million (0.15% of the loan portfolio) next year. After 2024, we estimate that Nordea's annual loan loss ratios will be around 0.13%. The level is above Nordea's own targets (0.10%), but well below the average over the last 15 years (0.19%).

In terms of operating profit, 2023 will be the peak year

In line with previous estimates, we expect Nordea's comparable operating profit to increase by 20% to EUR 6,356 million this year. In our estimates, 2023 will be the peak operating profit year, as due to rising loan losses and falling market rates, we expect the comparable operating profit to decrease by 2% to EUR 6,199 million next year and further by some 5% to EUR 5,864 million in 2025.

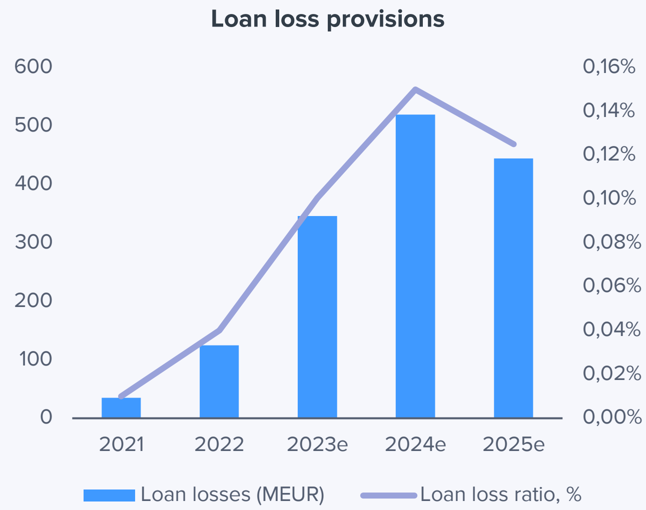
We estimate that Nordea's tax rate will be around 23% over the next few years, as communicated in the CMD. In our estimates, the company's adjusted net result will rise to MEUR 4,903 this year (2022: 4,186 MEUR) and then gradually reduce with the operating profit development to EUR 4,515 million by 2025.

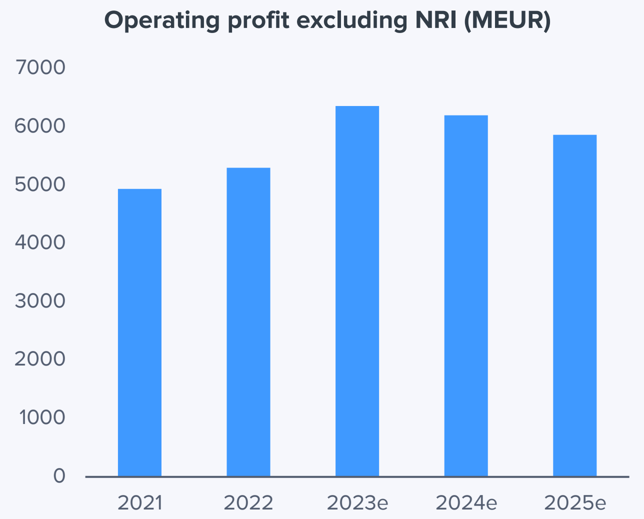
EPS will still increase in 2024 supported by buybacks

Nordea launched a fourth share buyback program of up to EUR 1.0 billion at the end of April. Considering the company's current capital structure (Q1'23: CET1: 15.7%) and our earnings expectations for the next few years we expect additional share buybacks from Nordea after the fourth program for some EUR 2.0 billion. We expect these EUR 2.0 billion share buybacks to be distributed evenly in 2024-2025. Share buybacks will reduce Nordea's outstanding shares by 3-4% annually in 2023-2025 and thus support EPS development.

We estimate that Nordea's comparable EPS will grow by 23% to EUR 1.37 this year and to EUR 1.39 next year. In 2025, we expect EPS to fall to EUR 1.35.

Our estimate for Nordea's 2023 dividend is EUR 0.92 per share, which corresponds to a dividend payout ratio of approximately 67%. After 2023, we expect the dividend payout ratio to be at the top of the dividend policy range (70%) and we estimate a dividend of EUR 0.97 per share in 2024 and EUR 0.95 per share in 2025.





Estimates 3/4

We expect Nordea's cumulative profit distribution to rise to around EUR 18.4 billion during the strategy period

With our current profit distribution estimates, Nordea's overall profit distribution will be around EUR 18.4 billion in the 2022-2025 strategy period and the level is above the EUR 15-17 billion range communicated in the CMD. In our estimates, approximately 65% of Nordea's total profit distribution is made up of dividends (dividends calculated based on the year of payment in the overall distribution) and the remaining 35% of share buybacks.

In our estimates ROE for the next few years is 14-16% and CET1 capital ratio in 2025 is 16.4%

With our current earnings and profit distribution estimates, Nordea's return on equity (ROE) rises to around 15-16% in 2023-2024 (2022: 12%) and then settles at approximately 14%. Nordea's CET1 capital ratio is 16.4% in our estimate model in 2025 and solvency is relatively well aligned with the estimated capital requirements for 2025 (CET1 requirement 15-16%, including a management buffer of 1.5-2.0%).

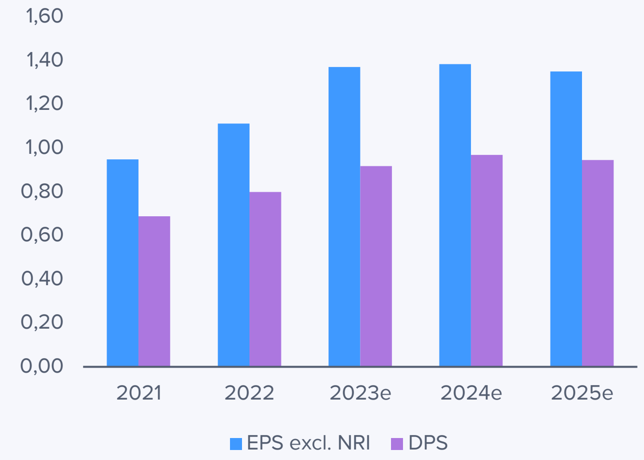
If Nordea's overall profit distribution in the strategy period was some EUR 2.0 billion higher than our current estimate, the bank's CET1 capital ratio would be around 15% in our estimates in 2025. The above-mentioned higher-than-expected profit distribution would increase our 2024-2025 ROE estimate from the current 14% to about 15%.

Our 2023-2024 estimates are 4-5% above consensus, 2025 estimates are more conservative than the consensus

Our EPS estimates for 2024-2025 are some 4-5% above the consensus estimates collected by Bloomberg. The estimate deviation from consensus is mainly explained by our more positive view of Nordea's net interest income in 2023-2024. In addition, our estimates on operating expenses and loan losses for 2023-2024 are slightly below consensus.

By contrast, our 2025 earnings estimate is some 4% below the consensus at operating profit level but our EPS estimate is practically in line with the consensus. The estimate deviation in the operating profit level is explained by the fact that our operating income estimates for 2025 are about 2% below the consensus.

EPS and dividend per share



CET1 capital ratio and ROE

Estimates 4/4

Income statement (MEUR)	2021	Q1'22	Q2'22	Q3'22	Q4'22	2022	Q1'23	Q2'23e	Q3'23e	Q4'23e	2023e	2024e	2025e	2026e
Net interest income	4 925	1 308	1 308	1 407	1 641	5 664	1 765	1 816	1 838	1 872	7 291	7 324	6 919	7 109
Net fee and commission income	3 495	829	797	775	785	3 186	765	772	786	820	3 143	3 306	3 436	3 572
Net insurance result	0	35	53	38	47	173	46	44	44	44	178	180	182	183
Net result from items at fair value	1 119	-265	254	238	396	623	345	271	235	247	1 098	1 040	1 066	1 093
Other income	81	17	16	14	28	75	0	20	18	22	60	60	60	60
Total operating income	**9 620**	**1 924**	**2 428**	**2 472**	**2 897**	**9 721**	**2 921**	**2 924**	**2 921**	**3 004**	**11 770**	**11 910**	**11 663**	**12 017**
Non-recurring items	0	-537	0	0	0	-537	0	0	0	0	0	0	0	0
Total operating income excl. non-rec. items	**9 620**	**2 461**	**2 428**	**2 472**	**2 897**	**10 258**	**2 921**	**2 924**	**2 921**	**3 004**	**11 770**	**11 910**	**11 663**	**12 017**
Staff costs	-2 759	-692	-689	-691	-721	-2 793	-719	-730	-732	-742	-2 923	-3 071	-3 195	-3 324
Other expenses	-1 226	-532	-275	-292	-331	-1 430	-542	-305	-304	-346	-1 497	-1 464	-1 493	-1 523
Depreciation tangible and intangible assets	-664	-146	-158	-147	-160	-611	-161	-162	-162	-163	-648	-657	-667	-676
Total operating expenses	**-4 649**	**-1 370**	**-1 122**	**-1 130**	**-1 212**	**-4 834**	**-1 422**	**-1 197**	**-1 198**	**-1 251**	**-5 068**	**-5 192**	**-5 355**	**-5 523**
Non-recurring expenses	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Total operating expenses excl. non-rec. expenses	**-4 649**	**-1 370**	**-1 122**	**-1 130**	**-1 212**	**-4 834**	**-1 422**	**-1 197**	**-1 198**	**-1 251**	**-5 068**	**-5 192**	**-5 355**	**-5 523**
Profit before loan losses	**4 971**	**554**	**1 306**	**1 342**	**1 685**	**4 887**	**1 499**	**1 727**	**1 723**	**1 753**	**6 702**	**6 718**	**6 308**	**6 494**
Net loan losses	-35	-64	56	-58	-59	-125	-19	-86	-112	-129	-346	-519	-444	-457
Operating profit	**4 936**	**490**	**1 362**	**1 284**	**1 626**	**4 762**	**1 480**	**1 641**	**1 612**	**1 624**	**6 356**	**6 199**	**5 864**	**6 037**
Total non-recurring items	0	-537	0	0	0	-537	0	0	0	0	0	0	0	0
Operating profit excl. non-rec. items	**4 936**	**1 027**	**1 362**	**1 284**	**1 626**	**5 299**	**1 480**	**1 641**	**1 612**	**1 624**	**6 356**	**6 199**	**5 864**	**6 037**
Taxes	-1 105	-231	-308	-283	-353	-1 175	-332	-377	-371	-374	-1 454	-1 426	-1 349	-1 389
Net profit for the period	**3 831**	**259**	**1 054**	**1 001**	**1 273**	**3 587**	**1 148**	**1 263**	**1 241**	**1 251**	**4 903**	**4 773**	**4 515**	**4 649**
Net profit excl. non-rec. Items	**3 831**	**858**	**1 054**	**1 001**	**1 273**	**4 186**	**1 148**	**1 263**	**1 241**	**1 251**	**4 903**	**4 773**	**4 515**	**4 649**
EPS (reported)	**0,95**	**0,07**	**0,28**	**0,27**	**0,35**	**0,96**	**0,32**	**0,35**	**0,35**	**0,36**	**1,37**	**1,39**	**1,35**	**1,41**
EPS (adj.)	**0,95**	**0,22**	**0,28**	**0,27**	**0,35**	**1,11**	**0,32**	**0,35**	**0,35**	**0,36**	**1,37**	**1,39**	**1,35**	**1,41**
Dividend per share	0,69					0,80					0,92	0,97	0,95	0,99

Valuation 1/3

Target price and recommendation

We have examined Nordea's valuation through P/E and P/B valuation multiples and the framework provided by the peer group. Just like the rest of the banking sector, Nordea's share is priced exceptionally favorably (2023e: P/E 7.1x and P/B 1.1x) and we believe the valuation provides an unreasonably gloomy picture of the bank's earnings outlook for the coming years. We see a clear upside in Nordea's valuation multiples, as the concerns linked to short-term performance gradually disappear from the share price. We feel the upside in the valuation multiples together with the total yield of 13-14% in the next few years offer investors a very good expected return.

We initiate coverage of Nordea with a target price of EUR 12.5 and a Buy recommendation. Our target price corresponds to a P/E ratio of 9x with our 2023-2024 estimates and a P/B ratio of 1.4x.

We feel Nordea's risk profile is among the lowest in Nordic banks

In the graph in the sidebar we examine the development of the implicit cost of equity of Nordic banks over the past five years. We have derived the implicit cost of equity through Gordon's growth model and applied the P/B ratios of the companies, Bloomberg's ROE consensus forecast for the next 24 months, and a 2.5% sustainable growth factor (g).

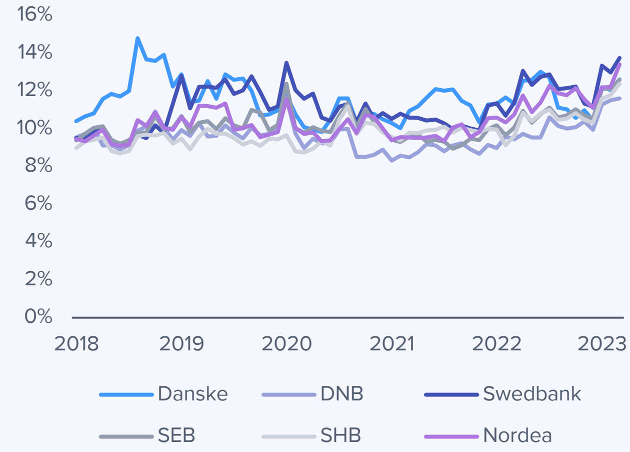
According to our calculations, Nordic banks have over the last five years been trading with an average implicit cost of equity about 10.3%. Nordea's implicit cost of equity has been close to the average of the peers, as the company's COE requirement has averaged 10.4% over the review period.

We believe lower cost of equity than the peer group average could be justified for Nordea and thus higher valuation multiples than the average of the peer group. We base our view on the fact that the company's earnings volatility is among the lowest for Nordic banks and the company's loan portfolio is more geographically dispersed than for the peer group. Moreover, the funding costs that are significantly lower than the average of the peer group support our view of a risk profile that is lower than that of the peers.

Justified P/B based on fundamentals

Nordea's justified P/B valuation can be examined by making assumptions about a sustainable long-term return on equity (ROE), the cost of equity requirement (CoE) and a sustainable growth factor (g). If we assume that Nordea will sustainably reach a long-term ROE of about 12-13% in the long term (cf. financial target +13%, average over the last 20 years 12,6%) and apply a CoE requirement of 9.75-10.25% and a growth factor of 2.5%, the justified P/B ratio would be around 1.23x-1.45x. With our current estimates, Nordea's 2023e P/B is around 1.1x and, based on the review, the valuation multiples would have an upside of 10-30%.

Implicit cost of equity (CoE) of Nordic banks[1]



[1]implicit CoE derived from P/B = (ROE-g)/(CoE-g)

Justified P/B at different ROE levels and cost of equity requirement (CoE)[2]

	Sustainable return on equity (ROE)						
CoE	10%	11%	12%	13%	14%	15%	16%
9.50%	1.07	1.21	1.36	1.50	1.64	1.79	1.93
9.75%	1.03	1.17	1.31	1.45	1.59	1.72	1.86
10.00%	1.00	1.13	1.27	1.40	1.53	1.67	1.80
10.25%	0.97	1.10	1.23	1.35	1.48	1.61	1.74
10.50%	0.94	1.06	1.19	1.31	1.44	1.56	1.69

[2]sustainable growth factor (g) = 2.5%

Valuation 2/3

The stock market is skeptical about current profitability levels

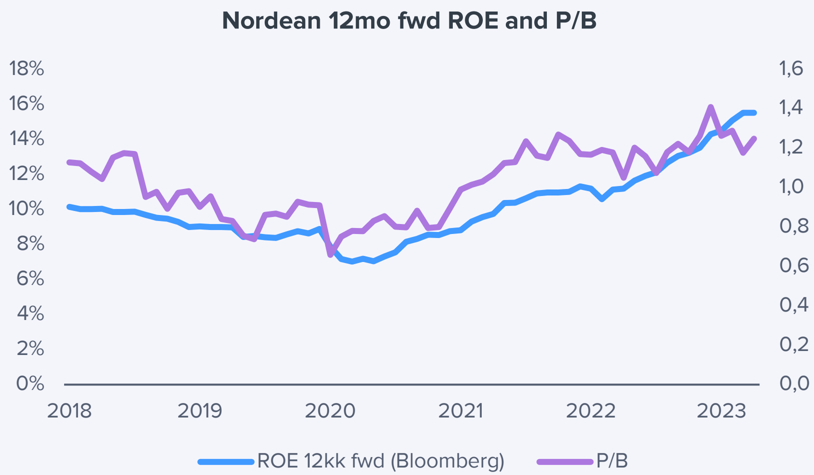
With the latest reported equity per share, Nordea is valued at a P/B ratio of 1.24x. Consensus expectations Nordea's ROE has risen over the last two years and the ROE estimate looking 12 months forward exceed 15%. The profitability estimate that have been on a trend-like rise have not been fully reflected in the P/B-based valuation level, and our view is that the stock market is skeptical about the sustainability of the current performance and profitability levels of Nordic banks.

It is telling that, for example, in September 2018, Nordea was valued with a P/B of 1.2x while the consensus expectation for ROE was around 10%. Similarly, in 2021, Nordea was priced with a P/B ratio of 1.3x, whereas the 12 month forward-looking ROE consensus estimate was about 11%.

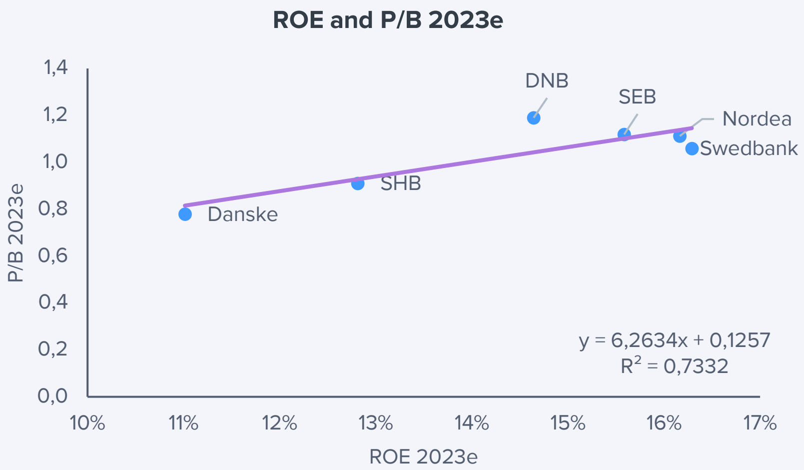
P/B-based valuation seems sensible compared to peers but valuations are low across the board

In the regression model below, we have compared the P/B ratios of large Nordic banks with the ROE level based on 2023 consensus forecasts. The regression model can be interpreted so that the companies below the line may be relatively undervalued and the companies above it relatively overvalued. With our 16% ROE estimates Nordea's P/B valuation level in the model is at the level indicated by the regression line and therefore the share appears to be correctly priced. We note, however, that the P/B valuation multiples for the whole peer group are low compared to the ROE levels and see an upside in the valuation levels of the whole sector.

The investor should also note that the only explaining variable in the regression analysis is the ROE level for 2023 of the companies, and the examination does not consider, e.g., the different risk profiles of the companies (we argument on the previous page, why we consider Nordea's risk profile to be below the average of the peer group). The coefficient of determination for our regression model is, however, reasonable (~73%), despite the limitations.



NB! P/B relative to the latest reported equity per share



Source: Refinitiv and Bloomberg

Valuation 3/3

Earnings multiples of the Nordic banking sector are exceptionally low

With our 2023-2024 estimates, Nordea is valued with P/E ratios of 7.0x-7.1x and the valuation multiples are 4-9% below the peer group. It is noteworthy that the earnings-based valuation levels of the whole Nordic peer group are currently exceptionally low, as the P/E ratio of the peer group is about 32% below the average of the last 10 years. In the last 10 years, Nordea has been priced with an average 12 month forward-looking P/E ratio of 10.7x and with our 2023 estimates the bank is valued about 34% below the historical levels.

In our view, the current valuation levels of Nordic banks price for risks and the valuation levels reflect the skepticism about the sustainability of current earnings levels. Nordea's share price is also pricing a significant drop in earnings and justification of the current valuation level would require either loan losses at the level of the financial crisis or, alternatively, a significant decrease in net interest income and a return to virtually zero interest rate levels. This can be illustrated by the following simplified examples derived from our 2023 estimates.

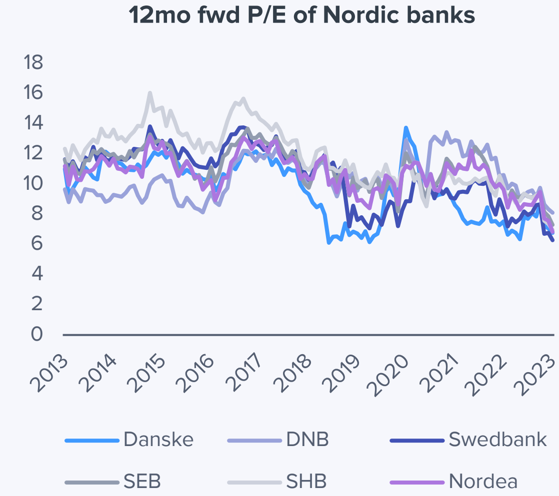
If Nordea's loan losses would rise to a level similar to the financial crisis (2009: 56 basis points), the company's net result would fall roughly to EUR 3.7 billion (2023e: EUR 4.9 bn). At the current market cap, Nordea's P/E would be 9.2x in this scenario and below the long-term average (10.7x).

If the interest rates were to return to zero levels corresponding to 2021, Nordea's net result would fall to about EUR 3.2 billion (2023e: EUR 4.9 bn). At this earnings level, Nordea's P/E ratio would be around 10.8x and would in practice be in line with the long-term average.

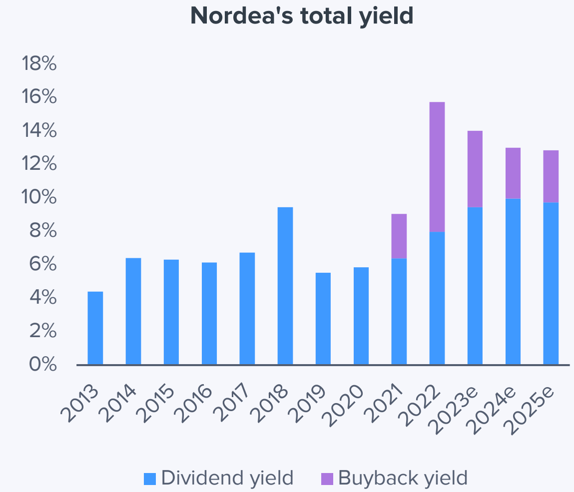
We consider the above scenarios to be very pessimistic, as we see Nordea's credit risk as clearly more modest than in the past years, and there is no market expectation of interest rates making a sharp decline. We see a clear upside in Nordea's valuation multiples, as concerns linked to short-term performance gradually disappear from the share price.

Abundant profit distribution in the next few years strongly supports of expected return

With our estimates, Nordea's dividend yield rises almost to 10% in the next few years and the total yield that considers share buybacks will rise to 13-14%. Total yield in itself has no impact on the company's value, but we believe that the strong profit distribution in the coming years is a supportive element for the expected return.



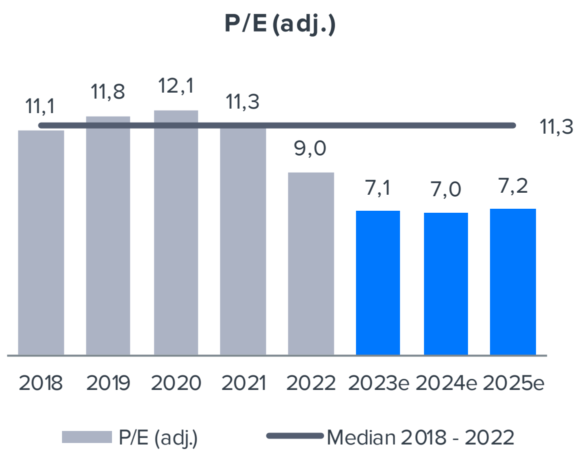
Source: Bloomberg

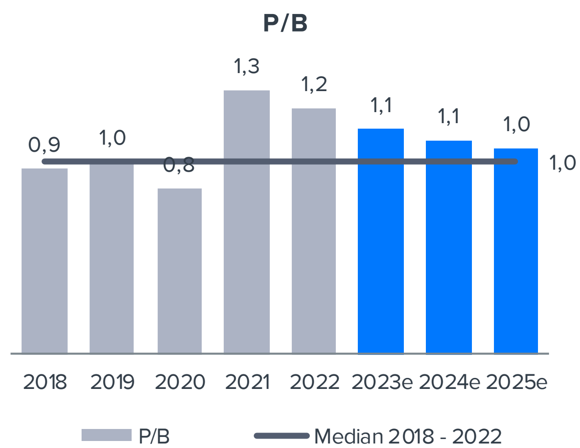


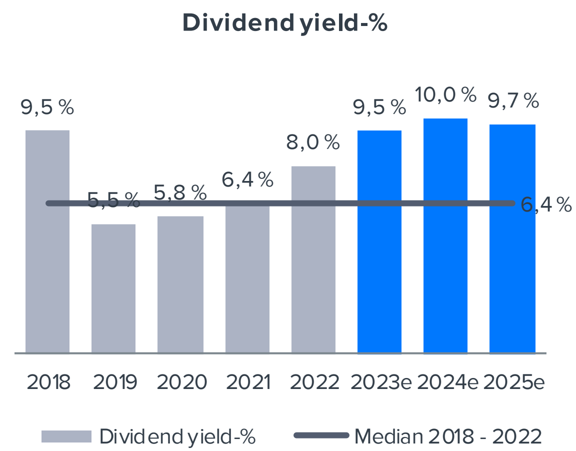
Valuation table

Valuation	2018	2019	2020	2021	2022	2023e	2024e	2025e	2026e
Share price	7,30	7,24	6,67	10,8	10,0	**9,73**	**9,73**	**9,73**	**9,73**
Number of shares, millions	4 037	4 102	4 118	4 025	3 721	**3 572**	**3 444**	**3 339**	**3 286**
Market cap	29 565	29 322	27 014	42 793	36 650	**34 024**	**33 000**	**31 975**	**31 975**
P/E (adj.)	11,1	11,8	12,1	11,3	9,0	**7,1**	**7,0**	**7,2**	**6,9**
P/B	0,9	1,0	0,8	1,3	1,2	**1,1**	**1,1**	**1,0**	**1,0**
Dividend yield-%	9,5 %	5,5 %	5,8 %	6,4 %	8,0 %	**9,5 %**	**10,0 %**	**9,7 %**	**10,2 %**

Source: Inderes







Peer group valuation

Peer group valuation	Market cap	P/E		Dividend yield-%		P/B
Company	**MEUR**	**2023e**	**2024e**	**2023e**	**2024e**	**2023e**
Danske Bank	18587	7,4	7,3	7,8	7,9	0,8
DNB	26049	8,3	8,6	7,1	7,2	1,2
Handelsbanken	15775	7,2	7,7	9,1	9,3	0,9
SEB	22320	7,7	8,0	6,6	7,0	1,1
Swedbank	17423	6,5	6,9	7,6	9,1	1,1
Nordea (Inderes)	**34024**	**7,1**	**7,0**	**9,5**	**10,0**	**1,1**
Average		**7,4**	**7,7**	**7,6**	**8,1**	**1,0**
Median		**7,4**	**7,7**	**7,6**	**7,9**	**1,1**
Diff-% to median		***-4 %***	***-9 %***	***24 %***	***26 %***	***5 %***

Source: Refinitiv / Inderes

Balance sheet

Balance sheet (EURbn)	2021	2022	2023e	2024e	2025e
Cash and loans to central banks	48	63	62	64	65
Loans to credit institutions	2	5	5	5	5
Loans to the public	345	346	342	350	361
Intangibles	4	4	4	4	4
Other assets	172	178	176	180	185
Total assets	**570**	**595**	**589**	**603**	**621**
Equity	34	31	31	32	32
Deposits by credit institutions	27	33	32	33	34
Deposits and borrowings from the public	206	217	215	220	227
Debt securities in issue	176	180	178	182	188
Subordinated liabilities	7	5	5	5	6
Other liabilities	122	128	127	130	134
Total equity and liabilities	**570**	**595**	**589**	**603**	**621**

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Buy — The 12-month risk-adjusted expected shareholder return of the share is very attractive

Accumulate — The 12-month risk-adjusted expected shareholder return of the share is attractive

Reduce — The 12-month risk-adjusted expected shareholder return of the share is weak

Sell — The 12-month risk-adjusted expected shareholder return of the share is very weak

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Recommendation history (>12 mo)

Date	Recommendation	Target	Share price
6/9/2023	Buy	12.50 €	9.73 €

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