



Capital and Risk Management Report 2014

Provided by Nordea Bank AB on the basis
of its consolidated situation

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Nordea Bank AB (publ) with Swedish corporate registration number 516406-0120 provides these public disclosures according to Part Eight of Regulation (EU) No 575/2013, commonly referred to as the Capital Requirements Regulation (CRR), on the basis of its consolidated situation (hereinafter referred to as simply "Nordea").

This disclosure constitutes a comprehensive disclosure on risks, risk management and capital management and includes all disclosures required by Part Eight of the CRR, excluding disclosures on Remuneration which are disclosed on www.nordea.com.

Accompanying this report are the required disclosures for the significant subsidiaries Nordea Bank Finland Plc ("NBF"), Nordea Bank Norge ASA ("NBN"), Nordea Bank Danmark A/S ("NBD") and Nordea Hypotek AB ("Nordea Hypotek"). The disclosure of Nordea Hypotek is made on an individual basis, while the others are made on sub-consolidated basis. NBF, NBD and Hypotek are required to provide disclosures according to Articles 437, 438, 440, 442, 450, 451 and 453, according to Article 13. NBN is required to provide disclosures according to local Norwegian regulations ("Kapitalkravsforordningen"), implementing parts of the CRR. The subsidiaries' disclosures are included as appendices and will be released on www.nordea.com on the publication date of each subsidiary's Annual Report.

Nordea Bank AB and its subsidiaries have adopted formal policies for complying with the disclosure requirements and has established policies for assessing the appropriateness of these disclosures, including their verification and frequency. The disclosures are made annually in conjunction with the date of publication of Nordea Group's financial statements. The CRR only requires institutions to disclose information which is material and not proprietary or confidential. With regards to this, Nordea has implemented the EBA Guidelines on materiality, proprietary and confidentiality and disclosure frequency under Articles 432(1), 432(2) and 433 of the CRR. For items where Nordea has assessed that more frequent disclosures are needed, information is given in the interim financial reports or on the Investor Relations pages on www.nordea.com. Nordea's management body, by approving this report, approve of the formal statement of key risks in Chapter 2 and formally declare the adequacy of risk management arrangements given Nordea's risk profile. The statement and the declaration are made in accordance with Article 435(1).

Nordea is part of the Sampo conglomerate and falls under the same supervisory authority (the Finnish FSA) as the Sampo Group in accordance to the Act on the Supervision of Financial and Insurance Conglomerates (2004/699), based on Directive 2002/87/EC.

1. Highlights of 2014

Nordea continued to show a solid risk position with stable ratings and scorings and decreased net loan losses to a loan loss ratio of 15bps in 2014. Capital ratios were further strengthened, with the common equity tier 1 (CET1) capital ratio increasing to 15.7% by the end of the year. In January 2014, the AIRB approach for the Nordic portfolio was approved, which served to increase the CET1 capital ratio positively by 0.7 percentage points. In September 2014, as the first Swedish domiciled bank, Nordea issued a CRD IV compliant Additional Tier 1 instrument. The issuance strengthened the Tier 1 ratio by 75bps and the Group's total capital ratio was 20.7% at year-end.

The Nordic economies continued to perform somewhat better compared to the rest of Europe, although with differences within the region. Nordea has delivered robust results, with increased operating profit, stable income and improving cost/income ratio and return on equity, despite a challenging environment with low growth, low interest rates and increased geopolitical tensions. Nordea is confident and well-prepared for the future in light of strong and stable profitability, solid quality in its well-diversified credit portfolio, a strong capital position and a diversified funding base.

In 2014, Nordea completed the divestment of the Polish operations as well as all shares in Nets Holding AS.

Continued solid credit quality and decreased net loan loss ratio to 15bps

Nordea's credit quality remained overall solid in 2014 with stable ratings and with a loan loss ratio of 15bps, below Nordea's ten-year average of 16bps. Continued stabilisation was seen in Denmark and in the Shipping segment. Impaired loans ratio decreased to 174bps while credit exposures increased by 1.7% to EUR 488bn.

Nordea's market risk-taking activities are primarily

focused on the Nordic and European markets. The Group's market risk is to a large extent driven by interest rate risk. Total consolidated market risk for the Group, as measured by VaR, decreased to EUR 62m on average in 2014 (EUR 74m).

Further strengthened capital ratios – by profit generation and issuance of an AT1 instruments

The CET1 capital ratio strengthened further in 2014 due to strong profit generation of the Group as well as continued capital management focus, to reach 15.7% by the end of 2014 (last year 13.9%, estimated Basel III ratio). In January 2014, Nordea was approved for the Advanced IRB approach for the majority of the corporate exposures in the main banks in the Nordic countries, which had a positive effect of 0.7 %-points on the CET1 ratio.

In September 2014, as the first Swedish domiciled bank, Nordea issued a CRD IV compliant Additional Tier 1 instrument, with a USD 1bn Perpetual Non-callable 5-year instrument and a USD 500m Perpetual Non-callable 10-year instrument. The issuance strengthened the Tier 1 ratio by 75bps and the Group's total capital ratio was 20.7% at year-end.

Strong funding name maintained, high long-term funding activity and LCR compliant

In the funding and liquidity risk area, Nordea maintained its position as one of the strongest names. Nordea, by virtue of its well-recognised name and strong rating, was able to actively use all of its funding programmes during 2014. Approximately EUR 22bn was issued in long-term debt during 2014, excluding Danish covered bonds (last year EUR 23bn). Nordea has a solid liquidity coverage ratio (LCR), with LCR at year-end on Group level of 149%, in EUR 307% and in USD 169%.

2. Introduction

This report constitutes a comprehensive disclosure on risks, risk management and capital management in the consolidated situation of Nordea Bank AB. It is presented based on the requirements stated in the Capital Requirements Regulation (CRR), Part Eight.

2.1 Description of the Nordea Group

The Nordea Group is the largest financial services group in Northern Europe with a market capitalisation of approximately EUR 38.9bn, total assets of EUR 669.3bn and a CET1 capital ratio of 15.7%. The Group has leading positions within corporate and institutional banking as well as retail banking and private banking. It is also the leading provider of life and pension products in the Nordic countries.

With approximately 700 branches, call centres in all Nordic countries and highly competitive online and mobile banking platforms, the Nordea Group has the largest distribution network in the Nordic and Baltic Sea region.

Nordea Group furthermore has the largest customer base of any financial services group in the Nordic region with approximately 10 million household customers and around 0.5 million corporate customers.

2.2 Statement of key risks in Nordea's operations

Nordea has a well-diversified business model. Risks are spread over a number of countries, industries and customer types. Most of Nordea's risks originate within Wholesale and Retail Banking, representing close to 85% of the total risk exposure amount (REA). The remainder originates mainly from Group Corporate Centre.

Credit risk (including Credit Value Adjustment) is Nordea's dominant risk category representing approximately 83% of REA. In the income statement, credit risk is capitalised by a net interest income 10 times higher than net loan losses. In the risk appetite framework credit risk is managed by limits on concentration risk, probability of default, loan losses and expected loss.

Retail mortgages and corporate exposures currently represent 27% and 36% respectively of Nordea's total exposure. The housing markets are currently stable and loan losses are decreasing in all of Nordea's markets. Housing markets in Norway and Sweden are however sensitive to changes in market conditions due to elevated debt to income ratios amongst borrowers and market conditions may continue to be affected negatively by the extensive regulatory agenda with regards to mortgage lending in Sweden and Norway.

In the corporate segment, Nordea's largest exposures in terms of exposure amounts are towards the shipping, real estate and industrial segments. The shipping segment has

stabilised during 2014 and credit quality in the industrial segment is improving slightly as macroeconomic conditions slowly improve.

Operational risk is Nordea's second largest risk category representing 12% of REA. During 2014 losses due to operational risks were lower than expected and represented only a minor amount compared with profit and capital requirements for operational risk. In the risk appetite framework operational risk is managed by special attention to top operational risks, operational risk losses and reputational risk.

Market risk is the third largest risk category within Nordea, representing 5% of REA. Income deriving from market risk positions compensated for the risks taken by a wide margin in 2014. Market risks are governed in the risk appetite framework by limits on market risk losses and market risk share of economic capital (EC).

The ten most important and emerging risks are identified in the "Top 10 risk process". Representatives for all Business Areas participate in the process to identify, discuss and agree mitigants for the top 10 risks. All risk categories are considered in the process.

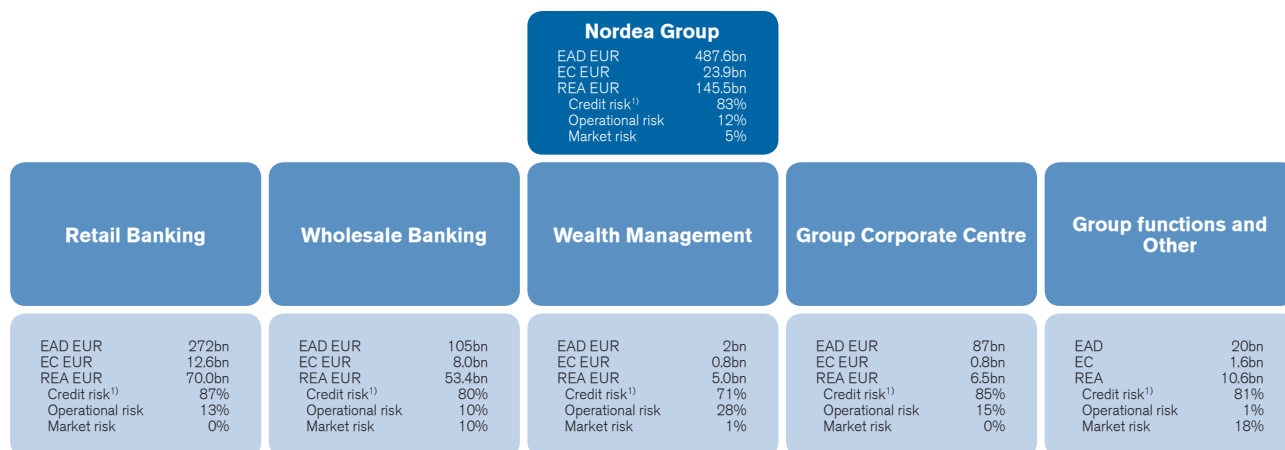
Nordea currently has the following capital ratios; CET1 15.7%, tier 1 17.6% and total capital 20.7%. These capital levels allow for growth according to the decided strategy as well as for risks developing within the limits set in the risk appetite framework, while leaving a comfortable margin to the risk tolerance defined in the capital policy.

Figure 2.1 shows the distribution of EAD, EC and REA per Business Area and per risk category as of 31 December 2014. Figure 2.2 shows Business Area's percentage share of total REA.

2.3 Legal and organisational structure

Table 2.1 provides an overview of the consolidated situation and its legal structure.

Figure 2.1 Key risks within Nordea, 31 December 2014



1) Includes Credit Value Adjustment (CVA) risk.

Figure 2.2 Breakdown of REA distributed by Business Area, 31 December 2014

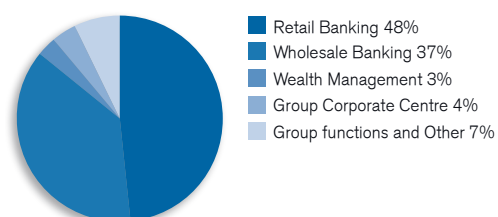


Table 2.1 Specification of undertakings, 31 December 2014

Owner	Company name	Voting power of holding, %	Domicile	Consolidation method
Nordea Bank AB (publ)	Nordea Bank Finland Plc	100	Finland	Purchase method
Nordea Bank Finland Plc	Nordea Finance Finland Ltd	100	Finland	Purchase method
	Realia Holding Oy	25	Finland	Equity method
Nordea Finance Finland Ltd	Tukirahoitus Oy	100	Finland	Purchase method
	Nordea Finance Estonia Ltd	100	Estonia	Purchase method
	Nordea Finance Latvia Ltd	100	Latvia	Purchase method
	Nordea Finance Lithuania Ltd	100	Lithuania	Purchase method
	NF Fleet Oy	20	Finland	Equity method
Nordea Finance Estonia Ltd	ALD Automotive Eesti AS	25	Estonia	Equity method
Nordea Finance Latvia Ltd	ALD Automotive SIA	25	Latvia	Equity method
Nordea Finance Lithuania Ltd	UAB ALD Automotive	25	Lithuania	Equity method
<i>Nordea Bank Finland Plc</i>	<i>Ancillary services undertakings</i>			
Nordea Bank AB (publ)	Nordea Bank Norge ASA	100	Norway	Purchase method
Nordea Bank Norge ASA	Nordea Eiendoms kreditt AS	100	Norway	Purchase method
	Nordea Finans Norge AS	100	Norway	Purchase method
	Eksportfinans ASA	23	Norway	Equity method
Nordea Finans Norge AS	NF Fleet AS	20	Norway	Equity method
<i>Nordea Bank Norge ASA</i>	<i>Ancillary services undertakings</i>			
Nordea Bank AB (publ)	Nordea Bank Danmark A/S	100	Denmark	Purchase method
Nordea Bank Danmark A/S	LR-Realkredit A/S	39	Denmark	Equity method
	Nordea Finans Danmark A/S	100	Denmark	Purchase method
	Nordea Kredit Realkreditaktieselskab	100	Denmark	Purchase method
	NJK1 ApS	100	Denmark	Purchase method
	Swipp Holding APS	30	Denmark	Equity method
	Bankernes Kontantservice A/S	20	Denmark	Equity method
	Fiona Asset Company A/S	100	Denmark	Purchase method
Nordea Finans Danmark A/S	Fleggaard Busleasing	39	Germany	Equity method
	NF Fleet A/S	20	Denmark	Equity method
	K/S UL 676	100	Denmark	Purchase method
	K/S UL 677	100	Denmark	Purchase method
	K/S UL 678	100	Denmark	Purchase method
	UL Transfer Aps	100	Denmark	Purchase method
	UL International ApS	100	Denmark	Purchase method
	DT Finance K/S	100	Denmark	Purchase method
	BH Finance K/S	100	Denmark	Purchase method
	NAMIT 10 K/S	100	Denmark	Purchase method
	City 10 K/S	100	Denmark	Purchase method
	Tide Leasing 2012 K/S	100	Denmark	Purchase method
	LB12 K/S	100	Denmark	Purchase method
	BAAS 2012 K/S	100	Denmark	Purchase method

Table 2.1 cont.

<i>Nordea Bank Danmark A/S</i>	<i>Ancillary services undertakings</i>			
Nordea Bank AB (publ)	OOO Promyshlennaya Com- paniya Vestkon	100	Russia	Purchase method
OOO Promyshlennaya Companiya Vestkon / Nordea Bank AB (publ)	<i>Join Stock Company Nordea Bank</i>	100	Russia	Purchase method
Join Stock Company Nordea Bank	Nordea Leasing LLC	100	Russia	Purchase method
<i>Join Stock Company Nordea Bank</i>	<i>Ancillary services undertakings</i>			
Nordea Bank AB (publ)	Nordea Hypotek AB (publ)	100	Sweden	Purchase method
	Nordea Finans Sverige AB (publ)	100	Sweden	Purchase method
	Nordea Investment Management AB	100	Sweden	Purchase method
	Bankomatcentralen AB	48	Sweden	Equity method
	Svenska e-fakturabolaget AB	50	Sweden	Equity method
	BDB Bankernas Depå AB	20	Sweden	Equity method
	BAB Bankernas Automatbolag AB	20	Sweden	Equity method
	Getswish AB (former Goldcup 8289)	20	Sweden	Equity method
	PK Properties Int'l Corp	100	USA	Purchase method
	Nordea Funds Ltd	100	Finland	Purchase method
Nordea Finans Sverige AB (publ)	NF Fleet AB	20	Sweden	Equity method
Nordea Investment Management AB	Nordea Investment Management North America Inc	100	USA	Purchase method
	Nordea Investment Management AG	100	Germany	Purchase method
	Nordea Private Equity Holding A/S	100	Denmark	Purchase method
Nordea Private Equity Holding A/S	Nordea Private Equity I A/S	100	Denmark	Purchase method
	Nordea Private Equity II – Global A/S	100	Denmark	Purchase method
	Nordea Private Equity III – GLOBAL A/S	100	Denmark	Purchase method
	Nordea Private Equity II – EU Mezz A/S	100	Denmark	Purchase method
	Nordea Private Equity II – EU MM Buyout A/S	100	Denmark	Purchase method
	PWM Global PE III ApS	100	Denmark	Purchase method
Nordea Finans Sweden, Finland, Norway and Denmark	NF Techfleet AB	20	Sweden	Equity method
<i>Nordea Bank AB (publ)</i>	<i>Ancillary services undertakings</i>			
Nordea Bank AB (publ) / Nordea Investment Management AB	Nordea Bank S.A.	100	Luxembourg	Purchase method
Nordea Bank S.A.	Nordea Investment Funds S.A.	100	Luxembourg	Purchase method

Undertakings not included in the consolidation

Nordea Life Holding and related
subsidiaries and participations

3. Governance of risk and capital management

Management of risk, liquidity and capital are key success factors in the financial services industry. Nordea has defined clear risk, liquidity and capital management frameworks, including policies and instructions for different risk types, capital adequacy and capital structure.

3.1 Risk and capital management

The key principle for the management of risks in Nordea is the three lines of defence. The first line of defence is represented by the Business Areas and Group Functions responsible for their own daily risk management and for operating their business within applicable limits and in accordance with the framework for internal control.

The control functions Group Operational Risk, Group Credit Control, Group Credit Risk and Group Market and Counterparty Credit Risk (all within in Group Risk Management), and Group Compliance are in the second line of defence responsible for activities such as independently monitoring, controlling and reporting of issues related to key risks, including compliance with internal and external regulations.

Group Internal Audit, representing the third line of defence, performs audits and provides assurance on governance, risk management and internal control.

3.1.1 Risk and capital management principles and control

Risk and capital management in Nordea is governed by principles and procedures stated in charters, policies, instructions and guidelines in effect throughout the organisation. The Board of Directors' and the CEO's principal policies and instructions defining authorities and key responsibilities for themselves and other units are outlined as Group Directives. The Group Directives form part of the internal control framework.

All legal entities within Nordea are subject to the same internal control and risk management environment through the organisation of the business.

Nordea furthermore monitors aggregated risks via specific committees, as well as through reporting to Group Executive Management (GEM), the Board of Directors and the local bank boards. More specifically, Nordea's risks and capital are monitored by the Risk Committee and the Asset and Liability Committee (ALCO) respectively.

3.1.1.1 Board of Directors and Board Risk Committee

The Board of Directors has the ultimate responsibility for limiting and monitoring Nordea's risk exposures as well as for defining target capital ratios and deciding on the risk appetite. Risk is measured and reported according to common principles and policies approved by the Board of Directors.

The Board of Directors also decides on policies for credit risk, counterparty credit risk, market risk, liquidity risk, life insurance risk, business risk and operational risk management as well as the Internal Capital Adequacy Assessment Process (ICAAP). All policies are reviewed at least annually.

In the credit instructions, the Board of Directors decides on powers-to-act for credit committees at different levels within the Business Areas. These authorisations vary for different decision-making levels, mainly in terms of size of limits but also depending on the internal risk categorisation of customers. The Board of Directors furthermore decides on the limits for market and liquidity risk in Nordea.

The Board Risk Committee assists the Board of Directors in fulfilling its oversight responsibilities concerning management and control of risk, risk frameworks as well as controls and processes associated with Nordea's operations. The Board Risk Committee met on six occasions during 2014.

3.1.1.2 Responsibility of CEO and GEM and its committees

The Chief Executive Officer (CEO) has the overall responsibility for developing and maintaining effective risk, liquidity and capital management principles and control of Nordea.

The CEO and GEM regularly review reports on risk exposure and have established a number of committees for risk, liquidity and capital management.

ALCO, chaired by the Chief Financial Officer (CFO), prepares issues of major importance concerning Nordea's financial operations and balance sheet risks as well as capital management and liquidity management either for decision by the CEO in GEM or for recommendation by the CEO in GEM for decision by the Board of Directors. ALCO also decides on certain issuances and capital injections for all wholly-owned legal entities within Nordea. ALCO has established sub-committees for its work and decision-making within specific risk areas.

The Risk Committee, chaired by the Chief Risk Officer (CRO), oversees the management and control of Nordea's risks on an aggregate level and evaluates the sufficiency of the risk frameworks, controls and processes associated with the various risks. The Risk Committee furthermore decides, within the scope of resolutions adopted by the Board of Directors, the allocation of market risk limits as well as liquidity risk limits to the risk-taking units Nordea Markets, Group Asset & Liability Management (GA&LM) and Group Treasury respectively. Unit heads allocate their respective limits within their units and may introduce more detailed limits and require other risk mitigating techniques such as stop-loss rules. The Risk Committee has established sub-committees for its work and for decision-making within specific risk areas. The Risk Committee met on 22 occasions during 2014.

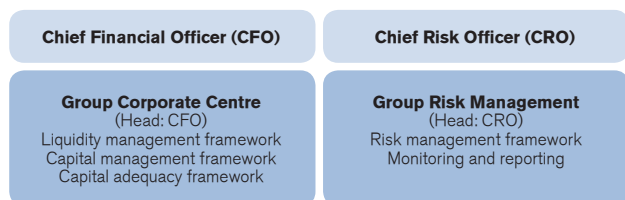
The Group Executive Management Credit Committee (GEM CC) and Executive Credit Committee (ECC) are both chaired by the CRO, while the Group Credit Committee Retail Banking (GCCR) and the Group Credit Committee Wholesale Banking (GCCW) are chaired by the Chief Credit Officer (CCO). These credit committees decide on major

Figure 3.1 Governance of risk, liquidity and capital management

Risk, liquidity and capital management governance structure



Risk, liquidity and capital management responsibilities



credit risk limits. Credit risk limits are granted as individual limits for customers or consolidated customer groups as well as industry limits for certain defined industries.

3.1.1.3 Responsibility of Group Risk Management and Group Corporate Centre

Figure 3.1 illustrates Nordea’s governance structure of risk, liquidity and capital management.

Within the Group, two units – Group Risk Management and Group Corporate Centre – are responsible for risk, capital, liquidity and balance sheet management.

Group Risk Management, headed by the CRO, is the second line of defence and responsible for the risk management framework and processes. Within Group Risk Management, separate units are responsible for measuring and controlling the respective risk categories.

- Group Credit Risk – An independent risk control function responsible for Nordea’s credit risk framework, models and processes. Group Credit Risk is responsible for the credit analysis and credit decision processes on Group level, with the role to ensure that Nordea’s credit risk framework is adhered to.
- Group Market and Counterparty Credit Risk (GMCCR) – An independent risk control function responsible for Nordea’s market and counterparty credit risk frameworks and for identification, monitoring, analysing, reporting and control of the Group’s market and counterparty credit risk. GMCCR is also the second line of defence function with regards to liquidity risk management.
- Group Operational Risk – An independent risk control function responsible for the operational risk frameworks and for identification, monitoring, analysing, reporting and control of the Group’s operational risks.
- Group Credit Control – An independent risk control func-

Figure 3.2 Overview of the risk appetite measures

Risk type	Metric
Credit risk	Single customer concentration
	Industry concentration
	Geographic concentration
	Expected loss
	Loan loss
	Probability of default
Market risk	Market risk share of economic capital
	Maximum economic market risk loss per quarter
Operational risk	Monitor top risks
	Operational risk loss
	Reputational impact
Solvency	Common Equity Tier 1 Capital Ratio
	Leverage ratio
	Target credit rating
Liquidity risk	Survival horizon
	Net Balance of Stable Funding
Compliance & non-negotiable risks	Regulatory requirements
	Internal policy and external regulatory breaches

tion responsible for credit risk identification, monitoring, analysing, reporting and control of the Group’s credit risks.

Group Corporate Centre, headed by the CFO, is responsible for the capital policy, the composition of own funds, the capital adequacy framework (including the internal ratings-based (IRB) framework) and for first line of defence management of liquidity risk. Within Group Corporate Centre, GA&LM is responsible for the balance sheet frameworks and strategies and focuses on optimising the use of capital, liquidity and funding of Nordea. Group Treasury focuses on execution of all investments and funding transactions and managing the tactical risk mandates to optimise income for Nordea.

3.1.2 Risk appetite

Risk appetite within Nordea is defined as the level and nature of risk that the bank is willing to take in pursuit of the articulated strategy on behalf of shareholders. Risk appetite is defined by constraints reflecting the views of shareholders, debt holders, regulators and other stakeholders.

The Board of Directors is ultimately responsible for the overall risk appetite of Nordea and for deciding on principles for how risk appetite should be managed. The Board Risk Committee assists the Board of Directors in fulfilling these responsibilities by reviewing the development of the risk profile in relation to risk appetite and making recommendations for changes to Nordea’s risk appetite.

Nordea's risk appetite framework is based on explicit top-down risk appetite statements covering all key risks faced by Nordea. These statements, approved by the Board of Directors, collectively define the boundaries for Nordea's risk-taking activities, help identify areas with scope for additional risk taking, and set the basis for the risk reporting structure. Moreover, the framework supports management decision processes such as planning and target setting.

The risk appetite framework considers key risks relevant to Nordea's business activities and is on an aggregate level represented in terms of credit risk, market risk, operational risk, solvency, compliance/non-negotiable risks and liquidity risk. Figure 3.2 presents an overview of Nordea risk appetite measures.

The risk appetite framework includes the cascading of risk appetite levels to Business Areas and segments in terms of allocated risk level thresholds and operational risk limits.

Stress testing is an integral component within the framework. Stress tests ensure alignment of the scenarios used in the regulatory capital framework and the risk appetite framework, and therefore the planning and target setting process.

3.1.3 Monitoring and reporting

The "Policy for Internal Control and Risk Management in the Nordea Group" states that the management of risks includes all activities aiming at identifying, measuring, assessing, monitoring and controlling risks as well as measures to limit and mitigate the consequences of the risks. Management of risk is proactive, emphasising training and risk awareness. Nordea maintains a high standard of risk management by means of applying available techniques and methodologies to its needs.

The control environment is, among other things, based on the principles of segregation of duties and independence. Monitoring and reporting of risk is conducted on a daily basis for market risk, counterparty credit risk, liquidity risk and on a monthly and quarterly basis for credit risk and operational risk.

Risk appetite reporting is presented quarterly to the Risk Committee, GEM, the Board Risk Committee and the Board of Directors.

Detailed risk information, covering all risks as well as capital adequacy, is regularly reported to the Risk Committee, GEM and the Board of Directors. In addition, the Board of Directors in each legal entity regularly receives local risk reporting. Nordea's internal capital requirement includes all types of risks and is regularly reported to ALCO.

4. Capital position

Nordea's capital position continued to improve during 2014 and the total capital ratio was 20.7% at year-end.

4.1 Minimum capital requirements and REA

The regulatory minimum capital requirements that Nordea fell under on the balance date for this report, 31 December 2014, are stated in EU Regulation No 575/2013 (the Capital Requirements Regulation, (CRR)).

Table 4.1 presents an overview of Nordea's minimum capital requirements and REA as of end December 2014 split by risk type. The table further includes information regarding approaches used for calculating REA. For credit risk, 80% of the exposure has been calculated under the IRB approach.

Nordea's total REA for credit risk, CVA, market risk and operational risk of EUR 145.5bn is adjusted by an additional 74.9bn due to the Basel I floor.

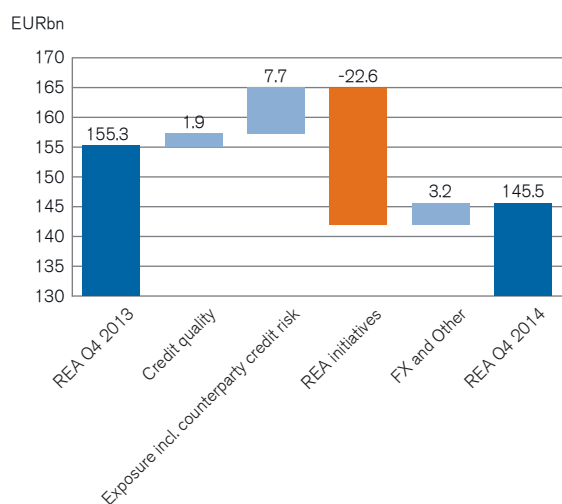
Nordea's REA (excluding Basel I floor) decreased by EUR 9.8bn during 2014. This was mainly due to continued ef-

Table 4.1 Minimum capital requirements and REA

EURm	31 December 2014		31 December 2013	
	Minimum capital requirements	REA	Minimum capital requirements	REA
Credit risk	9,522	119,029	10,376	129,705
– of which counterparty credit risk	843	10,535	505	6,312
IRB ¹⁾	8,451	105,637	8,965	112,061
– of which corporate	5,743	71,792	6,787	84,844
– of which advanced	4,048	50,600		
– of which foundation	1,695	21,192	6,787	84,844
– of which institutions	766	9,572	468	5,848
– of which retail	1,755	21,940	1,588	19,848
– of which secured by immovable property	879	10,981	862	10,772
– of which other retail	792	9,897	622	7,778
– of which SME	85	1,061	104	1,298
– of which other	187	2,333	122	1,521
Standardised	1,071	13,392	1,412	17,644
– of which central governments or central banks	57	717	20	258
– of which regional governments or local authorities	17	211	14	170
– of which public sector entities	2	20	3	32
– of which multilateral development banks				
– of which international organisations				
– of which institutions	27	338	49	611
– of which corporate	154	1,921	301	3,768
– of which retail	255	3,181	476	5,950
– of which secured by mortgages on immovable property	222	2,778	386	4,826
– of which in default	12	155	35	448
– of which associated with particularly high risk	53	666		
– of which covered bonds				
– of which securitisation positions				
– of which institutions and corporates with a short-term credit assessment				
– of which collective investments undertakings (CIU)			2	21
– of which equity	195	2,442		
– of which other items	77	964	125	1,560
Credit Value Adjustment risk	185	2,308		
Market risk	584	7,296	700	8,753
– of which trading book, Internal Approach	312	3,897	410	5,131
– of which trading book, Standardised Approach	112	1,402	186	2,321
– of which banking book, Standardised Approach	160	1,996	104	1,301
Operational risk (standardised approach)	1,347	16,842	1,344	16,796
Sub total	11,638	145,475	12,420	155,254
Additional capital requirement due to adjustment for Basel I floor	5,995	74,938	4,318	53,969
Total	17,633	220,413	16,738	209,223

1) Exposure classes which Nordea do not have approval to use are not included in the table.

Figure 4.1. Drivers behind the development of REA excl. Basel I floor



forts with efficient capital and REA management. Examples of REA initiatives include improved data and collateral sourcing, and roll-out of new models such as Advanced IRB (AIRB) in the corporate portfolio. Decrease in market risk and an overall effect of FX also served to decrease REA at year-end. The decrease was partly offset by the implementation of the CRR together with increased volumes mainly in the corporate portfolio. The drivers behind the development of REA during 2014 are shown in Figure 4.1. The Basel I floor REA increased by 11.2bn due to increased volumes, however because the rollouts and many of the REA initiatives are not applicable in the Basel I calculation, the result is a deviation between minimum capital requirements according to the CRR and Basel I.

4.2 Buffer requirements

A number of capital buffer requirements are being introduced with the entry into force of CRD IV. The capital buffers are expressed in relation to REA and represent additional capital to be held on top of minimum regulatory requirements. The levels and the phasing-in of the buffer requirements are subject to national discretion. Table 4.2 and 4.3 shows the buffers that affected Nordea as of 31 December 2014. The only capital buffer that affected Nordea at the time was the mandatory capital conservation buffer of 2.5% of CET1.

Further information on the introduction of various capital buffers can be found in Chapter 12.

4.3 Capital policy

The current capital policy states that Nordea Group should have a target minimum of 13% in CET1 and 17% for the total capital ratio. The most recent review, performed in 2014Q4 leaves the capital targets unchanged as there are still uncertainties with respect to the Swedish FSA's view on standardised models to be used by the banks for calculating the size of the Pillar II add-on, as well as other ongoing regulatory uncertainties such as the replacement of the current capital floor. The capital policy will be revised once the regulatory regime is further clarified. However, Nordea's current view is that the bank should operate with a CET1 ratio of approximately 15%, including a management buffer, although there is still some regulatory uncertainty.

4.4 Own funds

As shown in Table 4.3, own funds as of end 2014 was EUR 30.0bn. Out of this amount, CET 1 was EUR 22.8bn, Additional tier 1 after regulatory adjustments was 2.8bn and Tier 2 capital was EUR 4.5bn. Table 4.4 shows the bridge between IFRS equity and Common Equity Tier 1 capital.

Table 4.2 Minimum capital requirement & buffers as of 31 December 2014

Percent (%)	Minimum capital requirement	Capital buffers				Total requirement incl. capital buffers
		CCoB	CCyB	SII	SRB	
Common Equity Tier 1 capital	4.5	2.5	N/A	N/A	N/A	7.0
Tier 1 capital	6.0	2.5	N/A	N/A	N/A	8.5
Own funds	8.0	2.5	N/A	N/A	N/A	10.5

Table 4.3 Development of key capital adequacy figures

EURbn	Q4 2014	Q3 2014	Q2 2014	Q1 2014	Q4 2013
REA (excluding Basel I floor)	145.5	152.5	152.2	158.9	155.3
CET1 capital	22.8	23.8	23.2	23.3	23.1
Tier 1 capital	25.6	26.5	24.7	24.8	24.4
Own funds	30.0	30.9	28.9	29.3	28.0
CET1 capital ratio (excluding Basel I floor)	15.7%	15.6%	15.2%	14.6%	14.9%
Tier 1 capital ratio (excluding Basel I floor)	17.6%	17.4%	16.2%	15.6%	15.7%
Total capital ratio (excluding Basel I floor)	20.7%	20.2%	19.0%	18.4%	18.1%

Figure 4.2 Drivers behind the development of own funds

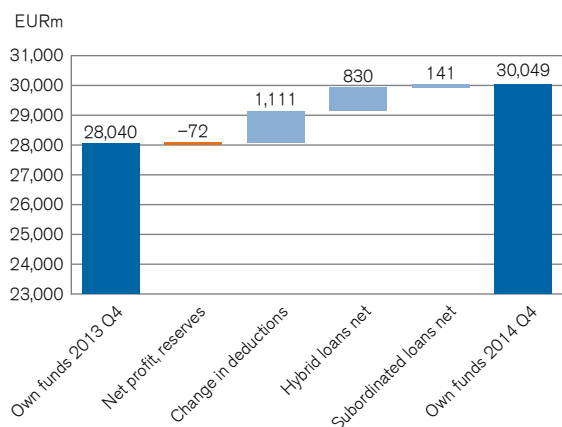
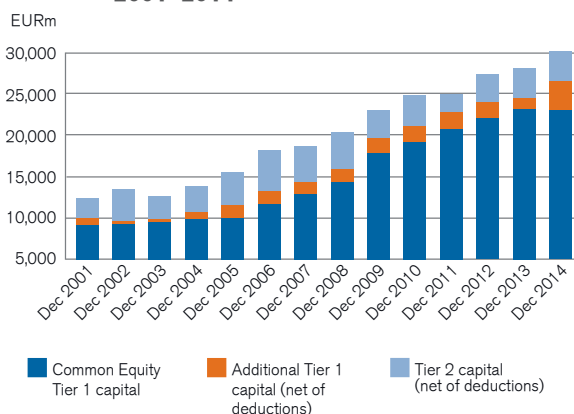


Figure 4.3 Development of own funds, 2001–2014



The CRR requires Nordea to disclose a full reconciliation of CET1 items, AT1 items and T2 items as well as filters and deductions to own funds and the balance sheet in the audited financial statements. The same regulation also requires Nordea to provide an own funds disclosure in the format specified by Implementing Regulation (EU) No 1423/2013. These disclosures are provided in Tables A1 and A2 in Appendix A.

4.4.1 Changes to own funds during the year

Nordea's CET1 capital decreased by EUR 0.3bn during 2014. The decrease was mainly due the entry into force of the CRR as well as FX effects. These effects were however partly countered by strong profit generation. In September, Nordea issued an CRD IV compliant AT1 instrument which helped strengthen Tier 1. Nordea furthermore called EUR 0.5bn of its Tier 2 loans during the year.

As of year-end, Nordea held totally EUR 4.3bn in dated subordinated loans and EUR 3.5bn in undated subordinated loans, of which EUR 233m in T2 instruments. Figure 4.2 illustrates the drivers behind the changes in own funds

Table 4.4 Bridge between IFRS equity and CET1 capital

EURm	31 Dec 2014	31 Dec 2013
Balance sheet equity	29,836	29,209
Valuation adjustment for NLP ¹⁾	-772	-859
Subtotal	29,064	28,350
Dividend	-2,501 ²⁾	-1,734
Goodwill	-1,938	-2,176
Intangible assets	-646	-811
Shortfall deduction	-344	-369
Pension deduction	-33	
Prudential filters	-284	
Transitional adjustments	-453	
Other deductions	-44	
Common Equity Tier 1 capital	22,821	23,112

1) Valuation adjustments include NLP & AFS for 31 December 2013.

2) Proposed dividend.

during 2014. Figure 4.3 shows the increase in own funds over the last 14 years and the development of its components, net of prudential filters and deductions.

The CRR requires a description of the main features of the capital instruments issued by Nordea. This disclosure is provided in Tables A3 – A5 in Appendix A, according to the uniform disclosure template specified by Implementing Regulation (EU) No 1423/2013. The full terms and conditions of Nordea's various capital instruments, which is also a required disclosure, can be found on www.nordea.com.

4.5 Ratios

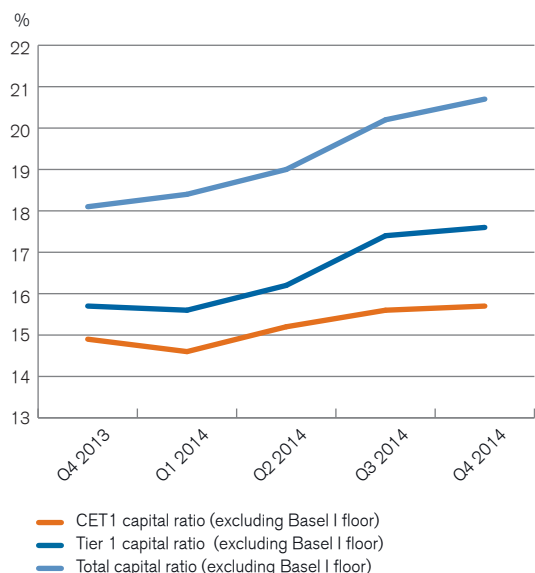
To quantify the degree of capital coverage, different ratios based on different capital types are used. These ratios include, but are not limited to:

- The CET1 capital ratio: calculated by dividing CET1 capital by total REA.
- The tier 1 capital ratio: calculated by dividing tier 1 capital by total REA.
- The total capital ratio: calculated by dividing own funds by total REA.

Improved capital ratios were achieved through efficient REA management in combination with strong profit generation. Figure 4.4 illustrates the development of the CET1 ratios while Figure 4.5 shows the drivers behind the development of the capital ratio.

The leverage ratio, which is a new measure introduced in the CRR, is presented in Table 4.5. It is a non-risk based measure introduced to monitor and measure build-up of leverage on credit institutions' balance sheets aiming at containing the cyclicity of lending. The leverage ratio is calculated by dividing tier 1 capital (according to the CRR definition) by assets (both on-balance and off-balance sheet), with adjustments made for derivatives and securities financing transactions. By end of 2014 Nordea's leverage ratio was 4.3%. From 2015 the definition of leverage ratio has changed and according to the new definition Nordea's leverage ratio would stand at 4.4%.

Figure 4.4 Development of capital adequacy ratios



4.6 Capital transferability and restrictions

Nordea may transfer capital within its legal entities without material restrictions. International transfers of capital between legal entities are normally possible after approval by the local regulator and are of importance in governing the capital position of Nordea's entities. Such approval has to be applied and authorised by the local FSA for internal subordinated loans as prescribed by Article 77 in the CRR. The guarantee schemes introduced within the EU in 2008 limit the transferability of capital under certain circumstances, however no such restrictions were directly affecting Nordea by the end of 2014.

Figure 4.5 Drivers behind the development of the capital ratio

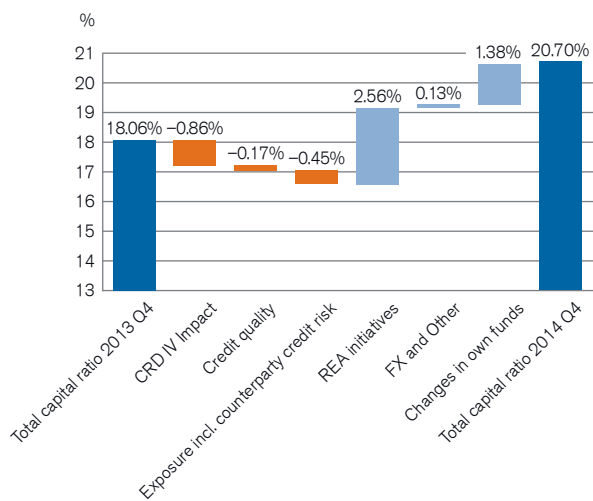


Table 4.5 Leverage ratio

EURm	31 Dec 2014
Tier 1 capital, transitional definition, EURm ¹⁾	25,382
Leverage ratio exposure, EURm	590,759
Leverage ratio	4.3%

Leverage ratio and volumes presented is based on three month average according to local FSA reporting process.

1) Including profit of the period.

5. Credit risk

The overall credit quality in Nordea's portfolio is solid and continued to improve in 2014. Nordea's credit portfolio is well diversified both in terms of industry segments and geographies. The loan loss ratio decreased to 15bps (21bps), mainly due to improved conditions in Denmark and in the Shipping industry.

5.1 Management, governance and measurement of credit risk

Credit risk is defined as the risk of loss if customers fail to fulfil their agreed obligations and pledged collateral does not cover existing claims. It stems mainly from various forms of lending, but also from issued guarantees and documentary credits, such as letters of credit. Credit risk includes counterparty credit risk, transfer risk and settlement risk.

5.1.1 Management of credit risk

Credits granted within Nordea shall conform to the common principles established. The fundamental principles are outlined in the Credit Policy and Strategy and Credit Instructions for the Nordea Group.

Nordea has specific Industry Credit Policies and Principles in place to monitor the distribution of the credit portfolio and to limit credit risk. Concentration risk in specific industries is monitored by industry monitoring groups. Industry Credit Policies are established for industries where at least two of the following criteria are fulfilled:

- Significant weight in the Nordea loan portfolio
- High cyclicity and/or volatility of the industry
- Special skills and knowledge required.

Nordea currently has Industry Credit Policies in place for the following industries:

- Shipping, Oil and Offshore
- Energy
- Leveraged buy-out
- Financial institutions
- Commercial real estate.

All Industry Credit Policies are approved annually by the Risk Committee and confirmed by BRIC. The Risk Committee can establish Industry Monitoring Boards and then decides upon the governance structure and role in the decision making process for these.

Industry credit principles currently apply to:

- Forest

- Telecom
- Aircraft
- Hedge Funds.

All Industry Credit Principles relevant for Nordea Group are approved annually by the Risk Committee's Credit Risk Subcommittee and confirmed by the Risk Committee.

Credit risk limits for customers and customer groups are decided by decision-making bodies on various levels within Nordea. The responsibility for credit risk lies within the customer responsible units (CRUs), which continuously assess customers' ability to fulfil their obligations and identifies deviations from agreed conditions and weaknesses in the customers' performance. In addition to building strong customer relationships and understanding each customer's financial position, monitoring of credit risk is based on available information about the customer and macroeconomic factors. Information such as late payments data, behavioural scoring and rating migration are important parameters in the internal monitoring process. If new information indicates the need, the CRU must reassess the rating and assess whether the customer's repayment ability is threatened. If it is considered unlikely that the customer will be able to repay his or her debt obligations in full and the situation cannot be satisfactorily remedied, the exposure must be tested for impairment.

If credit weakness is identified in relation to a customer exposure, the exposure is assigned special attention in terms of more frequent reviewing. In addition to continuous monitoring, an action plan is established outlining how to minimise the potential credit loss. If necessary, a special work-out team is set up to support the CRU. Nordea has a project organisation for handling work-out credits for corporate customers and individual work-out teams are established for larger work-out cases. The credit organisation and other specialist units support CRUs in handling smaller work-out customers.

The follow-up of individual work-out cases is part of the quarterly credit risk review process. In this process the impairment of individual customers and collective impairment of customer groups is also assessed and the actions related to handling of work-out customers are reviewed and followed up.

The environmental risks of corporate customers are taken into account in the overall risk assessment through the Environmental Risk Assessment Tool. Social and political risks are taken into account by the Social and Political Risk Assessment Tool. Environmental Social Governance (ESG) risk assessment tools are moving towards a risk based approach to identify and focus our efforts on potential higher risk cases. For larger project finance transactions, Nordea has adopted the Equator Principles, a financial industry benchmark for determining, assessing and managing social and environmental risk in project financing. The Equator Principles are based on the policies and guidelines of the World Bank and the International Finance Corporation.

5.1.1.1 Credit risk appetite

Nordea's risk appetite framework forms the basis for a holistic risk reporting structure and supports key decision processes such as strategy, planning and target setting.

The credit risk appetite statements are defined in terms of credit risk concentration (limits for single names, specific industries and geographies), long-term credit quality (expected loss), short-term credit quality (probability of default) and loan losses under plausible stress scenarios.

5.1.1.2 Credit risk mitigation and collateral policy

Credit risk mitigation is a fundamental part of the credit decision process. Every credit decision and review considers the valuation of collaterals as well as the adequacy of covenants and other risk mitigation measures are considered. Pledging of collateral is the main mitigation tool for credit risk.

Instructions emphasise that routines are timely and prudent in order to ensure that collateral items are controlled by Nordea and that loans and pledge agreements as well as collaterals are legally enforceable. Nordea is entitled to liquidate pledged collateral in the event of the obligor's default and can claim and control cash proceeds from a liquidation process.

To a large extent national standard loan and pledge agreements are used, which helps ensuring legal enforceability.

The following collateral types are most common in Nordea:

- Residential real estate, commercial real estate and land situated in Nordea's home markets (the four Nordic countries, the Baltics and Russia)
- Other tangible assets such as machinery, equipment, vehicles, vessels, aircrafts and trains
- Inventory, accounts receivable and assets pledged under floating charge
- Financial collateral such as listed shares, listed bonds and other specific securities
- Deposits
- Guarantees
- Insurance policies (capital assurance with surrender value).

For each type of collateral there are more specific instructions in addition to the general collateral valuation principles. A maximum collateral ratio is set for each collateral type. Furthermore, in the calculation of REA, the collateral must fulfil certain eligibility criteria.

Syndication of loans is the primary tool for managing concentration risk associated with large credit exposure. Mitigation by the use of credit default swaps is applied to a very limited extent.

Covenants in credit agreements serve as a complement to both secured and unsecured exposures. All exposures of substantial size and complexity include appropriate covenants. Financial covenants are designed to function as early warning indicators and are closely monitored.

5.1.2 Governance of credit risk

Group Risk Management is responsible for the credit

process framework and the credit risk management framework, consisting of policies, instructions and guidelines. Group Risk Management is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process, and for ensuring that all incurred losses are covered by adequate allowances. Each division/unit is primarily responsible for managing the credit risks in its operations within applicable framework and limits, including identification, control and reporting.

Within the powers-to-act granted by the Board of Directors, credit risk limits are approved by credit decision-making bodies on different levels in the organisation. The internal risk categorisation and exposure of the customer determine at what level the decision will be made (see Figure 5.1). The Group Executive Management Credit Committee decides on proposals for the largest exposures and proposals related to major principle issues. Responsibility for the credit risk lies within each CRU.

5.1.3 Measurement of credit risk

Credit risk is measured, monitored and segmented in several dimensions. On-balance lending constitutes the major part of the credit portfolio and the basis for impaired loans and loan losses. Credit risk in lending is measured and presented as on-balance sheet loans as well as off-balance sheet potential claims on customers and counterparts net after allowances. Credit risk exposure also includes counterparty credit risk such as risk related to derivative contracts and securities financing. Nordea's loan portfolio is broken down by segment, industry and geography.

One way of assessing credit quality is through analysis of the distribution across rating grades for rated corporate customers and institutions, as well as the distribution across risk grades for scored retail customers.

5.1.4 Management and measurement of leverage risk

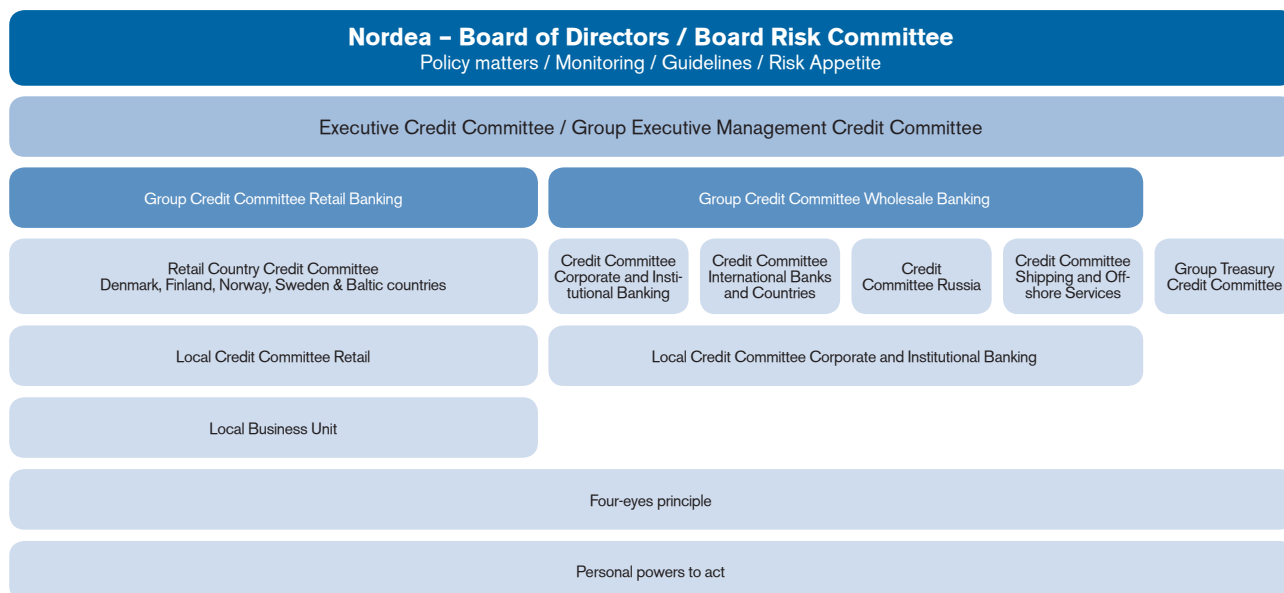
Nordea has policies and processes in place for the identification, management and monitoring of the risk of excessive leverage. The main indicator for excessive leverage includes monitoring of the regulatory leverage ratio on Nordea Group as part of Nordea's risk appetite framework.

5.2 Link between the balance sheet and credit risk exposure

This section discloses the link between the loan portfolio as defined by accounting standards and exposure as defined in the CRR. The main differences are outlined in this section to illustrate the link between the different reporting methods.

Original exposure is the exposure before taking into account substitution effects stemming from credit risk mitigation, credit conversion factors (CCFs) for off-balance sheet exposure and allowances within the standardised approach, while exposure is defined as exposure at default (EAD) for IRB exposure and exposure value for standardised exposure (unless otherwise stated). In accordance with the CRR, credit risk exposure is divided into exposure classes where each

Figure 5.1 Credit decision-making structure for main operations



exposure class is divided into exposure types as follows:

- On-balance sheet items
- Off-balance sheet items (e.g. guarantees and unutilised amounts of credit facilities)
- Securities financing (e.g. reversed repurchase agreements and securities lending)
- Derivatives.

Items presented in the Annual Report are divided as follows (in accordance with accounting standards):

- On-balance sheet items (e.g. loans to central banks and credit institutions, loans to the public, reversed repurchase agreements, positive fair value for derivatives and interest-bearing securities)
- Off-balance sheet items (e.g. guarantees and unutilised lines of credit).

Table 5.1 shows the link between the CRR credit risk exposure and items presented in the Annual Report.

5.2.1 On-balance sheet items

The following items are excluded from the balance sheet, when on-balance sheet exposure is calculated in accordance with the CRR:

- Market risk related items in the trading book, such as certain interest-bearing securities and pledged instruments.
- Repos, derivatives and securities lending. These transactions are either included in the calculation of market risk in the trading book or reported as separate exposure types (derivatives or securities financing).
- Life insurance operations (due to solvency regulation).
- Other, mainly allowances and intangible assets.

5.2.2 Off-balance sheet items

The following off-balance sheet items specified in the Annual Report are excluded when off-balance sheet exposure is calculated in accordance with the CRR:

- Life insurance operations (due to solvency regulation).
- Assets pledged as security for own liabilities and Other assets pledged (apart from leasing). These transactions are reported as securities financing (i.e. a separate exposure type).
- Derivatives.

5.2.3 Derivatives and securities financing

The fair value of derivatives is recognised in the balance sheet, while nominal amount on derivatives are reported off-balance in accordance with accounting standards. However, in the CRR, the derivatives and securities financing are reported as separate exposure types. Also, repurchase agreements and securities lending/borrowing transactions are in the balance sheet calculated based on nominal value. In the CRR calculations these exposure types are determined net of collateral.

5.3 Credit risk approach

Nordea is approved by financial supervisory authorities to use the IRB approach when calculating the capital requirements for the main part of the credit portfolio.

As of the balance day for this report, Nordea used the Advanced IRB approach for the corporate exposure classes, the Foundational IRB approach for institutional customers and the Retail IRB approach for the retail exposure classes in the main banks and the mortgage companies in Sweden, Denmark, Norway and Finland. Nordea furthermore is approved to use the FIRB approach for the corporate and

Table 5.1 Specification of on-balance sheet and off-balance sheet items for the Nordea Group, 31 December 2014

EURm On-balance sheet items	Balance sheet (accounting)	Items related to market risk	Repos, derivatives, securities lending	Life insurance operations	Other	Original exposure	Exposure adjustment ¹⁾	Exposure
Cash and balances with central banks	31,067	0	0	0	0	31,067		31,067
Loans to central banks and credit institutions	19,175	0	-4,822	-326	3	14,030		14,030
Loans to the public	348,085	0	-49,515	0	2,356	300,926	-1,037	299,889
Interest-bearing securities and pledged instruments	99,261	-24,181	0	-21,648	0	53,432		53,432
Derivatives	105,119	0	-104,999	-119	0	0		0
Intangible assets	2,908	0	0	-324	-2,584	0		0
Other assets and prepaid expenses	63,727	-25,144	-91	-32,897	706	6,301		6,301
Total	669,341	-49,325	-159,427	-55,313	480	405,756		404,720

Off-balance sheet items in the Annual Report	Off-balance sheet (accounting)	Life insurance operations	Included in derivatives & sec fin	Included in CRR off-balance
Assets pledged as security for own liabilities	163,041	-2,851	-160,190	
Other assets pledged	11,265	0	-11,264	
Contingent liabilities	22,017	-32		21,985
Commitments	75,935	-875	-28	75,032
Total	272,258	-3,758	-171,482	97,017

Off-balance sheet items in the CRR	Included in CRR off-bal. (from AR)	Included in CRR (not in AR) ²⁾	Original Exposure	Credit Conversion Factor, %	Exposure
Credit facilities	50,777	437	51,214	48%	24,626
Checking accounts	18,161	3,960	22,121	50%	11,065
Loan commitments	6,091	7,246	13,337	36%	4,858
Guarantees	20,760	1	20,761	31%	6,335
Other (leasing and documentary credits)	1,228	32	1,260	24%	308
Total	97,017	11,676	108,693		47,191

Derivatives and securities financing	Original Exposure	Exposure adjustment ¹⁾	Exposure
Derivatives	31,213	-220	30,992
Securities Financing Transactions & Long Settlement Transactions	4,667		4,667
Total credit risk (CRR definition)	550,329		487,570

1) The on-balance exposures have a CCF of 100% but can still have lower EAD due to provisions in the standardised approach, financial collateral in the standardised approach and residual value for leasing in the IRB approach, that are deducted from the original exposure when calculating EAD.

2) Off-balance exposures included in the CRR but not included in the Annual Report (AR), such as exposures related to undrawn credit facilities which are unconditionally cancellable as well as exposures against Nordea Life Group.

institutions exposure classes in the Finance companies in Denmark, Norway, Finland and Sweden as well as in Nordea Bank Russia, the Baltic branches in Latvia, Lithuania, Estonia and in the International Units. Further, in the Finance company in Finland, Nordea is approved to use the RIRB approach for retail exposure classes.

Other legal entities and exposure classes are reported according to the standardised approach. Nordea aims to continue the roll-out of the IRB approaches in the coming years. Acquisitions of new portfolios are treated under the standardised approach until approved for the IRB approach by the supervisory authorities.

5.4 Development of exposure and REA

Table 5.2 shows original exposure, exposure, average risk weight, REA and the capital requirements, distributed by exposure class.

During 2014, total exposure increased by EUR 8.0bn or 1.7%, where the major part related to the IRB portfolio. Increased exposure in the IRB institutions portfolio was mainly driven by increased market values of derivatives and on-balance sheet items. Increased IRB retail exposures were driven primarily by the Retail IRB roll out in Nordea Finance Finland as well as increased volumes. Increased exposure in the IRB corporate portfolio was mainly driven by an increase in derivatives exposure. The standardised decreased mainly explained by lower volumes in the sovereign portfolio.

Average risk weight in the IRB corporate exposure class decreased to 42% (51%) at year end 2014. The REA decrease of EUR 13.1bn was largely driven by the REA efficiency initiatives such as the approval of the Advanced IRB as well as favourable rating migration and portfolio composition changes.

Risk weight in IRB Retail increased to 13% (12%) and REA increased with EUR 2.1bn.

In the standardised portfolio, exposure decreased by 11.0% or EUR 12.1bn and the average risk weight decreased by 2 percentage points during the period. The main drivers of the decrease are REA efficiencies as well as divestment of Nordea Bank Poland.

5.5 Credit risk exposure

5.5.1 Exposure by exposure type

Table 5.3 shows exposures split by exposure class and exposure type. As of year-end, 80% of the total credit risk exposure was calculated using the IRB approach. The main part of the exposure is within the IRB corporate and IRB retail portfolios.

During 2014, total exposures increased primarily due to higher exposures in the retail and institution portfolios. The average quarterly exposure split by exposure type and exposure class is shown in Table 5.4.

Overall exposure, REA and capital requirements split by exposure type are shown in Table 5.10, where the exposure for derivatives stems from counterparty credit risk.

Table 5.2 Capital requirements for credit risk, split by exposure class, 31 December 2014

EURm	Original exposure	Exposure	Average risk weight	REA	Capital requirement
IRB exposure classes					
Institution	49,980	47,494	20%	9,572	766
Corporate	218,191	171,841	42%	71,792	5,743
– of which Advanced	165,639	128,621	39%	50,600	
Retail	175,146	167,440	13%	21,940	1,755
– of which secured by immovable property	132,884	131,285	8%	10,981	879
– of which other retail	38,910	33,231	30%	9,897	792
– of which SME	3,352	2,924	36%	1,061	85
Other non-credit obligation assets	2,706	2,343	100%	2,333	187
Total IRB approach	446,023	389,119	27%	105,637	8,451
Standardised exposure classes					
Central government and central banks	63,072	66,668	1%	717	57
Regional governments and local authorities	10,894	8,884	2%	211	17
Institution	4,159	4,159	8%	338	27
Corporate	6,224	1,922	100%	1,921	154
Retail	7,276	4,296	74%	3,181	255
Exposures secured by real estate	4,747	4,718	59%	2,778	222
Other ¹⁾	7,935	7,803	54%	4,246	340
Total standardised approach	104,306	98,451	14%	13,392	1,071
Total	550,329	487,570	24%	119,029	9,522

1) Includes exposure classes public sector entities, multilateral development banks, international organisations, exposures in default, exposures associated with particularly high risk, covered bonds, securitisation positions, institutions and corporates with a short-term credit assessment, collective investment undertakings (CIU), equity and other items.

Table 5.3 Exposure split by exposure class and exposure type, 31 December 2014

EURm	On-balance sheet items	Off-balance sheet items	Securities financing	Derivatives	Total
IRB exposure classes					
Institution	37,846	967	1,557	7,124	47,494
Corporate	124,997	31,174	751	14,920	171,841
– of which Advanced	102,624	25,996			128,621
Retail	155,880	11,419	0	140	167,440
– of which secured by immovable property	127,711	3,574			131,285
– of which other retail	25,912	7,208		112	33,231
– of which SME	2,257	638	0	29	2,924
Other non-credit obligation assets	2,337	7			2,343
Total IRB approach	321,059	43,567	2,308	22,185	389,119
Standardised exposure classes					
Central governments and central banks	61,695	924	930	3,119	66,668
Regional governments and local authorities	6,087	577	2	2,219	8,884
Institution	94	1	1,194	2,870	4,159
Corporate	1,687	77		157	1,922
Retail	4,194	101		1	4,296
Exposures secured by real estate	2,976	1,742			4,718
Other ¹⁾	6,928	200	233	441	7,803
Total standardised approach	83,661	3,623	2,359	8,808	98,451
Total exposure	404,720	47,191	4,667	30,992	487,570

1) Includes exposure classes public sector entities, multilateral development banks, international organisations, exposures in default, exposures associated with particularly high risk, covered bonds, securitisation positions, institutions and corporates with a short-term credit assessment, collective investment undertakings (CIU), equity and other items.

Table 5.4 Average quarterly exposure during 2014, split by exposure class and exposure type

EURm	On-balance sheet items	Off-balance sheet items	Securities financing	Derivatives	Total
IRB exposure classes					
Institution	36,227	1,111	1,495	7,031	45,864
Corporate	125,627	34,259	838	11,991	172,714
– of which Advanced	103,472	28,967			132,439
Retail	153,813	10,504	1	123	164,441
– of which secured by immovable property	131,070	4,027			135,098
– of which other retail	20,748	5,833	1	92	26,674
– of which SME	1,994	643	0	31	2,669
Other non-credit obligation assets	1,856	5		2	1,863
Total IRB approach	317,523	45,879	2,334	19,146	384,882
Standardised exposure classes					
Central governments and central banks	62,046	1,072	628	2,619	66,364
Regional governments and local authorities	6,555	622	13	1,904	9,095
Institution	707	7	1,177	2,385	4,276
Corporate	2,146	189		45	2,380
Retail	6,730	102		1	6,834
Exposures secured by real estates	4,329	1,307			5,636
Other ¹⁾	6,746	221	142	726	7,834
Total standardised approach	89,260	3,520	1,959	7,680	102,419
Total exposure	406,783	49,399	4,293	26,826	487,302

1) Includes exposure classes public sector entities, multilateral development banks, international organisations, exposures in default, exposures associated with particularly high risk, covered bonds, securitisation positions, institutions and corporates with a short-term credit assessment, collective investment undertakings (CIU), equity and other items.

Table 5.5 Exposure split by exposure class and geography, 31 December 2014

EURm	Nordic countries	– of which Denmark	– of which Finland	– of which Norway	– of which Sweden	Baltic countries	Russia	USA	Other ²⁾	Total	Total 2013
IRB exposure classes											
Institution	30,608	16,522	432	4,624	9,030	175	376	1,406	14,930	47,494	41,093
Corporate	140,323	44,359	26,123	30,933	38,908	4,658	4,470	1,969	20,421	171,841	166,887
– of which Advanced	116,593	38,129	21,855	25,765	30,844	266	1,313	385	10,064		
Retail	167,414	52,151	38,981	27,092	49,190	1	0	2	23	167,440	159,470
– of which secured by immovable property	131,285	39,710	26,996	22,562	42,016	0	0	0	0	131,285	132,174
– of which other retail	33,231	12,039	10,290	4,181	6,720	0	0	0	0	33,231	24,327
– of which SME	2,898	401	1,695	349	453	1	0	2	23	2,924	2,969
Other non-credit obligation assets	2,321	414	298	323	1,285	17	0	1	5	2,343	1,533
Total IRB approach	340,665	113,447	65,835	62,971	98,412	4,850	4,847	3,377	35,379	389,119	
Total IRB approach 2013	325,212	109,766	54,046	65,983	95,417	5,080	5,140	3,090	30,460		368,983
Standardised exposure classes											
Central governments and central banks	27,513	9,626	11,923	2,267	3,697	1,100	475	28,514	9,066	66,668	74,881
Regional governments and local authorities	8,690	1,668	1,337	955	4,730	155	23	0	17	8,884	9,168
Institution	3,060	34	2,421	70	535	4	28	0	1,066	4,159	1,740
Corporate	264	98	142	8	16	843	35	2	779	1,922	3,768
Retail	3,182	872	1	894	1,415	981	27	2	105	4,296	7,933
Exposures secured by real estate	0	0	0	0	0	2,255	315	0	2,148	4,718	7,347
Other ¹⁾	3,962	645	1,104	656	1,558	236	111	144	3,350	7,803	5,735
Total standardised approach	46,672	12,943	16,928	4,849	11,952	5,573	1,014	28,661	16,531	98,451	
Total standardised approach 2013	59,032	17,580	17,830	5,103	18,518	4,694	990	30,931	14,925		110,572
Total exposure	387,337	126,390	82,763	67,820	110,364	10,423	5,861	32,039	51,910	487,570	
Total exposure 2013	384,244	127,346	71,876	71,086	113,936	9,773	6,130	34,022	45,385		479,555

Due to new requirements the method for extracting geographical distribution has changed. Figures for 2013 are presented based on the new method to allow for comparability.

1) Includes exposure classes public sector entities, multilateral development banks, international organisations, exposures in default, exposures associated with particularly high risk, covered bonds, securitisation positions, institutions and corporates with a short-term credit assessment, collective investment undertakings (CIU), equity and other items.

5.5.2 Exposure by geography

Nordea is geographically well diversified and as of year-end, no market accounts for more than 26% of the total exposure, as can be seen in Table 5.5. The exposures in Sweden and Finland represent 23% and 17% of the total exposure in Nordea respectively, while Denmark accounts for 26% and Norway 14%.

5.5.3 Exposure by industry

Table 5.6 shows exposure split by industry group and by the main exposure classes. The industry breakdown mainly follows the Global Industries Classification Standard (GICS) and is based on NACE codes (statistical classification codes of economic activities in the European community).

The corporate portfolio is well diversified between industry groups. The real estate management and investment industry group is the largest, which together with other financial institutions account for 36% of total IRB corporate exposure. Counterparties classified as Other, public and

organisations compose the main part of the retail exposure class. When comparing total figures in 2014 to 2013, the largest relative decrease can be seen in the industry group Telecommunication equipment. The largest relative increase is in Other financial institutions.

Table 5.7 shows the IRB corporate exposure split by industry and geography. The table illustrates Nordea's diversification of the corporate portfolio and its cross-border business model.

5.5.3.1 Specification of exposure against central government and central banks

Nordea applies the standardised approach for exposure to central governments and central banks. In this approach, the rating from an eligible rating agency is converted to a credit quality step (mapping as defined by the financial supervisory authorities). Each credit quality step corresponds to a fixed risk weight. Nordea uses Standard & Poor's as eligible rating agency. Table 5.8 presents the central government and central bank exposure distributed by credit qual-

Table 5.6 Exposure split by industry group and by main exposure class, 31 December 2014

EURm	IRB approach				Standardised approach				Total	Total 2013 ²⁾
	Institution	Corporate	– of which SME	Retail	Other non-credit obligation assets	Central governments and central banks	Regional government and local authorities	Other ¹⁾		
Construction and engineering		4,664	2,247	255				260	5,179	5,805
Consumer durables (cars, appliances, etc.)		4,638	807	43				31	4,713	4,803
Consumer staples (food, agriculture, etc.)		14,017	9,203	171				259	14,447	13,735
Energy (oil, gas, etc.)		4,742	421	1				2	4,745	4,879
Health care and pharmaceuticals		2,031	572	72				39	2,141	2,070
Industrial capital goods		4,213	788	21				16	4,250	5,242
Industrial commercial services		13,759	4,382	337				317	14,413	15,389
IT software, hardware and services		2,132	646	58				36	2,226	1,881
Media and leisure		2,630	1,130	169				62	2,861	3,188
Metals and mining materials		1,070	298	9				20	1,098	1,038
Other financial institutions	47,494	15,665	3,069	56				5,167	68,383	54,964
Other materials (chemical, building materials, etc.)		7,932	1,532	70				178	8,180	8,491
Other, public and organisations		6,238	1,249	164,467	2,343	66,668	8,884	15,616	264,218	268,296
Paper and forest materials		2,639	474	41				38	2,718	3,056
Real estate management and investment		45,996	25,178	1,088				64	47,149	44,526
Retail trade		12,645	3,923	390				343	13,378	12,657
Shipping and offshore		12,151	1,482	6				4	12,160	12,790
Telecommunication equipment		259	15	1				1	261	468
Telecommunication operators		1,734	68	4				4	1,742	2,019
Transportation		4,025	1,186	160				382	4,566	5,121
Utilities (distribution and production)		8,663	1,588	19				60	8,742	9,137
Total exposure	47,494	171,841	60,258	167,440	2,343	66,668	8,884	22,898	487,570	
Total exposure 2013	41,093	166,887	53,846	159,470	1,533	74,881	9,168	26,523		479,555

1) Includes exposure classes public sector entities, multilateral development banks, international organisations, exposures in default, exposures associated with particularly high risk, covered bonds, securitisation positions, institutions and corporates with a short-term credit assessment, collective investment undertakings (CIU), equity and other items.

2) Distribution across industry groups restated.

ity step. Out of the total exposure of EUR 66.7bn, 98% of the exposure was towards central governments and central banks within the highest credit quality step.

5.5.4 Specification of off-balance sheet exposure

The distribution of off-balance sheet exposure is specified in Table 5.9. The total off-balance sheet volume decreased by 2.5% in 2014.

Off-balance exposures are converted to on-balance equivalents through the application of a CCF between 0% and 100%. The main categories within off-balance sheet items are guarantees, credit commitments and unutilised lines of credit. Credit commitments and unutilised lines

of credit constitute external commitments that have not been utilised. The CCF is set depending on the calculation approach, product type and whether the commitments are unconditionally cancellable or not.

For the IRB retail portfolio and the AIRB corporate portfolio an internal CCF model is used. The model is built on a product based approach. Product type is one variable which determines the CCF an off-balance sheet exposure will receive. For retail IRB there are two additional explanatory variables: customer type and country in which the reporting is made. The CCF is based on internal estimates of the expected total exposure at the time of default. The average CCF is presented in Table 5.11.

Table 5.7 IRB corporate exposure split by industry group and geography, 31 December 2014

EURm	Denmark	Finland	Norway	Sweden	Baltic countries	Russia	USA	Other	Total	Total 2013
Construction and engineering	705	721	2,009	818	264	6	1	140	4,664	4,967
Consumer durables (cars, appliances, etc.)	424	594	1,845	1,118	63	31	277	286	4,638	4,672
Consumer staples (food, agriculture, etc.)	9,163	1,319	2,006	719	257	23	112	418	14,017	13,223
Energy (oil, gas, etc.)	147	92	598	257	318	1,149	106	2,075	4,742	4,847
Health care and pharmaceuticals	521	344	144	787	10	0	63	162	2,031	1,621
Industrial capital goods	794	1,163	321	1,048	11	3	352	521	4,213	5,170
Industrial commercial services	4,902	1,701	1,835	3,614	178	40	73	1,417	13,759	14,034
IT software, hardware and services	351	345	334	425	3	11	221	441	2,132	1,761
Media and leisure	583	503	579	781	44	1	0	138	2,630	2,594
Metals and mining materials	33	193	171	250	6	232	2	184	1,070	997
Other financial institutions	4,645	2,042	1,860	4,099	10	0	336	2,673	15,665	12,046
Other materials (chemical, building materials, etc.)	752	1,779	617	1,759	168	2,139	91	627	7,932	8,028
Other, public and organisations	1,832	982	650	1,171	277	12	5	1,310	6,238	7,121
Paper and forest materials	277	1,120	46	696	39	112	68	283	2,639	2,955
Real estate management and investment	10,265	7,311	10,202	15,829	1,338	197	31	823	45,996	43,043
Retail trade	4,181	2,434	1,668	2,625	501	39	125	1,072	12,645	11,600
Shipping and offshore	1,195	260	2,988	288	76	0	38	7,306	12,151	12,628
Telecommunication equipment	5	81	0	151	0	0	0	21	259	466
Telecommunication operators	408	153	383	474	1	56	67	191	1,734	1,863
Transportation	727	813	918	770	447	210	1	138	4,025	4,313
Utilities (distribution and production)	2,449	2,172	1,756	1,231	647	209	1	197	8,663	8,938
Total exposure	44,359	26,123	30,933	38,908	4,658	4,470	1,969	20,421	171,841	
Total exposure 2013	37,803	24,735	33,564	37,946	4,349	5,002	2,067	21,422		166,887

Due to new requirements the method for extracting geographical distribution has changed. Figures for 2013 are presented based on the new method to allow for comparability between the years.

Table 5.8 Exposure to central governments and central banks, distributed by credit quality step

EURm	Standard & Poor's rating	Risk weight	31 December 2014 Exposure	31 December 2013 Exposure
1	AAA to AA-	0%	65,472	74,331
2	A+ to A-	20%	525	149
3	BBB+ to BBB-	50%	478	345
4 to 6 or blank	BB+ and below, or without rating	100-250%	193	56
Total			66,668	74,881

5.5.5 Counterparty credit risk

Counterparty credit risk is the risk that Nordea's counterparty in an FX, interest, equity, credit or commodity derivative contract defaults prior to maturity of the contract and that Nordea at that time has a claim on the counterparty. Counterparty credit risk can also exist in repurchasing agreements and other securities financing transactions.

Derivative contracts are financial instruments, such as futures, forwards, swaps or options that derive their value from underlying interest rates, currencies, equities, credit spreads or commodity prices. The derivative contracts are

often traded over the counter (OTC), which means the terms connected to the specific contract are individually defined and agreed on with the counterparty.

Nordea enters into derivative contracts based on customer demand, both directly and in order to hedge positions that arise through such activities. Interest rate swaps and other derivatives are used in hedging activities of asset and liability mismatches in the balance sheet. Furthermore, Nordea may, within clearly defined restrictions, use derivatives to take open positions in its operations. Derivatives affect counterparty risk and market risk as well as operational risk.

Table 5.9 Original off-balance sheet exposure split by exposure class

EURm	31 December 2014	31 December 2013
IRB exposure classes		
Institution	3,383	3,410
Corporate	73,163	77,026
– of which Advanced	58,905	
Retail	18,011	13,583
– of which secured by immovable property	5,173	5,028
– of which other retail	11,825	7,491
– of which SME	1,013	1,064
Other non-credit obligation assets	17	14
Total IRB approach	94,573	94,032
Standardised exposure classes		
Central government and central banks	1,089	1,282
Regional governments and local authorities	4,436	4,909
Institution	0	96
Corporate	3,694	5,635
Retail	2,904	5,425
Exposures secured by real estate	1,746	88
Other	251	2
Total standardised approach	14,120	17,437
Total	108,693	111,469

Counterparty credit risk is subject to credit limits like other credit exposure and is treated accordingly.

5.5.5.1 Pillar I method for counterparty credit risk

Nordea has approval from the FSAs in Sweden and Finland to use the internal model method (IMM) for calculating the regulatory counterparty credit risk exposure in accordance with the credit risk framework in the CRR. The method is used for FX and interest rate products which constitute the predominant share of the counterparty credit risk exposures. IMM implies that the exposure amount is calculated as a factor 1.4 times the effective expected positive exposure calculated one year ahead in time. At the end of 2014, the IMM part of the derivative exposure was EUR 26.0bn

The expected exposure profile is calculated for IMM approved trades by simulating a large set of future scenarios for the underlying price factors and then revaluating the trade in each scenario at different time horizons.

In these calculations, netting is done of the exposure on contracts within the same legally enforceable netting agreement. Moreover, automatic identification procedures are in place to take account for specific wrong-way risk (SWWR) (i.e. situations where the future exposure to a specific counterparty is positively correlated with the counterparty's probability of default due to the nature of the transactions with the counterparty). As per regulations and internal policy, SWWR contracts are moved to separate netting sets and are calculated gross. Furthermore, exposures against internal credit limits are subject to a multiplier and more

Table 5.10 Exposure, REA and capital requirements for credit risk, split by exposure type, 31 December 2014

EURm	On-balance sheet items ¹⁾	Off-balance sheet items	Derivatives	Total	Total 2013
Original exposure	410,423	108,693	31,213	550,329	546,135
EAD	409,387	47,191	30,992	487,570	479,555
REA	91,504	17,449	10,076	119,029	129,705
Capital requirements	7,320	1,396	806	9,522	10,376
Average risk weight	22%	37%	33%	24%	27%

1) Includes securities financing.

Table 5.11 Average credit conversion factor and off-balance sheet exposure split by IRB exposure class, 31 December 2014

EURm	Exposure after substitution effects ¹⁾	Exposure	CCF	CCF 2013
Institution	3,246	967	30%	37%
Corporate	72,341	31,174	43%	44%
– of which Advanced	58,077	25,996	45%	
Retail	17,959	11,419	64%	66%
– of which secured by immovable property	5,173	3,574	69%	65%
– of which other retail	11,777	7,208	61%	67%
– of which SME	1,010	638	63%	65%

1) Exposure after substitution effects is the original exposure after taking credit risk mitigation techniques, such as guarantees and credit derivatives, into account.

conservative assumptions in the calculating model.

For the remaining part, Nordea uses the CEM method for derivative exposures, which is calculated using a standardised method for the sum of current exposure (replacement cost) and potential future exposure. The potential future exposure is an estimate reflecting possible changes in the future market value of the individual contract during the remaining life of the contract and is measured as the notional principal amount multiplied by an add-on factor. The size of the add-on factor, stipulated by the FSA, depends on the contract's underlying asset and time to maturity. At the end of 2014, the CEM part of the derivative exposure was EUR 5.0bn.

Table 5.12 shows exposures as well as REA, split by exposure class. The increase in exposure during 2014 was for the most part driven by the decreasing interest rates and FX derivatives impacted by the strengthened USD, especially in combination with a weakening NOK. Furthermore, due to the CRD IV changes, the CCP exposures are now included for 2014 compared to 2013. The REA increase of the counterparty credit risk follows the exposure increase. In addition, for the large and unregulated financial entities, the higher asset correlation factor has also contributed to the increase of the REA.

At the end of the year the current exposure net (after close-out netting and collateral reduction) was EUR 15.5bn. Table 5.13 presents the counterparty credit risk for different types of counterparties.

Nordea continues to clear interest rate derivatives and repos with central counterparties, mainly via LCH Clearent and Eurex. This serves to reduce both the current exposure and the potential future exposure.

5.5.5.2 Counterparty credit risk for internal credit limit purposes

Counterparty credit risk for internal credit limit purposes is for the main part of Nordea's OTC derivatives exposure calculated using a simulation model which is based on the

IMM. Model parameters are based on data from a specific three-year period, including a one-year period identified to have the most significant increase in credit spreads in recent times. Thereby general wrong-way risk is taken into account in counterparty credit risk management. In addition, the exposures included in IMM are subject to daily and periodic stress tests with the aim to identify adverse scenarios affecting exposures on counterparty, industry and country level. Identified cases of GWWR are reported to senior management.

On traded OTC contracts, Nordea performs fair value adjustments, which are adjustments to the counterparty credit risk exposure made by including an estimate of the cost of hedging the specific counterparty credit risk. This cost of hedging is either based directly on market prices or on a theoretical calculation based on the credit rating of the counterparty.

The IMM is also used for internal capital purposes (EC

5.5.5.3 Regulatory development

Nordea proactively upgrades its counterparty credit risk framework in order to be compliant with upcoming regulatory requirements. In January 2014 Nordea implemented the credit value adjustment (CVA) risk charge requirement and the stressed calibration for the IMM model also for the regulatory CCR exposures. At the end of 2014, the total REA from CVA risk charge was around EUR 2.3bn. The CVA risk charge is based on the IMM exposure amounts which are used in an Advanced CVA risk charge calculation and the CEM exposure amounts which are used in a standard CVA calculation.

5.5.5.4 Mitigation of counterparty credit risk exposure

To reduce exposure towards single counterparties, risk mitigation techniques are used. The most common is the use of closeout netting agreements, which allows Nordea to net positive and negative replacement values of contracts

Table 5.12 Counterparty credit risk exposures and REA split by exposure class

EURm	31 December 2014		31 December 2013	
	Exposure	REA	Exposure	REA
IRB exposure classes				
Institution	8,681	2,777	6,882	1,804
Corporate	15,671	6,992	8,960	4,232
Retail	140	41	95	37
Total IRB approach	24,493	9,810	15,938	6,073
Standardised exposure classes				
Central government and central banks	4,049	98	1,987	88
Other	7,118	627	2,429	150
– of which cleared through CCPs	4,064	299		
Total standardised approach	11,167	725	4,416	238
Total	35,659	10,535	20,354	6,312

Exposures include derivatives as well as securities financing transactions. Previous years figures have been adjusted to include securities financing transactions.

Table 5.13 Counterparty credit risk exposures, split by type of counterparty

EURm	31 December 2014		31 December 2013	
	Current exposure net	Exposure	Current exposure net	Exposure
To central banks and credit institutions	1,645	9,351	1,215	5,939
– of which credit institutions	1,275	8,197	1,048	5,658
– of which central banks	370	1,154	167	281
To the public	13,807	26,308	7,860	14,415
– of which corporate	13,339	25,470	7,692	13,833
Central counterparties	1,363	4,295	1,197	0
Construction and engineering	181	267	84	129
Consumer durables (cars, appliances, etc.)	376	585	67	141
Consumer staples (food, agriculture, etc.)	480	690	259	390
Energy (oil, gas, etc.)	32	492	11	29
Health care and pharmaceuticals	190	294	109	191
Industrial capital goods	312	562	70	148
Industrial commercial services, etc.	548	861	679	1,359
IT software, hardware and services	51	79	11	20
Media and leisure	186	284	75	137
Metals and mining materials	30	44	9	18
Other financial institutions	1,621	5,002	1,090	3,314
Other materials (chemical, building materials, etc.)	194	301	59	107
Other, public and organisations	2,224	3,687	1,232	3,390
Paper and forest materials	163	242	99	180
Real estate management and investment	3,033	4,183	1,419	2,150
Retail trade	261	408	189	304
Shipping and offshore	676	946	187	357
Telecommunication equipment	75	110	2	6
Telecommunication operators	62	191	106	188
Transportation	416	659	263	506
Utilities (distribution and production)	863	1,288	474	767
– of which public sector	469	838	168	582
Total	15,452	35,659	9,075	20,354

under the agreement in the event of default of the counterparty. In addition, Nordea also mitigates the exposure towards large banks, hedge funds and institutional counterparties by an increasing use of financial collateral agreements, where collateral on daily basis is placed or received to cover the current exposure. The collateral is largely cash (EUR, USD, DKK, SEK and NOK), as well as government bonds and to a lesser extent mortgage bonds are accepted.

Figure 5.2 shows derivative exposures mitigated through closeout netting and collateral agreements.

At the end of the year, Nordea had 1,045 derivative financial collateral agreements. The effects of closeout netting and collateral agreements (including CCPs) are considerable, as the current exposure (gross) was reduced by 94% (93%) by the use of these risk mitigation techniques.

Nordea's financial collateral agreements do not normally

contain any trigger dependent features, e.g. rating triggers. For a few agreements the minimum exposure level for further posting of collateral will be lowered in case of downgrading. A downgrade of Nordea would not have a material impact on collateral postings. Separate credit guidelines are in place for handling financial collateral agreements.

Finally, Nordea also uses a risk mitigation technique based upon a condition in some of the long-term derivative contracts, which gives the option to terminate a contract at a specific time or upon the occurrence of specified credit-related events.

The ten largest counterparties, measured on current exposure net, account for around 9% (10%) of the total current exposure net, and consists of a mix of financial institutions, public and corporate counterparties, all with high credit quality.

Figure 5.2 Mitigation of derivative exposures, 31 December 2014

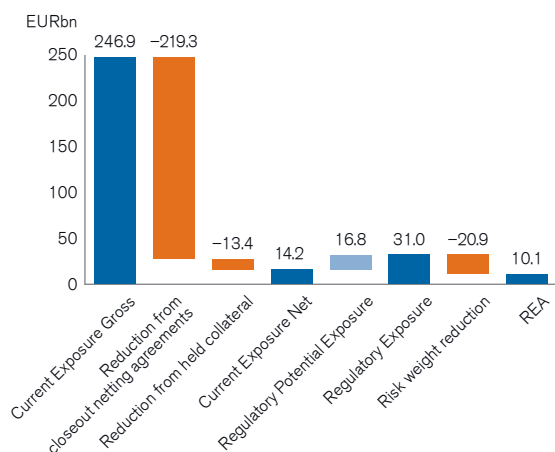


Table 5.14 Indicative mapping between internal ratings and the S&P rating scale

Rating	Standard & Poor's
6+, 6, 6-	AAA to AA-
5+, 5, 5-	A+ to A-
4+, 4, 4-	BBB+ to BBB-
3+, 3, 3-	BB+ to BB-
2+, 2, 2-, 1+	B+ to B-
1, 1-	CCC
0+, 0, 0-	D

5.5.5.5 Settlement risk

Settlement risk is a type of credit risk arising during the process of settling a contract or executing a payment.

The risk amount is the principal of the transaction, and a loss could occur if a counterparty was to default after Nordea has given irrevocable instructions for a transfer of a principal amount or security, but before receipt of the corresponding payment or security has been finally confirmed.

The settlement risk on individual counterparties is restricted by settlement risk limits. Each counterparty is assessed in the credit process and clearing agents, correspondent banks and custodians are selected with a view to minimise settlement risk.

Nordea is a shareholder of, and participant in, the global FX clearing system CLS (Continuous Linked Settlement), which eliminates the settlement risk of FX trades in those currencies and with those counterparties that are eligible for CLS clearing.

5.5.6 Other items

The main contributor to exposure class Other items in terms of capital requirement is Nordea's equity holdings in the banking book. If Nordea's holdings exceed 10 % of Nordea's

CET1 capital they shall be deducted from CET 1 and are hence not included in Other items. For more information about equity holdings in the banking book see section 6.7.

5.6 Rating and scoring

5.6.1 Rating and scoring definition

The common denominator of the rating and scoring is the aim to predict defaults and rank customers according to their default risk. Rating and scoring are used as integrated parts of the credit risk management and decision-making process, including (but not limited to):

- The credit approval process
- Calculation of REA
- Calculation of economic capital and expected loss (EL)
- Monitoring and reporting of credit risk
- Performance measurement using the economic profit (EP) framework
- Collective impairment assessment

While rating is used for corporate and institution exposure, scoring is used for retail exposure.

A rating is an estimate that reflects the risk of customer default. The rating scale in Nordea consists of 18 grades; from 6+ to 1- for non-defaulted customers and three grades from 0+ to 0- for defaulted customers. The default risk of each rating grade is quantified by a one-year PD. Rating grades 4- and better are comparable to investment grade as defined by rating agencies such as Moody's and Standard & Poor's (S&P). Rating grades 2+ and lower are considered as weak or critical, and require special attention.

The mapping of the internal ratings to S&P's rating scale, shown in Table 5.14, is based on a predefined set of criteria, such as comparison of default and risk definitions. The mapping does not intend to indicate a fixed relationship between Nordea's internal rating grades and S&P's rating grades since the rating approaches differ.

Ratings are assigned in conjunction with credit proposals and the annual review of the customers, and are approved by the credit committees. However, a customer is down-graded as soon as new information indicates a need for it. The consistency and transparency of the ratings are ensured by the use of rating models. A rating model is a set of specified and distinct rating criteria which, given a set of customer characteristics, produces a rating. It is based on the predictability of customers' future performance based on their characteristics. The set of characteristics used in a rating model is called input factors, which together with the criteria for assigning a customer to a rating model, i.e. the rating model segmentation, are the fundamental parts of a rating model. Calculated rating is always based on the complete set of input factors required by the rating model. Typical input factors are:

- Financial factors
- Customer factors
- Qualitative factors

If the calculated rating is assessed to fail to predict the risk of default of the customer, specified override arguments or

exception rules can be used within the model to adjust the calculated rating.

Nordea has different rating models for different customer types to better reflect the risk. Rating models have therefore been developed for several general as well as specific segments, such as real estate management, shipping, financial institutions and hedge funds. There are also risk rating frameworks for countries and project finance. Different methods ranging from statistical to purely expert-based, depending on the segment in question, have been used when developing the rating models. The models are largely based on an overall framework, in which financial factors are combined with qualitative factors as well as customer factors.

Models used in the household segment and in the retail SME segment are based on scoring, which is a statistical technique used to predict the probability of customer default. The models are based on internal data and take into account customer characteristics as well as behavioural information of the customer. The models are used to support both the credit approval process, e.g. automatic approvals or decision support, and the risk management process, e.g. "early warning" for high risk customers and monitoring of portfolio risk levels. As a supplement to the scoring models, credit bureau information is used in the credit process. The risk grade scale used for scored customers in the retail portfolio in order to represent the scores, consists of 18 grades; A+ to F- for non-defaulted customers and three grades from 0+ to 0- for defaulted customers.

5.6.1.1 Validation of scoring and rating models

Nordea has established an internal validation process in accordance with the CRR requirements with the aim to ensure and improve the performance of the models, procedures and systems and to ensure the accuracy of the PD estimates.

The rating and scoring models are validated annually and the validation includes both a quantitative and a qualitative validation. The quantitative validation includes statistical tests of the models' discriminatory power, i.e. the models' ability to distinguish default risk on a relative basis, and cardinal accuracy, i.e. the ability to predict default levels.

5.6.2 Point-in-time vs. through-the-cycle

A point-in-time (PIT) rating system uses all currently available obligor-specific and aggregate information to assign obligors to risk buckets. All obligors within a risk grade share roughly the same unstressed PD, and an obligor's rating is expected to change rapidly as its economic prospects change. A through-the-cycle (TTC) rating system uses static and dynamic obligor characteristics but tends not to adjust ratings in response to changes in macroeconomic conditions. The distribution of ratings across obligors will not change significantly over the business cycle, and an obligor's rating is expected to change only when its own dynamic characteristics change.

The rating models Nordea uses for exposure classes corporate and institution exhibits characteristics of both TTC and PIT rating philosophies. For the retail portfolio, Nordea

currently employs a set of scoring models which are close to PIT.

5.6.3 Rating and risk grade distribution

5.6.3.1 Rating grade distribution of the IRB institution portfolio

Figure 5.3 shows the rating grade distribution of the IRB institution portfolio. At the end of 2014, approximately 99% (99%) of the institution exposure was found in the rating grades 4- and higher.

As shown in Table 5.15 the average PD in the IRB institution portfolio is on the same lever as last year, 0.10%.

5.6.3.2 Rating grade distribution of the IRB corporate portfolio

Figure 5.4 and Table 5.16 show the rating grade distribution of the IRB corporate portfolio. At the end of 2014, approximately 84% (82%) of the IRB corporate exposure was found in the rating grades 4- and above.

Average PD decreased from 0.59% to 0.57% mainly as a result of portfolio composition changes and favourable rating migration. The average PD for the IRB corporate portfolio, distributed by industry is shown in Figure 5.5.

5.6.3.3 Risk grade distribution of the IRB retail portfolio

Figure 5.6 shows the risk grade distribution of the IRB retail portfolio. At the end of the year, approximately 91% (92%) of the retail exposure was found in the risk grades C- and above. For retail mortgage and other retail the corresponding share is 95% (94%) and 76% (86%) respectively and for SME 57% (61%).

The average PD increased from 0.67% to 0.85%. The main driver for this increase is the new Finnish scorecards in subgroup Finland. Tables 5.17 and 5.18 show the IRB retail exposure distributed by risk grade. Table 5.19 shows on-balance, off-balance, EAD and average risk weights for exposures where IRB models are used.

Table 5.20 shows PD and LGD of IRB exposure classes distributed on geographical dimension.

5.6.4 Rating and scoring migration

The rating and risk grade distribution changes mainly due to three factors:

- Changes in rating/risk grade for existing customers (pure migration).
- Different rating/risk grade distribution of new customers and customers leaving Nordea, compared to the rating/risk grade distribution of existing customers during the comparison period.
- Increased or decreased exposure per rating/risk grade to existing customers.

Rating migration is affected by macroeconomic development, industry sector developments, changes in business opportunities and changes to customers' financial situation and other company-specific factors. Risk grade migration is among other things affected by macroeconomic development and the customers' repayment capacity.

Figures 5.7 to 5.9 show the rating/risk grade migration

Table 5.15 Exposure towards IRB institution, distributed by rating grade

EURm Rating grade	31 December 2014			31 December 2013		
	PD scale	Exposure	Average risk weight	PD scale	Exposure	Average risk weight
6+	0.03%	5,568	7%	0.03%	4,705	6%
6	0.03%	2,238	11%	0.03%	3,917	7%
6-	0.05%	7,840	14%	0.05%	12,092	8%
5+	0.07%	19,171	16%	0.07%	12,805	13%
5	0.10%	3,135	25%	0.10%	2,705	20%
5-	0.16%	7,636	33%	0.16%	2,638	21%
4+	0.25%	939	47%	0.24%	857	50%
4	0.35%	367	73%	0.35%	682	61%
4-	0.55%	322	94%	0.53%	280	71%
3+	0.81%	95	101%	0.81%	56	90%
3	1.25%	38	115%	1.19%	24	102%
3-	2.31%	32	137%	2.06%	54	122%
2+	6.40%	14	183%	4.35%	11	141%
2	7.06%	5	181%	6.32%	43	172%
2-	9.86%	15	204%	9.86%	9	195%
1+	14.79%	2	240%	14.79%	14	123%
1	20.71%	0	288%	20.71%	1	254%
1-	26.93%	0	263%	26.93%	8	263%
	0.10%¹⁾	47,420	20%	0.10%¹⁾	40,900	14%

1) Exposure-weighted PD.

Table 5.16 Exposure towards IRB corporate, distributed by rating grade

EURm Rating grade	31 December 2014				31 December 2013			
	PD scale	Exposure	– of which AIRB	Average risk weight	PD scale	Exposure	– of which AIRB	Average risk weight
6+	0.03%	6,114	4,924	11%	0.03%	4,286		14%
6	0.03%	5,120	3,184	11%	0.03%	2,968		14%
6-	0.05%	6,414	3,738	15%	0.05%	5,166		18%
5+	0.07%	10,334	6,713	20%	0.07%	9,080		23%
5	0.10%	15,371	11,668	22%	0.10%	17,142		29%
5-	0.16%	19,167	13,839	29%	0.16%	17,484		37%
4+	0.25%	24,396	16,952	37%	0.24%	22,120		45%
4	0.35%	28,761	22,670	43%	0.35%	27,798		55%
4-	0.55%	23,318	18,272	52%	0.53%	23,534		65%
3+	0.81%	12,039	9,681	59%	0.81%	13,203		78%
3	1.25%	6,213	4,969	65%	1.19%	7,337		85%
3-	2.31%	4,137	3,588	67%	2.06%	4,266		96%
2+	6.40%	2,500	2,061	111%	4.35%	2,651		126%
2	7.06%	863	730	102%	6.32%	1,064		139%
2-	9.86%	270	200	101%	9.86%	276		138%
1+	14.79%	209	156	121%	14.79%	277		184%
1	20.71%	165	155	137%	20.71%	149		194%
1-	26.93%	44	23	169%	26.93%	166		241%
	0.57%¹⁾	165,437	123,524	39%	0.59%¹⁾	158,964		52%

1) Exposure-weighted PD.

for institution, corporate and retail customers during 2014, based on existing customers at the years' ending 2013 and 2014. Migration is shown both in terms of number of customers and exposure. The REA changes due to rating/risk grade migration, reflecting the impact of pro-cyclicality in the Pillar I capital requirement calculations of the IRB approaches. Out of the total exposure in the institution portfolio approximately 15% (11%) migrated up or down during the year, corresponding to approximately 25% (20%) of the number of counterparts.

In the corporate portfolio approximately 40% (41%) migrated either up or down with respect to exposure and 49% (50%) in terms of number of customers.

Approximately 55% (55%) of the retail portfolio exposure migrated up or down, corresponding to approximately 58% (58%) of customers.

On an overall level, migration had a positive impact on credit risk REA and reduced credit risk REA by approximately 2.0%. This calculation does not take into account the changes in exposure distribution nor rating distribution of lost and new customers or customers who defaulted during the year.

5.7 Collateral

Nordea has permission to use defined credit risk mitigation (CRM) tools for AIRB and RIRB that fulfils the minimum requirements both at the time of application as well as on an ongoing basis. Currently Nordea uses CRM techniques related to real estate, vessels, financial collaterals, cash collaterals and floating charges. Additional use of collaterals within these approaches for capital adequacy purposes must be notified or applied for. There is a strong relationship between data/parameters used in calculating the capital requirements and the data used for credit risk management. The parameters used for calculation of own funds combined with certain qualitative aspects reflect the level of risk assessed by Nordea. For the Corporate and Retail exposures Nordea uses own estimates of LGD in line with the CRR as well as the related requirements for collateral management, especially valuation principles of collaterals and legal certainty. In Nordea, collateral management is governed through the Collateral Valuation Guideline owned by Group Credit.

5.7.1 Loss given default

Table 5.21 shows the exposure secured by eligible collateral, guarantees and credit derivatives, split by exposure class. At the end of the year, approximately 41% (43%) of the total exposure was secured by eligible collateral. The corresponding figure for the IRB portfolio was 50% (54%). The relative share of collateralised exposure remains stable.

Under the FIRB approach, LGD estimates are predefined by legislation. For instance, exposure fully secured by real estate collateral is assigned an LGD of 35%. Exposure fully secured by other physical collateral is assigned an LGD of 40% and the LGD value for unsecured senior exposure is 45%. The LGD values for the retail portfolio and the corporate portfolio under AIRB approach are based on an internal model and divided into pools of collateral based on historical loss data.

Figure 5.3 Exposure distributed by rating grade, IRB institutions

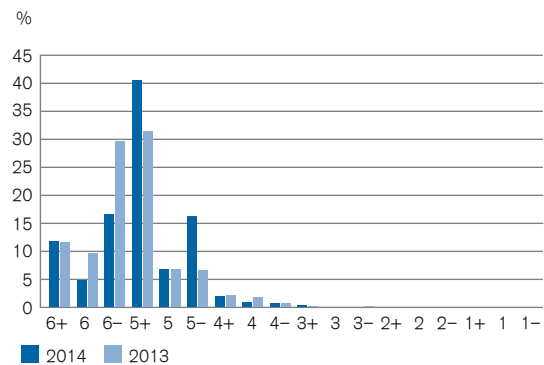


Figure 5.4 Exposure distributed by rating grade, IRB corporate

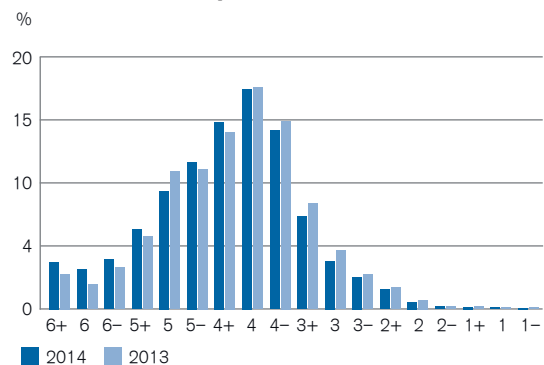


Figure 5.5 Average PD per industry, IRB corporate

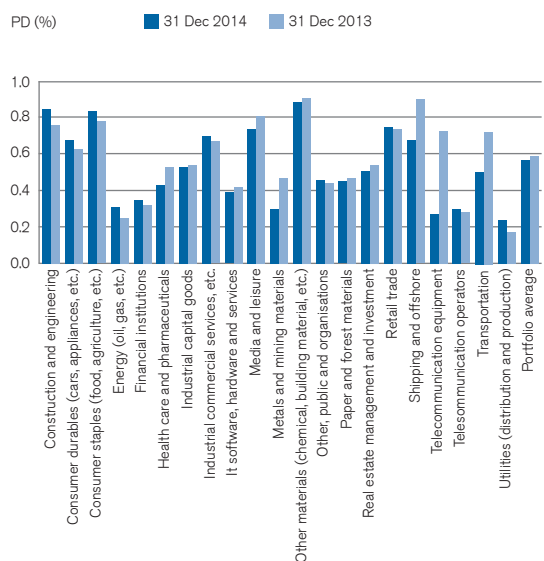


Table 5.17 Exposure towards IRB retail, distributed by risk grade

EURm Risk grade	31 December 2014			31 December 2013		
	PD scale	Exposure	Average risk weight	PD scale	Exposure	Average risk weight
A+	0.08%	61,017	3%	0.08%	67,939	3%
A	0.11%	18,419	5%	0.11%	19,306	4%
A-	0.16%	16,489	6%	0.16%	12,122	6%
B+	0.22%	14,307	8%	0.22%	10,879	8%
B	0.31%	12,267	10%	0.31%	9,738	10%
B-	0.43%	10,345	13%	0.43%	9,764	13%
C+	0.60%	6,947	16%	0.60%	5,853	16%
C	0.84%	5,607	21%	0.84%	4,744	20%
C-	1.17%	4,647	24%	1.17%	4,479	25%
D+	1.64%	3,008	29%	1.64%	2,709	30%
D	2.30%	2,295	35%	2.30%	2,099	35%
D-	3.20%	2,021	37%	3.20%	1,316	41%
E+	4.47%	1,828	45%	4.47%	1,591	45%
E	6.30%	2,240	49%	6.30%	2,235	54%
E-	8.79%	523	42%	8.79%	434	59%
F+	12.28%	395	46%	12.28%	330	61%
F	17.19%	397	54%	17.19%	206	70%
F-	24.04%	2,090	68%	24.04%	1,165	84%
	0.85%¹⁾	164,842	11%	0.67%¹⁾	156,908	10%

1) Exposure-weighted PD.

Table 5.18 Exposure towards IRB retail sub-exposure classes, distributed by risk grade

EURm Risk grade	31 December 2014				31 December 2013			
	PD scale	Secured by immovable property	Other retail	SME	PD scale	Secured by immovable property	Other retail	SME
A+	0.08%	54,668	6,332	17	0.08%	61,746	5,868	324
A	0.11%	15,543	2,767	109	0.11%	16,664	2,596	46
A-	0.16%	13,505	2,812	172	0.16%	10,042	2,038	42
B+	0.22%	11,385	2,798	123	0.22%	8,733	2,104	42
B	0.31%	9,387	2,786	93	0.31%	7,551	2,087	100
B-	0.43%	7,614	2,601	130	0.43%	7,412	2,182	170
C+	0.60%	4,939	1,787	221	0.60%	4,330	1,321	202
C	0.84%	3,696	1,572	339	0.84%	3,488	1,040	216
C-	1.17%	3,120	1,161	367	1.17%	3,056	865	558
D+	1.64%	1,840	891	276	1.64%	1,780	649	279
D	2.30%	1,305	756	235	2.30%	1,367	520	211
D-	3.20%	606	1,230	185	3.20%	871	301	144
E+	4.47%	616	1,063	150	4.47%	1,012	442	137
E	6.30%	940	1,184	116	6.30%	1,375	749	110
E-	8.79%	58	391	74	8.79%	224	112	97
F+	12.28%	42	303	50	12.28%	227	70	33
F	17.19%	46	325	27	17.19%	144	46	16
F-	24.04%	559	1,445	86	24.04%	686	433	46
		129,869	32,204	2,769		130,711	23,423	2,774

Table 5.19 On-balance, off-balance, EAD and average risk weights for exposures where IRB models are used, 31 December 2014

EURm	On-balance exposure	Off-balance exposure	Exposure ¹⁾	– of which off-balance	Exposure-weighted average risk weight (%)
Corporate, foundation IRB:	22,623	14,258	43,221	5,177	49.0%
– of which rating grades 6	2,125	963	5,802	412	17.8%
– of which rating grades 5	5,904	4,926	12,652	1,787	31.9%
– of which rating grades 4	10,327	6,332	18,580	2,419	58.0%
– of which rating grades 3	2,709	1,282	4,151	370	87.8%
– of which rating grades 2	470	225	643	32	151.1%
– of which rating grades 1	43	57	86	26	204.6%
– of which unrated	453	300	483	90	115.6%
– of which defaulted	593	173	824	41	
Corporate, advanced IRB:	106,734	58,905	128,621	25,996	39.3%
– of which rating grades 6	10,760	5,160	11,846	2,399	9.9%
– of which rating grades 5	22,711	21,196	32,221	9,664	21.9%
– of which rating grades 4	48,656	24,038	57,894	10,563	39.5%
– of which rating grades 3	16,289	6,229	18,238	2,635	56.4%
– of which rating grades 2	2,833	1,008	2,990	404	98.5%
– of which rating grades 1	458	59	333	21	113.8%
– of which unrated	1,001	667	1,196	309	69.0%
– of which defaulted	4,027	548	3,901	1	129.7%
Institutions, foundation IRB:	37,916	3,383	47,494	967	20.2%
– of which rating grades 6	12,910	933	15,647	458	11.1%
– of which rating grades 5	24,306	786	29,942	275	21.6%
– of which rating grades 4	510	1,198	1,628	139	62.4%
– of which rating grades 3	111	194	166	46	111.2%
– of which rating grades 2	51	150	34	23	191.9%
– of which rating grades 1	0	10	3	3	247.4%
– of which unrated	28	112	74	24	127.8%
– of which defaulted			0		
Retail, of which secured by immovable property:	128,767	5,358	132,453	3,686	8.5%
– of which scoring grades A	81,047	4,300	83,992	2,945	3.3%
– of which scoring grades B	28,092	697	28,625	533	7.5%
– of which scoring grades C	12,027	230	12,168	140	15.2%
– of which scoring grades D	3,887	84	3,936	48	28.7%
– of which scoring grades E	1,618	38	1,633	15	57.9%
– of which scoring grades F	654	4	656	2	88.7%
– of which not scored	36	2	37	1	28.5%
– of which defaulted	1,405	3	1,407	2	125.2%
Retail, of which other retail:	28,228	12,653	34,987	7,733	30.6%
– of which scoring grades A	7,987	6,890	11,934	4,143	8.9%
– of which scoring grades B	6,745	2,807	8,294	1,783	19.4%
– of which scoring grades C	4,304	1,502	5,033	962	31.7%
– of which scoring grades D	3,024	807	3,389	497	38.5%
– of which scoring grades E	2,849	305	2,958	178	40.9%
– of which scoring grades F	2,237	134	2,226	80	55.6%
– of which not scored	62	84	89	26	44.1%
– of which defaulted	1,021	123	1,064	64	250.1%
Other non credit-obligation assets:	2,689	17	2,343	7	99.6%

Nordea does not have the following IRB exposure classes: equity exposures, items representing securitisation positions, central governments and central banks, qualifying revolving retail.

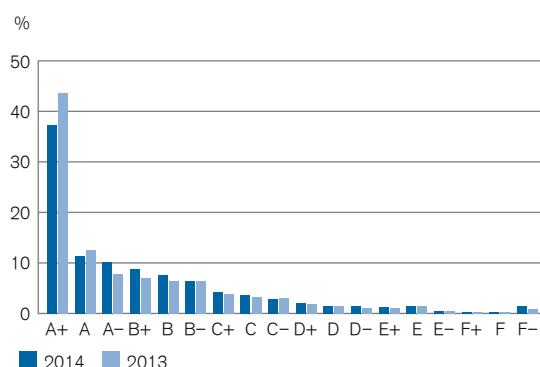
1) Includes EAD for on-balance, off-balance, derivatives and securities financing.

Table 5.20 Exposure weighted average PD and LGD, IRB exposure classes (excl. defaulted exposures), 31 December 2014

%	Denmark		Finland		Norway		Sweden		Baltic countries ¹⁾		Russia		USA		Other	
	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD	PD	LGD
Institution	0.09	13.4	0.12	25.7	0.04	15.1	0.06	19.4	0.34	40.5	0.35	45.0	0.09	44.9	0.14	42.9
Corporate	0.75	29.4	0.74	29.4	0.52	30.4	0.46	30.4	0.50	41.2	0.24	41.1	0.39	42.2	0.54	37.4
– of which AIRB	0.79	26.9	0.73	26.8	0.55	27.6	0.48	26.8	0.42	30.3	0.26	32.4	0.62	32.0	0.55	31.4
Retail	0.93	19.5	1.58	14.8	0.57	21.3	0.36	14.1	4.04	34.7	4.65	37.0	2.16	32.3	5.25	34.6
– of which secured by immovable property	0.75	14.0	0.35	11.0	0.48	19.3	0.22	10.9								
– of which other retail	1.49	37.8	4.64	22.7	0.91	30.5	1.07	33.8								
– of which SME	3.03	24.1	2.82	26.5	2.67	38.8	2.46	24.3	4.04	34.7	4.65	37.0	2.16	32.3	5.25	34.6
Other non-credit obligation assets	2.34	44.4	2.10	42.1	1.86	40.1	2.48	47.6	2.50	45.0	2.50	36.6	2.50	45.0	2.50	45.0
Total exposure-weighted IRB	0.74	22.4	1.24	20.7	0.51	25.4	0.40	21.5	0.50	41.2	0.25	41.4	0.27	43.4	0.37	39.8

1) Baltic countries include Estonia, Latvia and Lithuania.

Figure 5.6 Exposure distributed by risk grade, IRB retail



Average LGD in IRB exposure class corporate decreased to 32% (41%) while the average LGD in institutions and retail increased slightly to 25% (23%) and 17% (16%) respectively.

The decrease in average LGD in IRB exposure class corporate was due AIRB approach approval. Average LGD in the retail portfolio increased mainly as a result of the LGD floor of 20% set on residential real estate exposures in Norway and the inclusion of retail exposures in Nordea Finance Finland. The increase in average LGD in IRB institutions was due to changes in the portfolio product composition.

5.7.1.1 Guarantees and credit derivatives

The guarantees used as credit risk mitigation are to a large extent issued by central and regional governments in the Nordic countries. Banks and insurance companies are also important guarantors of credit risk.

Only eligible providers of guarantees and credit derivatives can be recognised in the standardised and IRB approaches for credit risk. All central governments, regional governments and institutions are eligible as well as some

multinational development banks and international organisations. Corporate guarantees that have a credit assessment by an ECAI, or cases where institutions calculate REA and expected loss amount under the IRB approach and are internally rated by the institutions, are eligible.

Central governments and municipalities guarantee approximately 53% of the total guaranteed exposure. Exposure guaranteed by these guarantors has an average risk weight of 0%. 2% of total guaranteed exposure is guaranteed by IRB institutions. The remainder is guaranteed by IRB corporate guarantors.

Credit derivatives are only used as credit risk protection to a very limited extent since the credit portfolio is considered to be well diversified.

5.7.1.2 Collateral distribution

Table 5.22 presents the distribution of collateral used in the capital adequacy calculation process. The table shows residential real estate to constitute a major share of eligible collateral items in relative terms. The other physical collateral category saw the largest relative increase during the year. Commercial real estate and receivables decreased in relative terms while financial collateral remained stable. Real estate is commonly used as collateral for credit risk mitigation purposes. There is no concentration of real estate collateral to any particular region within the Nordic and Baltic countries. Other physical collateral consists mainly of ships.

5.7.1.3 Valuation principles of collateral

A conservative approach with long-term market values taking volatility into account is used as valuation principle for collateral when defining the maximum collateral ratio.

Valuation and hence eligibility of collaterals is based on the following principles:

- Market value is assessed; markets must be liquid, public prices must be available and the collateral is expected to be liquidated within a reasonable time frame.
- A reduction of the collateral value is to be considered if

Figure 5.7a Institution re-rated exposure at default (%)

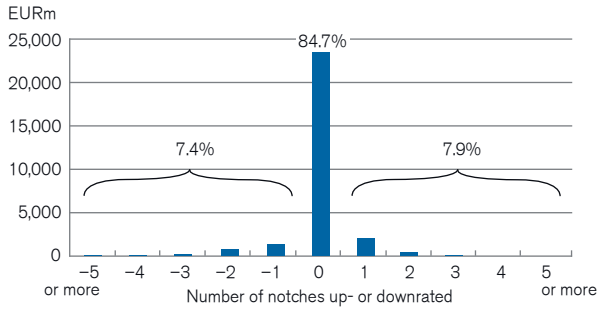


Figure 5.7b Institution re-rated number of customers (%)

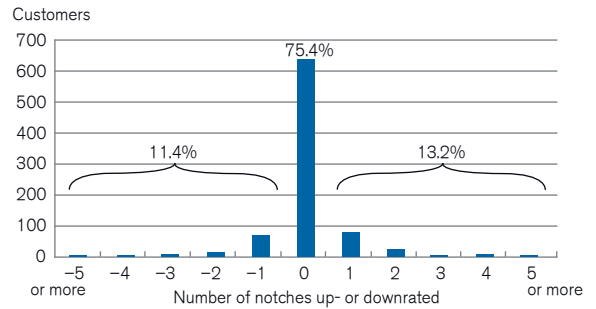


Figure 5.8a Corporate re-rated exposure at default (%)

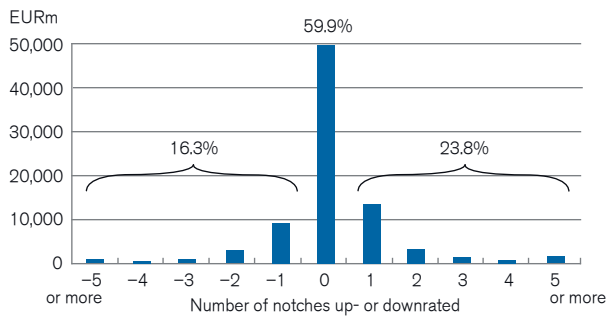


Figure 5.8b Corporate re-rated number of customers (%)

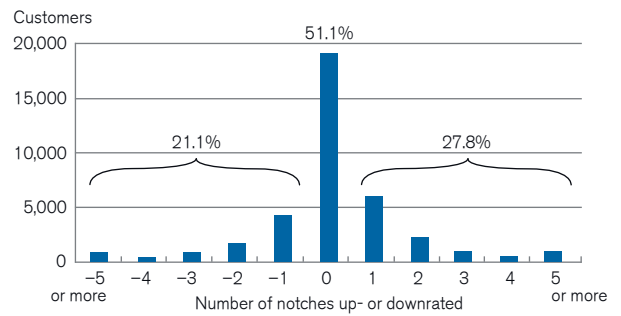


Figure 5.9a Retail re-scored exposure at default (%)

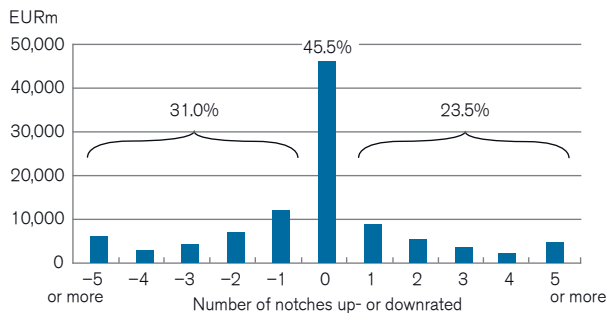


Figure 5.9b Retail re-scored number of customers (%)

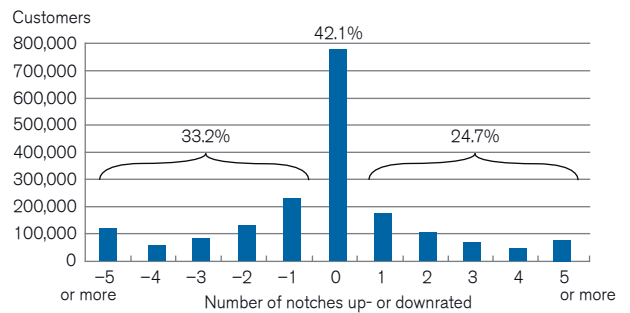


Table 5.21 Exposure secured by collateral, guarantees and credit derivatives, split by exposure class, 31 December 2014

EURm	Original exposure	Exposure	– of which secured by guarantees and credit derivatives	– of which secured by collateral	Average weighted LGD	Average weighted LGD 2013
IRB exposure classes						
Institution	49,980	47,494	524	543	25.4%	22.7%
Corporate	218,191	171,841	12,050	62,919	31.5%	41.3%
– of which Advanced	165,639	128,621	11,401	54,511	27.4%	
Retail	175,146	167,440	1,653	131,702	17.2%	16.1%
– of which secured by immovable property	132,884	131,285	2	128,876	13.3%	12.3%
– of which other retail	38,910	33,231	1,416	1,349	31.4%	35.9%
– of which SME	3,352	2,924	236	1,477	27.6%	24.1%
Other non-credit obligation assets	2,706	2,343	14	43	n.a.	n.a.
Total IRB approach	446,023	389,119	14,241	195,206		
Total IRB approach 2013	426,456	368,983	11,909	197,463		
Standardised exposure classes						
Central government and central banks	63,072	66,668	501	0		
Regional governments and local authorities	10,894	8,884				
Institution	4,159	4,159		0		
Corporate	6,224	1,922		717		
Retail	7,276	4,296	52	130		
Exposures secured by real estate	4,747	4,718		4,718		
Other ¹⁾	7,935	7,803	3	0		
Total standardised approach	104,306	98,451	555	5,566		
Total standardised approach 2013	119,679	110,572	543	8,177		

1) Includes exposure classes public sector entities, multilateral development banks, international organisations, exposures in default, exposures associated with particularly high risk, covered bonds, securitisation positions, institutions and corporates with a short-term credit assessment, collective investment undertakings (CIU), equity and other items.

the type, location or character (such as deterioration and obsolescence) of the asset indicates uncertainty regarding the sustainability of the market value. Assessment of the collateral value also reflects the previously experienced volatility of market.

- Forced sale principle: assessment of market value or the collateral value must reflect that realisation of collaterals in a distressed situation is initiated by Nordea.
- No collateral value is to be assigned if a pledge is not legally enforceable and/or if the underlying asset is not adequately insured against damage.

A common way to analyse the value of the collateral is to measure the loan-to-value (LTV) ratio, i.e. the credit extended divided by the market value of the collateral pledged. In Table 5.23, retail mortgage exposures are distributed by LTV range up to the top LTV bucket based on the LTV ratio. In 2014, the retail mortgage exposure remained stable including the LTV bucket representing LTV below 50%.

5.7.2 Maturity

IRB exposure split by maturity, defined as remaining maturity, is presented in Table 5.24.

The distribution of exposures in the corporate and institutions portfolio remained stable with respect to maturity.

Table 5.22 Distribution of collateral, IRB portfolios

	31 Dec 2014	31 Dec 2013
Financial collateral	1.4%	1.4%
Receivables	0.9%	1.1%
Residential real estate	71.9%	72.5%
Commercial real estate	17.5%	18.5%
Other physical collateral	8.3%	6.4%
Total	100.0%	100.0%

Table 5.23 Loan-to-value distribution, retail mortgage exposure, on-balance

EURbn	31 Dec 2014		31 Dec 2013	
	Exposure	%	Exposure	%
<50%	98.2	76.9	99.2	77.0
50–70%	20.8	16.3	20.9	16.2
70–80%	5.4	4.3	5.5	4.3
80–90%	2.1	1.6	2.1	1.7
>90%	1.1	0.9	1.2	0.9
Total	127.7	100	128.9	100

The exposure is continuously distributed by LTV buckets. For example, an exposure of 540 with an LTV of 54% is distributed 500 to the <50% bucket and 40 to the 50–70% bucket.

The retail portfolio underwent a change to the methodology used during 2014, which impacted the distribution of exposures, with the main part of the exposures now having a remaining maturity over 5 years.

5.8 Estimation and validation of credit risk parameters

Nordea has established an internal process, aimed at ensuring and improving the performance of models, procedures and systems and at ensuring the accuracy of the parameters.

The PD, LGD and CCF parameters are validated annually. The validation includes both a quantitative and a qualitative validation. The quantitative validation includes statistical tests to ensure that the estimates are still valid when new data is added.

The estimation process is linked to the validation since the estimates used for the PD scale are based on Nordea's actual default frequency (ADF).

The PD estimation, and hence the validation, takes into account that the rating models used for corporate and institution customers have a higher degree of TTC than the scoring models used for retail customers. The PD estimates are based on the long-term default experience and adjusted by adding a margin of conservatism between the average PD and the average ADF. This margin consists of two parts, one that compensates for statistical uncertainty whereas the other constitutes a business cycle adjustment of the rating and scoring models.

Table 5.25 shows the average PD based on Nordea's current PD scale and weighted with the number of customers for each exposure class. Table 5.25 also shows the actual default frequency (ADF), calculated as the customer-weighted default frequency for the corporate and institution portfolio and the retail portfolio respectively. The PDs and ADFs are presented by the same segmentation used in Nordea's internal validation.

Table 5.26 shows estimated and realised LGD, CCF and EAD for IRB exposures. Realised LGD and CCF values for the retail portfolio are based on a minimum of 6 default years (8 years for Finland and 6 years for the other Scandinavian countries) and a 3 years' work-out period. For the corporate portfolio the averages are based on at least 7 years of data. The estimated values include a downturn add-on and a safety margin, hence the difference between estimated and realised values.

In Table 5.27, the EL is compared to the actual gross and net losses. EL has been calculated using the definition

in the economic capital framework, in which defaulted exposure receive 0% EL and the internal LGD and CCF estimates for corporate and institution exposure have been used. The figures represent full-year outcomes.

The EL ratio used for calculating risk-adjusted profit was on average 12.1bps of EAD, excluding sovereign and institution exposure classes. This value is calculated as the average of quarterly results for the year. EL in relation to total lending for the same portfolios, as of end 2014, was 12.3bps.

Note that the EL will vary over time due to changes in the rating and the collateral coverage distributions, but the average long-term net loss is expected to be in line with the average EL.

The Parameters, Scoring and Rating Models Validation Subcommittee, a sub-committee to ALCO and the Risk Committees in Nordea, is responsible for the approval of the annual validation of the parameters, as well as approval of proposals concerning the validation framework.

5.8.1 Factors impacting validation of credit risk parameters

Nordea's credit risk parameters are based on internal data and are validated once a year. As mentioned above, the estimation process is linked to the validation since the estimates used for the PD scale are based on Nordea's actual default frequency (ADF). Regarding LGD, the estimates are based on historical loss experiences. LGD measures the net present value of the nominal loss including costs caused by a customer's default.

CCF is a statistical multiplier used to predict the Exposure at Default (EAD) by predicting the drawdown of the off-balance exposure. Nordea's CCF estimates are based on internal data regarding drawings prior to default. The estimate applied during 2014 has been derived from the estimation and validation process taking data up to 2012 into account. Adding data from 2012 into the estimation and validation resulted in increased estimates in respect of PD for corporate exposure classes. The PD used for retail exposure classes was left unchanged.

5.9 Loan portfolio, impaired loans and loan losses

5.9.1 Loan portfolio

Nordea's lending to the public increased by 2% to EUR 348bn during 2014 (EUR 342bn). The overall increase is attributable to an increase of 3% in the corporate portfolio,

Table 5.24 IRB exposure split by residual maturity, 31 december 2014

EURm	< 1 year	1 – 3 years	3 – 5 years	> 5 years	Total exposure
Institution	11,120	12,175	10,150	14,049	47,494
Corporate	42,443	30,686	31,815	66,896	171,841
– of which Advanced	37,016	25,151	25,070	41,383	128,621
Retail	3,686	4,224	5,908	153,621	167,440
– of which secured by immovable property	1,839	2,516	3,496	123,434	131,285
– of which other retail	1,486	1,347	1,979	28,418	33,231
– of which SME	361	361	433	1,769	2,924

Table 5.25 Obligor-weighted PD vs. ADF, 2014

	Average PD	Average ADF
Retail	1.46%	1.20%
– of which SME	3.30%	2.72%
Corporate & Institution	1.44%	1.32%

Table 5.26 Exposure-weighted estimated vs. realised LGD, EAD & CCF, corporate and retail IRB portfolios, 2014

	Estimated	Realised
Retail LGD	17.2% ¹⁾	9.6%
Retail CCF	56.0%	51.6%
Retail EAD ²⁾ , EURm	388	346
Corporate LGD	31.6% ¹⁾	13.9%
Corporate CCF	44.9%	40.0%
Corporate EAD ²⁾ , EURm	482	436

1) Defaulted customers not included.

2) Only for exposures with an off-balance part.

and an increase of 1% in the household portfolio. Lending to the public sector was stable. The portion of lending to corporate customers increased to 54% (53%) while the share of total lending to household customers decreased to 44% (45%) and public sector was stable at 2% (2%).

Lending to the public distributed by borrower domicile is geographically well diversified with no market accounting for more than 30% of lending. Danish customers have the largest share of lending with 28% or EUR 99bn. Lending to Baltic customers constitutes 2.4% (2.5%) and the shipping industry 2.9% (3.0%) of lending to the public. Lending to companies owned by private equity funds constitutes less than 3% of lending, of which 99% are senior loans. For a further breakdown of the loan portfolio by geography refer to the Annual Report.

5.9.1.1 Corporate lending

Corporate lending increased by 3% to EUR 188bn (EUR 184bn). The sectors that increased the most in 2014 were reversed repurchase agreements, while energy and metals and mining materials decreased the most. In terms of concentration, the three largest industries account for approximately 20% (20%) of corporate lending. The Real estate industry remains the largest in the loan portfolio, with a total lending of EUR 42.2bn (EUR 42.5bn). The real estate portfolio, shown in Table 5.28, predominantly consists of relatively large and financially strong companies, with 84% (84%) of the lending in rating grades 4- and higher. There is a higher level of collateral coverage for the real estate portfolio than for other corporate customers. 34% or EUR 14.4bn of lending to the real estate industry is to companies located in Sweden and approximately 40% is to companies involved mainly in residential real estate.

Nordea's shipping portfolio, shown in Table 5.29, is well diversified by type of vessel, has a focus on large and financially robust industrial players and exhibits strong credit quality, with an average rating of 4. Nordea is a leading bank to the global shipping and offshore sector with strong brand recognition and a world leading loan syndication franchise. Reflecting Nordea's global customer strategy, there is an even distribution between Nordic and non-Nordic customers. The approach to the industry remains unchanged with conservative terms and a countercyclical lending policy.

Loans to shipping and offshore industry decreased slightly to EUR 10.0 (EUR 10.2bn) during the year. The distribution of loans to corporates by size of loans, shown in Table 5.30, shows a high degree of diversification. Approximately 73% (71%) of corporate lending represent loans up to EUR 50m per customer.

5.9.1.2 Lending to household customers

In 2014 lending to household customers increased by 1% to EUR 154bn (EUR 153bn). Mortgage loans increased to

Table 5.27 Expected loss vs. gross loss and net loss

EURm	Retail household		Corporate ¹⁾	Institution	Government	Total
	Mortgage	Other				
2014						
EL	-42	-130	-249	-10	-1	-431
Gross loss	-138	-329	-752	-69	0	-1,288
Net loss	-79	-115	-298	-42	0	-534
2013						
EL	-42	-120	-266	-10	-2	-439
Gross loss	-165	-294	-870	-84	0	-1,412
Net loss	-88	-126	-474	-73	0	-761
2012						
EL	-69	-119	-323	-21	-2	-533
Gross loss	-152	-381	-1,131	-13	0	-1,676
Net loss	-62	-191	-676	-4	0	-933

1) Includes retail SME.

EUR 126bn (125bn) and consumer loans was stable at EUR 28bn. The proportion of mortgage loans of total household loans was unchanged at 82%, of which the Nordic market accounted for 98%.

5.9.2 Impairment

5.9.2.1 Definition and methodology of impairment

Weak and impaired exposures are closely monitored and reviewed at least on a quarterly basis in terms of current performance, business outlook, future debt service capacity and the possible need for provisions. A need for provisioning is recognised if there is objective evidence, based on loss events and observable data, that a negative impact is likely on the customer's expected future cash flow to the

extent that full repayment is unlikely (collaterals taken into account). However, non-significant customers can be treated as groups with a reserve belonging to a group of individually identified customers. Exposures with provision are considered as impaired. The size of the provision is equal to the estimated loss, which is the difference between the book value of the outstanding exposure and the discounted value of the expected future cash flow, including the value of pledged collaterals. Impaired exposures can be either performing or non-performing. Exposures that are past due more than 90 days is automatically regarded as in default, and reported as non-performing and impaired or not impaired depending on the deemed loss potential.

Forbearance is negotiated terms or restructuring due to

Table 5.28 Loans to the real estate management industry, split by geography

EURbn	31 December 2014		31 December 2013	
	Loans	%	Loans	%
Denmark	8.7	20.5	8.1	18.9
Finland	7.8	18.5	7.8	18.4
Norway	9.1	21.6	9.5	22.2
Sweden	14.4	34.0	14.8	34.7
Baltic countries	1.3	3.1	1.4	3.3
Russia	0.7	1.6	0.6	1.5
Other	0.3	0.7	0.3	0.7
Total	42.2	100%	42.5	100%

Table 5.29 Loans to the shipping and offshore industry, split by segment

EURbn	31 December 2014		31 December 2013	
	Loans	%	Loans	%
Bulk carriers	1.5	14.7	1.1	11.0
Product tankers	0.8	8.4	0.9	8.6
Crude tankers	1.2	11.8	1.2	11.4
Chemical tankers	0.6	6.5	0.8	7.4
Gas tankers	1.2	11.9	1.3	12.3
Other shipping	2.0	19.7	2.4	23.2
Offshore and oil services	2.7	26.9	2.7	26.1
Total	10.0	100%	10.2	100%

Table 5.30 Loans to corporate customers, split by size of loan

Loan size, EURm	31 December 2014		31 December 2013	
	Loans, EURbn	%	Loans, EURbn	%
0–10	89.5	47.5	83.2	45.3
10–50	47.7	25.3	46.6	25.4
50–100	19.3	10.2	18.2	9.9
100–250	20.7	11.0	23.0	12.5
250–500	7.1	3.8	9.8	5.3
500–	4.1	2.2	2.9	1.6
Total	188.3	100%	183.6	100%

Figures for 2013 have been restated due to discontinuation of the Polish business.

borrowers' financial stress. The intention with granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in amortization profile, repayment schedule, customer margin as well as ease of financial covenants. Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are taken if necessary. Forborne customers without impairment charges are fully covered by either collateral and/or the net present value of future cash flows.

In addition to individual impairment testing, collective impairment testing is performed for groups of customers not identified individually as impaired. The purpose of collective loan loss reserves is to account for value reductions in the performing credit portfolio due to loss events that have occurred. Nordea's model for collective provisions uses a statistical model as a baseline for assessing the amount of provisions needed for the performing part of Nordea's portfolios. The Collective impairment model is based on migration of rated and scored customers in the credit portfolio. The assessment of collective impairment relates to both up- and downgrades of customers, as well as new customers entering and those leaving the portfolio. Moreover, customers going to and from default affect the calculation. The output of the model is complemented with an expert based analysis process to ensure adequate provisions. The model is executed quarterly and the output is a result of the portfolio changes that have occurred during the current quarter in addition to the collective provisions that are calculated prior to the current quarter. Collective impairment is assessed quarterly for each legal unit.

The rationale for this two-step procedure with both individual and collective assessment is to ensure that all incurred losses are accounted for up to and including each balance sheet day. Impairment losses recognised for a group of loans represent an interim step pending the identification of impairment losses for an individual customer.

5.9.2.2 Impaired loans In Table 5.31 – 5.34 impaired loans, loan losses and allowances are distributed and stated according to the International Financial Reporting Standard (IFRS) as in the Annual Report, which differs somewhat from the CRR (further explained in section 6.2).

Impaired loans gross decreased by 2% during the year to reach EUR 6,425m. This corresponds to 174bps (178bps) of total loans. 64% (60%) of impaired loans gross are performing and 36% (40%) are non-performing. The decrease in impaired loans was mainly related to the improved conditions in the shipping industry, which saw a decrease of EUR 341m, while the largest increases were seen in the consumer durables and paper and forest industries. Impaired loans gross in the household sector were stable.

Impaired loans net, after allowances for individually assessed impaired loans, decreased to EUR 4,096m (EUR 4,167m), corresponding to 111bps of total loans. Allowances for individually assessed loans decreased slightly to EUR 2,329m (EUR 2,397m), and allowances for collectively assessed loans was stable at EUR 420m (EUR 422m). The

ratio of individual allowances for impaired loans decreased to 36% (37%), while total allowances in relation to impaired loans was unchanged at 43% (43%). Provisions for off-balance sheet items increased to EUR 72m (EUR 61m).

Table 5.32 shows impaired loans split by geography and industry. A slightly positive development of the Danish economy is expected, although with geographical differences and variations between industries. The economy is still fragile and uncertainty is high, especially related to the agriculture industry. Private consumption and the housing market remain the key drivers for a sustainable and significant improvement and consumers have become more optimistic. The housing market has developed positively with prices increasing, although primarily in the larger cities.

The expected recovery of the Finnish economy depends on exports, which is not expected to recover until second half year 2015. Exports to Russia have decreased during the last months due to the economic sanctions and the weak Russian economy. However, household debt continues on moderate level and the quality of Nordea's retail and corporate portfolios is considered stable.

5.9.3 Loan losses

Tables 5.33 and 5.34 show the specification of loan losses according to the Annual Report, as well as the changes in the allowance accounts. Net loan losses decreased to EUR 534m in 2014 (EUR 735m), corresponding to a loan loss ratio of 15bps (21bps). The development of loan losses over time is shown in Figure 5.10.

EUR 364m (EUR 542m) of net loan losses related to corporate customers, EUR 194m (EUR 193m) related to household customers, while there were positive net loan losses of EUR 24m in credit institutions. Within corporates the main losses were related to the consumer staples industry, to financial companies, and in real estate management industry. The major share of loan losses in the household sector was in Denmark. Household loan losses in Norway, Sweden and Finland were at low levels.

Collective provisions were EUR 4m in 2014 compared to EUR 48m in 2013.

Table 5.35 shows loans past due 6 days or more that are not considered impaired, split by corporate and household customers. Past due is defined as a loan payment that has not been made as of its due date. Past due loans to corporate customers, not considered impaired, were at end of 2014 EUR 628m, down from EUR 1,209m one year ago, mainly due to improvements in Denmark, and past due loans for household customers decreased to EUR 1,258m (EUR 1,470m).

5.9.4 Transfer risk exposure

To recognise the risk related to lending to developing countries, Nordea carries transfer risk allowance and provisions for non-investment grade rated countries outside of the EU and Nordea's home markets (including Russia). The transfer risk exposure is primarily short-term and trade related. Transfer risk exposure is shown in Table 5.36.

Table 5.31 Loans, impaired loans, allowances and provisioning ratios, split by customer type, 31 December 2014

EURm	Loans after allowances 2013 ¹⁾	Loans after allowances 2014	Impaired loans before allowances	Impaired loans in % of loans	Allowances for collectively assessed loans	Individual allowances	Total provisioning ratio
To central banks and credit institutions	22,512	19,175	0	0.00	3	0	
– of which central banks	11,769	6,958		0.00			
– of which credit institutions	10,743	12,217	0	0.00	3	0	
To the public¹⁾	342,451	348,085	6,425	1.83	418	2,329	43%
– of which corporate	183,630	188,290	4,430	2.33	297	1,718	45%
Construction and engineering	4,333	4,653	201	4.23	17	71	44%
Consumer durables (cars, appliances, etc.)	3,008	2,792	194	6.75	4	78	42%
Consumer staples (food, agriculture, etc.)	12,333	12,235	861	6.87	60	237	35%
Energy (oil, gas, etc.)	4,516	3,534	2	0.05	3	2	
Financial institutions	12,384	13,085	284	2.14	0	179	63%
Health care and pharmaceuticals	1,496	1,621	32	1.95	0	8	28%
Industrial capital goods	2,073	2,163	109	4.91	16	47	58%
Industrial commercial services, etc.	12,685	12,291	411	3.29	18	170	46%
IT software, hardware and services	1,676	1,897	88	4.54	3	34	42%
Media and leisure	2,803	2,782	104	3.68	4	45	46%
Metals, and mining materials	1,554	879	66	7.16	4	32	54%
Other materials (chemical, building materials, etc.)	5,172	6,638	282	4.16	24	126	53%
Other, public and organisations	3,820	3,607	98	2.65	12	63	77%
Paper and forest materials	1,986	1,866	142	7.40	3	45	34%
Real estate management and investment	42,525	42,238	761	1.79	50	235	38%
Retail trade	10,181	10,256	448	4.29	14	167	41%
Reversed repurchase agreements to corporates	39,714	44,508		0.00			
Shipping and offshore	10,195	9,957	180	1.79	54	70	69%
Telecommunication equipment	55	37	3	7.39	0	1	49%
Telecommunication operators	1,082	1,248	88	6.63	1	82	94%
Transportation	4,444	3,981	69	1.73	5	22	39%
Utilities (distribution and production)	5,595	6,023	9	0.15	4	4	85%
– of which household	153,012	153,985	1,995	1.29	121	611	37%
Mortgage financing	125,027	125,931	1,000	0.79	42	122	16%
Consumer financing	27,985	28,054	995	3.48	79	488	57%
– of which public sector	5,809	5,810	0	0.00	0	0	
Total loans in the banking operations	364,963	367,260	6,425	1.74	420	2,329	43%
Loans in the life insurance operations							
Total loans including life insurance operations	364,963	367,260	6,425	1.74	420	2,329	43%

Provisions for off-balance sheet items for 2014 were EUR 8m for credit institutions and EUR 64m for lending to the public.

1) Excluding discontinued operations in Poland.

Table 5.32 Impaired loans gross and allowances split by geography and industry, 31 December 2014

EURm	Total 2013 ¹⁾	Total 2014	Denmark	Finland	Norway	Sweden	Baltic countries	Russia	Allowances	Total provisioning ratio
To the public										
– of which corporate	4,566	4,430	2,463	1,084	421	203	249	10	2,015	45%
Construction and engineering	219	201	129	49	13	8	1	0	89	44%
Consumer durables (cars, appliances, etc.)	79	194	92	37	48	7	1	10	82	42%
Consumer staples (food, agriculture, etc.)	814	861	809	45	5	2	0	0	297	35%
Energy (oil, gas, etc.)	2	2	0	2	0	0	0	0	5	
Financial institutions	271	284	229	49	5	0	0	0	179	63%
Health care and pharmaceuticals	30	32	20	10	1	1	0	0	9	28%
Industrial capital goods	73	109	6	88	1	15	0	0	63	58%
Industrial commercial services, etc.	432	411	175	143	53	39	0	0	187	46%
IT software, hardware and services	86	88	29	56	0	2	0	0	37	42%
Media and leisure	120	104	52	45	4	2	2	0	48	46%
Metals, and mining materials	77	66	2	33	31	0	0	0	35	54%
Other materials (chemical, building materials, etc.)	352	282	38	191	25	10	17	0	150	53%
Other, public and organisations	132	98	74	9	0	2	13	0	75	77%
Paper and forest materials	50	142	7	100	1	34	0	0	48	34%
Real estate management and investment	748	761	419	39	85	29	190	0	286	38%
Retail trade	401	448	254	140	6	29	19	0	181	41%
Reversed repurchase agreements to corporates										
Shipping and offshore	521	180	86	20	52	22	0	0	124	69%
Telecommunication equipment	4	3	0	3	0	0	0	0	1	50%
Telecommunication operators	80	88	1	2	86	0	0	0	83	94%
Transportation	65	69	34	24	4	1	6	0	27	39%
Utilities (distribution and production)	10	9	6	1	2	0	1	0	7	85%
– of which household	1,975	1,995	1,242	383	57	139	135	7	732	37%
Mortgage financing	946	1,000	616	168	36	32	108	7	164	16%
Consumer financing	1,028	995	626	214	21	107	27	0	568	57%
– of which public sector										
Total impaired loans	6,540	6,425	3,705	1,467	478	342	384	17		
Past due loans	2,679	1,886	506	503	615	112	145	5		
Allowances	2,792	2,747	1,395	635	337	169	179	23	2,747	
Total provisioning ratio	43%	43%	38%	43%	70%	49%	47%	134%		

1) Excluding discontinued operations in Poland.

Table 5.33 Reconciliation of allowance accounts for impaired loans

EURm	Specific credit risk adjustments		Total
	Individually assessed	Collectively assessed	
Opening balance, 1 Jan 2014	-2,397	-422	-2,819
Changes through the income statement	-412	-6	-418
– of which Provisions	-877	-121	-998
– of which Reversals	465	115	580
Allowances used to cover write-offs	452		452
Currency translation differences	29	8	36
Closing balance, 31 Dec 2014	-2,329	-420	-2,749

For loan losses directly recognised through the income statement (not affecting the allowance accounts), refer to the note "Net loan losses" in the Annual Report.

Table 5.34 Loan losses, split by customer type, 2014

EURm	New provisions and write-offs	Reversals and recoveries	Net loan losses	Loan loss ratio bps
To central banks and credit institutions	-3	27	24	
– of which central banks	0	0	0	
– of which credit institutions	-3	27	24	
To the public	-1,284	727	-558	16
– of which corporate	-818	454	-364	19
Construction and engineering	-44	26	-18	40
Consumer durables (cars, appliances, etc.)	-27	13	-14	49
Consumer staples (food, agriculture, etc.)	-116	38	-78	64
Energy (oil, gas, etc.)	-1	0	-1	3
Financial institutions	-75	11	-64	49
Health care and pharmaceuticals	-3	3	0	1
Industrial capital goods	-39	8	-30	141
Industrial commercial services, etc.	-71	44	-27	22
IT software, hardware and services	-10	5	-5	25
Media and leisure	-15	8	-7	26
Metals, and mining materials	-2	2	1	
Other materials (chemical, building materials, etc.)	-48	40	-8	11
Other, public and organisations	-41	39	-1	4
Paper and forest materials	-41	8	-33	179
Real estate management and investment	-120	58	-62	15
Retail trade	-82	55	-27	27
Reversed repurchase agreements to corporates	0	0	0	0
Shipping and offshore	-45	85	40	
Telecommunication equipment	0	1	1	
Telecommunication operators	-23	0	-23	182
Transportation	-13	7	-6	15
Utilities (distribution and production)	-3	2	-1	1
– of which household	-467	273	-194	13
Mortgage financing	-138	59	-79	6
Consumer financing	-329	214	-115	41
– of which public sector	0	0	0	
Total	-1,287	754	-534	15

Table 5.35 Past due loans, not impaired

EURm	31 December 2014		31 December 2013	
	Corporate customers	Household customers	Corporate customers	Household customers
6–30 days	375	838	675	922
31–60 days	125	222	317	305
61–90 days	70	99	66	123
>90 days	58	99	150	119
Total	628	1,258	1,209	1,470
Past due loans, not impaired, divided by loans to the public after allowances, %	0.33	0.82	0.66	0.96

Figure 5.10 Annualised net loan loss ratio

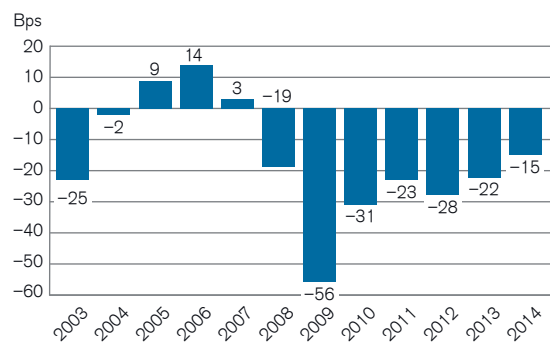


Table 5.36 Transfer risk exposure

EURm	31 Dec 2014	31 Dec 2013
Asia	240	331
Eastern Europe and CIS ¹⁾	4	10
Latin America	185	227
Middle Eas	239	180
Africa	24	26
Total	692	774

1) Commonwealth of Independent States

6. Market risk

The market risk taking activities of Nordea are primarily focused on the Nordic and European markets. The total consolidated market risk for Nordea, as measured by VaR, was EUR 62m on average in 2014, compared to EUR 74m in 2013. At the end of 2014, total VaR was EUR 43m. The total market risk, measured by VaR is primarily driven by interest rate risk.

6.1 Management, governance and measurement of market risk

Market risk is defined as the risk of value loss in Nordea's holdings and transactions as a result of changes in market rates and parameters that affect the market value (i.e. changes to interest rates, credit spreads, FX rates, equity prices, commodity prices and option volatilities).

Nordea Markets, Group Treasury and Group Asset and Liability Management (GA&LM) are the key contributors to market risk in Nordea. Nordea Markets is responsible for the customer-driven trading activities, Group Treasury is responsible for short-term funding activities and investments for Nordea's own account, and GA&LM is responsible for asset and liability management, liquidity portfolios and pledge/collateral account portfolios. For all other banking activities, market risks are managed by Group Treasury and GA&LM.

6.1.1 Management of market risk

Nordea derives part of its earnings by taking and managing market risks and the aim is thus not to hedge or mitigate market risk, but to adequately manage and control the market risk exposures in adherence with the market risk appetite of Nordea. To appropriately manage market risk in Nordea the following policies, processes and strategies are employed:

- There is a comprehensive policy framework, in which responsibilities and objectives are explicitly outlined and in which the risk appetite is clearly defined.
- There are clearly defined risk mandates, in terms of limits and restrictions on which instruments may be traded and by whom.
- There is a framework for approval of traded financial instruments and valuation methods that require an elaborate analysis and documentation of the instruments' features and risk factors.
- There is a proactive approach to information sharing between trading and risk control.

- There is a framework for timely reporting to senior management on market risk. The CRO receives reporting on the Nordea's consolidated market risk daily, whereas GEM, the Board of Directors and associated risk committees receive reports monthly.

6.1.1.1 Structural market risks

Structural FX risk arises from investments in subsidiaries and associated enterprises denominated in foreign currencies. Generally, Nordea hedges investments by matched funding, although exceptions may be made in markets where matched funding is impossible to obtain, or can be obtained only at an excessive cost.

Earnings and cost streams generated in foreign currencies or from foreign branches generate an FX exposure, which for the individual Nordea companies is handled in each company's FX position. Currency translation differences in the Nordea's equity is generally the difference of equity and goodwill in foreign currency less net investment hedges and tax.

In addition to the immediate change in market value of Nordea's assets and liabilities that could be caused by a change in financial market variables, a change in interest rates could also affect the net interest income over time. This is structural interest income risk (SIIR) which is discussed further in section 6.6.

6.1.1.2 Other market risks in Nordea

Market risk on Nordea's account also arises from the Nordea-sponsored defined benefit pension plans for employees (pension risk) and from the investment of policyholders' money with guaranteed minimum yields in Nordea Life & Pensions (NLP). The latter is described in chapter 10.

6.1.1.3 Market risk appetite

The market risk appetite in Nordea is expressed through risk appetite statements issued by the Board of Directors. The market risk appetite statements are defined in terms of market risk share of economic capital, maximum reported market risk loss per quarter and maximum economic market risk loss per quarter.

For more information on the risk appetite framework in Nordea see section 3.2.2.

6.1.2 Governance of market risk

Group Risk Management has the responsibility for the development and maintenance of the Group-wide market risk framework. The framework defines common management principles and policies for market risk management within Nordea. These principles and policies are approved by the Board of Directors and have been approved by the Boards of Directors of the separate legal entities. The same reporting and control processes are applied for market risk exposures in both the trading and banking books, on Group level as well as in the separate legal entities.

6.1.3 Measurement of market risk

As there is no single risk measure that captures all aspects of market risk, Nordea uses several risk measures including Value-at-Risk (VaR), stressed VaR, stress testing, scenario simulation and other non-statistical risk measures such as basis point values, net open FX positions and option key figures. In addition, simulation-based models are used to capture the default and migration risks from corporate debt, credit derivatives, and correlation products in the trading book. These models are the Incremental Risk Measure and the Comprehensive Risk Measure.

6.1.3.1 Value-at-Risk

Nordea calculates VaR using historical simulation. The current portfolio is revaluated using the daily changes in market prices and parameters observed during the last 500 trading days, thus generating a distribution of 499 returns based on empirical data. From this distribution, the expected shortfall method is used to calculate a VaR figure, meaning that the VaR figure is based on the average of the worst outcomes from the distribution. The one-day VaR figure is subsequently scaled to a 10-day figure. The 10-day VaR figure is used to limit and measure market risk both in the trading book and in the banking book.

Separate VaR figures are calculated for interest rate, credit spread, foreign exchange rate and equity risks. The total VaR includes all these risk categories and allows for diversification among them. The VaR figures include both linear positions and options. The model has been calibrated to generate a 99% VaR figure. This means that the 10-day VaR figure can be interpreted as the loss that will be exceeded in one of a hundred 10-day trading periods.

It is important to note that while every effort is made to make the VaR model as realistic as possible, all VaR models are based on assumptions and approximations that have significant effect on the risk figures produced. While historical simulation has the advantage of not being dependent on a specific assumption regarding the distribution of returns, it should be noted that the historical observations of the market variables that are used as input may not give an adequate description of the behaviour of these variables in the future. The choice of the time period used is also important. While using a longer time period may enhance the model's predictive properties and lead to reduced cyclicity, using a shorter time period increases the model's responsiveness to sudden changes in the volatility of financial markets. Nordea's choice to use the last 500 days of historical data has thus been made with the aim to strike a balance between the pros and cons of using longer or shorter time series in the calculation of VaR.

6.1.3.2 Stressed VaR

Stressed VaR is calculated using a similar methodology as used for the calculation of the ordinary VaR measure. However, whereas the ordinary VaR model is based on data from the last 500 days, stressed VaR is based on a specific 250 day period with considerable stress in financial markets. Since the relevant period with stressed markets will depend on the

positions currently held in the portfolio, the level of stressed VaR in relation to the ordinary VaR is monitored continuously. Further analysis may be conducted if deemed necessary, which may lead to a change of the period. The specific period to be used is at least evaluated once every year.

6.1.3.3 Incremental Risk Measure (IRM)

The IRM measures the risk of losses due to credit migration or default of issuers of tradable corporate debt or credit derivatives held in the trading book. Nordea's IRM model is based on Monte Carlo simulations and measures risk at a 99.9% probability level based on a one-year liquidity horizon.

6.1.3.4 Comprehensive Risk Measure (CRM)

The CRM measures the total risk related to positions in credit correlation products. This includes the risk of losses due to credit migration or default of issuers of tradable corporate debt and other risk factors specifically relevant for correlation products. Nordea's CRM model is also based on Monte Carlo simulations and measures risk at a 99.9% probability level based on a one-year liquidity horizon.

6.1.3.5 Stress testing

Stress tests are used to estimate the possible losses that may occur under extreme market conditions. The main types of stress tests include:

- Subjective stress tests, where the portfolios are exposed to scenarios for financial developments that are deemed particularly relevant at a particular time. The scenarios are inspired by the financial, macroeconomic or geopolitical situation, or the current composition of the portfolio.
- Sensitivity tests, where rates, spreads, prices, and/or volatilities are shifted markedly to emphasise exposure to situations where historical correlations fail to hold. Another sensitivity measure used is the potential loss stemming from a sudden default of an issuer of a bond or the underlying in a credit default swap.
- Reversed stress tests. These assess and try to identify the type of events that could lead to losses equal to or greater than a pre-defined level.

Subjective stress tests and sensitivity tests are conducted monthly for the consolidated risk across the banking book and trading book. Reversed stress tests are conducted monthly for the trading book.

While these stress tests measure the risk over a shorter time horizon, market risk is also a part of Nordea's comprehensive firm-wide ICAAP stress test, which measures the risk over a three-year horizon. For further information on group-wide stress tests, see chapter 11.

6.2 Consolidated market risk for Nordea

The consolidated market risk for Nordea presented in Table 6.1 includes both the trading book and the banking book. Total VaR was EUR 43m (EUR 148m) at the end of 2014. The decrease in total VaR over the year is mainly related to the decrease in interest rate VaR which is a reflection

of changed positions and a decreased interest rate level. Interest rate VaR was EUR 37m (EUR 153m), whereof half is driven by USD and EUR interest rate exposures. Commodity risk was at an insignificant level.

6.3 Market risk in the trading book

The market risk for the trading book is presented in Table 6.2. At the end of the year, total VaR was EUR 25m (EUR 36m). The decrease in total VaR over the year is mainly related to the decrease in interest rate VaR which is a reflection of changed positions and a decreased interest rate level. Interest rate VaR was EUR 20m (EUR 37m), with the largest part of the interest rate sensitivity stemming from interest rate positions in EUR, SEK and DKK.

6.4 Capital requirements for market risk in the trading book (Pillar I)

Market risk in the CRR context contains two categories:

general risk and specific risk. General risk is related to changes in overall market prices and specific risk is related to price changes for specific issuers. When calculating the capital requirements for market risk using the internal model approach, general risk is based on VaR with an additional capital charge for stressed VaR, whereas specific risk is based on equity VaR and credit spread VaR with an additional capital charge for incremental risk and comprehensive risk for interest rate risk-bearing positions.

Nordea uses the internal model approach to calculate the market risk capital requirements for the predominant part of the trading book. However, for specific interest rate risk relating mainly to mortgage bonds, equity risk relating to structured equity derivatives and fund-linked derivatives and for commodity risk, the market risk capital requirements are calculated using the standardised approach. The use of the internal model approach in Nordea's legal entities is shown in Table 6.3.

Table 6.1 Consolidated market risk, 31 December 2014

EURm	Measure	31 Dec 2014	2014 high	2014 low	2014 avg	31 Dec 2013
Total risk	VaR	43.0	131.9	31.1	62.4	148.0
– Interest rate risk	VaR	37.1	138.8	33.1	67.0	153.3
– Equity risk	VaR	10.1	11.2	3.2	6.2	5.6
– Credit spread risk	VaR	13.0	30.6	4.1	12.9	17.5
– Foreign exchange risk	VaR	6.8	22.9	3.4	13.5	7.4
Diversification effect		36%	51%	20%	38%	20%

Table 6.2 Market risk for the trading book, 31 December 2014

EURm	Measure	31 Dec 2014	2014 high	2014 low	2014 avg	31 Dec 2013
Total risk	VaR	25.4	33.6	13.6	22.1	36.3
– Interest rate risk	VaR	19.5	33.1	9.4	17.5	37.2
– Equity risk	VaR	7.2	10.2	2.6	5.5	5.8
– Credit spread risk	VaR	6.8	27.8	3.6	10.5	14.0
– Foreign exchange risk	VaR	3.0	20.8	2.3	11.2	4.7
Diversification effect		31%	69%	14%	51%	42%
Total stressed VaR	sVaR	40.8	154.4	23.9	68.3	76.8
Incremental Risk Charge		50.9	108.7	15.8	51.7	
Comprehensive Risk Charge		32.5	59.8	12.0	29.9	

Table 6.3 Methods for calculating capital requirements, 31 December 2014

	Interest rate risk		Equity risk		FX risk
	General	Specific	General	Specific	
Nordea Group	IA	IA ¹⁾	IA	IA ¹⁾	IA
Nordea Bank Danmark	IA	SA	IA	SA	IA
Nordea Bank Finland	IA	IA ¹⁾	IA	IA ¹⁾	IA
Nordea Bank Norge	IA	SA	IA	SA	IA

IA: internal model approach, SA: standardised approach.

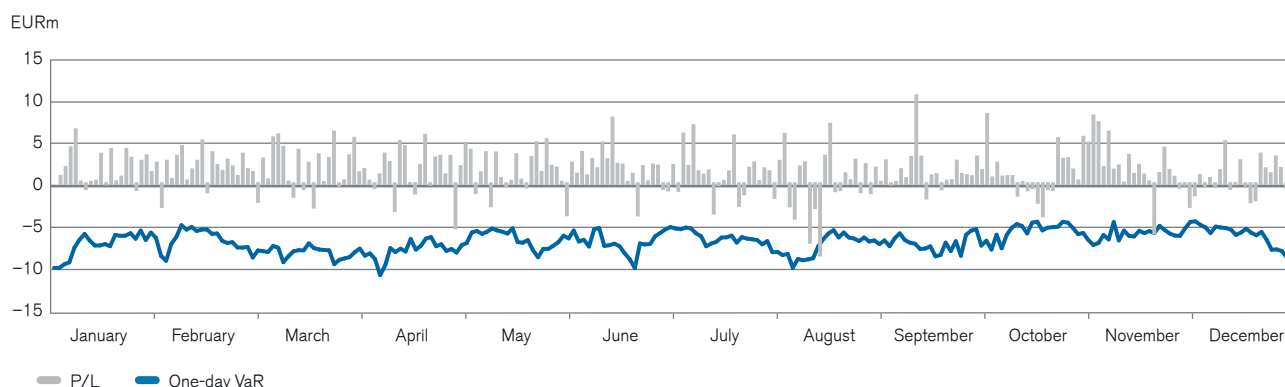
1) The capital requirement for specific interest rate risk from mortgage bonds and specific equity risk from structured equity options is calculated according to the standardised approach.

Table 6.4 REA and minimum capital requirements for market risk, 31 December 2014

EURm	Trading book, IA		Trading book, SA		Banking book, SA		Total	
	REA	Minimum capital requirement	REA	Minimum capital requirement	REA	Minimum capital requirement	REA	Minimum capital requirement
Interest rate risk ¹⁾	958	77	1,113	89			2,071	166
Equity risk	285	23	277	22			563	45
Foreign exchange risk	333	27			1,996	160	2,329	186
Commodity risk			12	1			12	1
Settlement risk			0	0	0	0	0	0
Diversification effect	-633	-51					-633	-51
Stressed VaR	1,849	148					1,849	148
Incremental risk charge	636	51					636	51
Comprehensive risk charge	468	37					468	37
Total	3,897	312	1,402	112	1,996	160	7,296	584

1) Interest rate risk in the column Trading Book IA includes both general and specific interest-rate risk which is elsewhere referred to as interest-rate VaR and credit spread VaR.

**Figure 6.1 Back-test of VaR for the trading book 2014:
Profit/loss (actual, excluding commissions) against one-day VaR**



In addition to positions in the trading book, market risk capital requirements also cover FX risk in the banking book through the standardised approach.

By the end of the year, REA and capital requirements for market risk were EUR 7,296m (EUR 8,753m) and EUR 584m (EUR 700m) respectively as shown in Table 6.4. REA has decreased during the year mainly as a consequence of decreased interest rate risk calculated both under the internal model approach as well as the standardised approach, while the FX risk increased.

6.4.1 Back-testing and validation of risk models

Back-testing of the VaR models is conducted daily in accordance with the guidelines laid out by the Article 366 of the CRR. Back-tests are conducted using both hypothetical profit/loss and actual profit/loss (hypothetical profit/loss is the profit/loss that would have been realised if the positions in the portfolio had been held constant during the following trading day). The profit/loss is in the back-test compared to one-day VaR figures. Figure 6.1 shows the VaR

back-test of the trading book for 2014.

The models used in the calculation of the IRM and the CRM are validated through an assessment of the quantitative and qualitative reasonableness of the various data being modelled (distribution of defaults and credit migrations, dynamics of credit spreads, recovery rates and correlations, etc.). The input parameters are evaluated annually through a range of methods including sensitivity tests and scenario analysis.

6.5 Interest rate risk in the banking book

Interest rate risk in the banking book is monitored daily by measuring and monitoring VaR on the banking book and by controlling interest rate sensitivities, which measure the immediate effects of interest rate changes on the economic values of assets, liabilities and off-balance sheet items. At the end of the year, interest rate VaR in the banking book was EUR 40m (EUR 129m). Table 6.5 shows the net effect on economics values of a parallel shift in rates of up to 200bps.

6.6 Structural Interest Income Risk (SIIR)

SIIR is the amount by which Nordea's accumulated net interest income would change during the next 12 months if all interest rates were to change by one percentage point.

SIIR reflects the mismatches in the balance sheet items and the off-balance sheet items when the interest rate repricing periods, volumes or reference rates of assets, liabilities and derivatives do not correspond exactly.

Nordea's SIIR management is based on policy statements resulting in different SIIR measures and organisational procedures.

Policy statements focus on optimising financial structure, balanced risk taking and reliable earnings growth, identification of all significant sources of SIIR, measurement under stressful market conditions and adequate public information.

GA&LM has the responsibility for the operational management of SIIR.

6.6.1 SIIR measurement methods

Nordea's SIIR is measured through dynamic simulations by calculating several net interest income scenarios and comparing the difference between these scenarios. Several interest rate scenarios are applied, but the basic measures for SIIR are the two scenarios (increasing rates and decreasing rates). These scenarios measure the effect on Nordea's net interest income for a 12 month period of a one percentage point change in all interest rates as shown in Table 6.6, which also covers repricing gaps over 12 months. The balance sheet is assumed to be constant over time, however main elements of customer behaviour and Nordea's decision-making process concerning own rates are taken into account.

6.6.2 SIIR analysis

At the end of the year, the SIIR for increasing market rates was EUR 384m (EUR 409m) and the SIIR for decreasing market rates was EUR -160m (EUR -466m). These figures imply that net interest income would increase if interest rates rose and decrease if interest rates fell.

6.7 Equity risk in the banking book

Table 6.7 shows equity holdings in the banking book split by the intention of the holding. All equities in the table are carried at fair value. The portfolio of illiquid alternative investments is included with a fair value of EUR 448m (EUR 497m), of which private equity funds EUR 190m, hedge funds EUR 134m, credit funds EUR 112m and seed-money investments EUR 12m. All four types of investments are spread over a number of funds.

6.8 Determination of fair value of financial instruments

Fair value is defined in IFRS 13 as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the existence of published price quotations in an active market

and when such prices exist they are used for the assignment of fair value. Published price quotations are predominantly used to establish fair value for items disclosed under the following balance sheet items:

- Treasury bills
- Interest-bearing securities
- Shares
- Listed derivatives
- Debt securities in issue (issued mortgage bonds in Nordea Kredit Realkreditaktieselskab).

If quoted prices for a financial instrument fail to represent actual and regularly occurring market transactions or if quoted prices are not available, fair value is established by using an appropriate valuation technique. Valuation techniques can range from simple discounted cash flow analysis to complex option pricing models. These are designed to apply observable market prices and rates as input whenever possible, but can also make use of unobservable model parameters. Nordea uses valuation techniques to establish fair value for OTC derivatives and for securities and shares for which quoted prices in an active market are not available.

If non-observable data has a significant impact on the valuation, the instrument cannot be recognised initially at fair value and any upfront gains are therefore deferred and amortised over the contractual life of the contract. The valuation models applied by Nordea are consistent with accepted economic methodologies for pricing financial instruments, and incorporate the factors that market participants consider when setting a price. New valuation models are subject to approval and all models are reviewed regularly.

Valuation principles in Nordea are determined in and approved by the Group Valuation Committee (GVC). The GVC issues guiding policies to the business units on how to establish a robust valuation process and minimise the valuation uncertainty. The GVC also serves as the escalation point for valuation.

Table 6.8 shows fair value of Nordea's assets and liabilities by valuation method.

6.9 Compliance with requirements applicable to exposure in the trading book

Article 105 of the CRR outlines requirements for systems and controls in relation to prudent valuation of positions in financial instruments. Nordea complies in all material aspects with these requirements. The specific requirements in Article 105 for additional valuation adjustments (AVAs) to fair value, in order to ensure a prudent valuation, have been further clarified in regulatory technical standards (RTS), which was published in a final draft version by the EBA in March 2014. Nordea uses the core approach as described in the RTS in order to calculate AVAs for market price uncertainty, close-out costs, model risk, unearned credit spreads, investing and funding costs, concentrated positions, future administrative costs, early termination

Table 6.5 Interest rate sensitivities for the banking book, instantaneous interest rate movements, 31 December 2014

EURm	+200bp	+100bp	+50bp	-50bp	-100bp	-200bp
EUR	-185.8	-89.1	-42.7	42.6	85.4	171.5
DKK	-63.0	-31.6	-15.9	15.9	32.0	64.3
SEK	-81.6	-41.0	-21.0	21.3	42.8	80.1
NOK	-60.4	-30.2	-15.1	15.1	30.2	60.4
USD	-10.7	-3.6	-1.0	1.5	2.9	5.9
RUB	-11.5	-5.7	-2.9	2.9	5.7	11.5
Total	-408.6	-199.0	-97.3	98.2	196.9	389.3

The totals are netted and include currencies not specified. In accordance with an analysis of account holder behaviour, a portion of non-maturing deposit accounts are assumed to be fixed term.

Table 6.6 Repricing gap analysis, scenario of a one percentage point increase in all interest rates, 31 December 2014

EURm	Group balance sheet	Interest rate fixing period						Non-repricing	Total
		Within 3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years		
Interest-bearing assets	399,269	274,617	22,330	21,657	21,723	36,331	22,610		399,269
Non-interest bearing assets	270,075	0	0	0	0	0	0	270,075	270,075
Total assets	669,344	274,617	22,330	21,657	21,723	36,331	22,610	270,075	669,344
Interest-bearing liabilities	348,639	203,057	33,411	15,645	17,092	45,631	33,803		348,639
Non-interest bearing liabilities	262,585							262,585	262,585
Total liabilities and equity	611,225	203,057	33,411	15,645	17,092	45,631	33,803	262,585	611,225
Off-balance sheet items, net		-27,967	10,501	-4,035	-1,713	11,731	11,258		
Exposure		43,593	-580	1,977	2,918	2,432	66	7,489	
Cumulative exposure			43,013	44,989	47,907	50,339	50,405	57,894	

SIIR impact of increasing interest rates for the year 2015

Impact ¹⁾	381	-3	5
Cumulative SIIR impact	381	379	384

1) Impact is calculated based on +100bps change on exposure.

Table 6.7 Equity holdings in the banking book, 31 December 2014

EURm	Book value	Fair value	Unrealised gains/losses ³⁾	Realised gains/losses ³⁾	Capital requirement
Investment portfolio ¹⁾	495	495	27	17	40
Other ²⁾	54	54	-13	7	4
Total	549	549	14	24	44

1) Of which listed equity holdings, Book value EUR 10m.

2) Of which listed equity holdings, Book value EUR 27m.

3) Result for 2014.

Table 6.8 Determination of fair value of assets and liabilities split by valuation method (Nordea Group, excluding Nordea Life & Pensions), 31 December 2014

EURm	Quoted prices in active markets for same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet				
Loans to central banks		282		282
Loans to credit institutions		4,553		4,553
Loans to the public		101,223		101,223
Interest-bearing securities	41,416	32,778	226	74,420
Shares	9,985	1	972	10,958
Derivatives	99	99,231	1,466	100,796
Investment property			100	100
Other assets		11,165		11,165
Prepaid expenses and accrued income		4		4
Total	51,500	249,237	2,764	303,501
Liabilities at fair value on the balance sheet				
Deposits by credit institutions		27,026		27,026
Deposits and borrowings from the public		32,920		32,920
Liabilities to policyholders				0
Debt securities in issue	42,619	8,001		50,620
Derivatives	89	95,454	1,626	97,169
Other liabilities	4,667	10,568		15,235
Accrued expenses and prepaid income		9		9
Total	47,375	173,978	1,626	222,979

costs and operational risk. In accordance with the RTS, AVAs are applied to all positions in Nordea accounted for at fair value, both in the trading book and banking book.

The CRR introduces requirements for clearly defined policies and procedures for determining which positions to include in trading book for the purposes of calculating the capital requirements. Group Risk Management Executive Management has issued instructions on this topic which clearly define which positions to include in the trading book.

7. Operational risk

Operational risk is inherent in all activities performed in Nordea.

7.1 Management, governance and measurement of operational risk

Operational risk means the risk of direct or indirect loss, or damaged reputation resulting from inadequate or failed internal processes, people, systems or external events. Operational risk includes legal risk and compliance risk which means the risk of business not being conducted pursuant to laws, statutes and other regulations and internal rules.

Operational risk is inherent in all activities within the organisation, in outsourced activities and in all interactions with external parties.

7.1.1 Management and measurement of operational risk

Nordea Operational Risk Policy forms part of the risk management and internal control framework and sets out the general principles for operational risk management, including legal and compliance risk. Management of operational risks is proactive, emphasising training and risk awareness.

Operational risks are monitored through regular risk assessment procedures and a systematic, quality and risk focused change management. The development of new products, services, activities as well as processes and systems is risk assessed. Identified risk elements and consequences of risk events are mitigated with, inter alia, business continuity plans as well as Group Crisis Management and Communication plans ensuring a good contingency preparedness in all business plans and crisis management structures.

Nordea uses external risk transfer in the form of insurance, including reinsurance, to cover certain aspects of crime risk and professional liability, including the liability of directors and officers. Nordea furthermore uses insurance for travel, property and general liability purposes.

The operational risk appetite is defined through risk appetite statements issued by the Board of Directors. The operational risk appetite statements are defined in terms of top risks as well as financial and non-financial consequences. The non-negotiable risks are defined as regulatory requirements as well as breaches of internal policy and external regulations.

7.1.2 Key processes

7.1.2.1 Operational Risk Assessment process

The Operational Risk Assessment process includes the risk and control self-assessment (RCSA) and the scenario analysis, and puts focus on both the risks on a divisional and unit level threatening its daily activities and the risks which could cause extreme financial losses or other significant impacts to Nordea as well as ensuring fulfilment of requirements specified in Group Directives. The results are used as input to the annual Operational and Compliance Risk Map.

Risks are identified both through top-down division management involvement and through bottom-up analy-

sis of results obtained from control questions as well as existing information from operational risk processes, such as incident reporting, scenario analysis, quality and risk analyses as well as product approvals. Upon identification of risks, the estimated impact of risk materialisation is assessed and mitigating actions are identified.

The RCSA aims to verify whether Nordea adequately fulfils the legal and regulatory requirements as specified in the Nordea Group directives as well as that a sufficient level of internal control exists in Nordea.

The Group-wide scenario analysis puts focus on extreme operational risks, so called tail events. The objective is to challenge and extend Nordea's present understanding of its operational risk landscape by focusing on risks which could cause extreme financial losses or other significant impacts to Nordea.

7.1.2.2 Incident reporting

Incidents and security weaknesses are handled with immediately in order to minimise damage. Upon detection of an incident, handling of the incident has first priority. Unit managers are responsible for the proper handling, documentation and reporting of the incidents. Incident reporting is a Group-wide process which is performed in the operational and compliance risk system by the risk officers and compliance officers in order to ensure consistent quality in the process. Nordea's operational risk library is used for categorising all incidents and the taxonomy reflects the Operational Riskdata eXchange Association's (ORX) reporting requirements.

Aggregated incident information is included in regular risk reports to the Risk Committee, Group Executive Management, the Board Risk Committee and the Board of Directors. Key observations are included in the Operational and Compliance Risk Map and the Semi-Annual Compliance report. Figure 7.1 shows incidents reported over the last five years (2009–2014) distributed according to Nordea's operational risk library.

7.1.2.3 Other processes

Nordea has developed more task-specific risk management processes in some key areas, as for example product approvals, business continuity, ad hoc changes and the anti-money laundering (AML) risk assessment.

The purpose of the product approval process is to ensure common requirements and documentation in respect of new products as well as material changes to existing products. The quality and risk analysis (QRA) is used to analyse risk and quality aspects related to changes on case by case basis, for example new programmes or projects, significant changes to organisations, processes, systems and procedures. Conducting a QRA is mandatory as part of the product approval process.

Business continuity management covers the broad scope from the procedures for handling incidents via escalation procedures to crisis management on Group level. As most service chains are supported by IT applications, disaster recovery plans for technical infrastructure and IT systems

constitute the core of business continuity management in Nordea. For the coming years focus will be on successfully deploying the business continuity and crisis management framework, increasing awareness and integrating business continuity and crisis management as part of daily business.

Nordea's AML Risk Assessment process is run both on country level and on Group level. The purpose is to provide an overview of the AML risks by evaluating risk levels and existing controls. A Group-wide AML programme was established in 2013 and has improved the reporting and co-ordination on AML related matters in Nordea. All Business Areas have established structured approaches, including plans and activities in order to be AML compliant both in terms of processes and Know-Your-Customer procedures.

The Operational and compliance awareness programmes, one targeting senior management and one Group-wide will continue during 2015 with updated existing modules as well as launch of new topics. Both programmes are mandatory and aim at setting the tone at the top and to increase the awareness of operational and compliance risk-related threats and challenges throughout the organisation. The modules Acting with Integrity Builds Trust and Understanding Operational Risk have been part of the Group-wide programme during 2014 and a module about Tax Policy has been launched as part of the senior management programme. The next module for the Group-wide programme will be launched in Q4 2015/Q1 2016.

7.1.2.4 Key reports

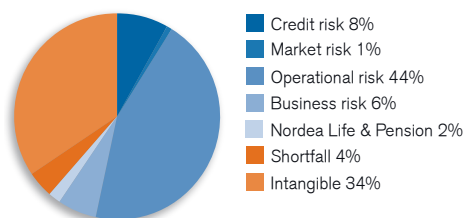
Operational and compliance risk map

The results from the Operational Risk Assessment process including the identification of top risks represent the main input to the Operational and Compliance Risk Map. The report presents Nordea's overall risk picture, trends and challenges for operational risk and the operational risk management framework. The report gives a risk overview for each of the Business Areas in Nordea with Business Area specific dashboards together with more detailed information on individual risks. The report is used as input to Nordea's annual planning process in order to ensure adequate resource allocation to the planned mitigating actions. Mitigating actions to the top risks are followed up on a quarterly basis within the risk appetite framework with detailed descriptions of current status. The Operational and Compliance Risk Map is submitted to the Risk Committee, Group Executive Management, the Board Risk Committee and the Board of Directors on an annual basis.

Semi-annual compliance report

Semi-annual reporting on compliance risks is based on input from Compliance Officers in the different Business Areas. Compliance Officers provide their assessments on future challenges and possible improvements. Reporting also contains separate topics: compliance risks, incidents including remarks from regulators, monitoring, Financial Supervisory Authority's interaction or other topics deemed relevant. The report is submitted to the Risk Committee, Group Executive Management, the Board Risk Committee,

Figure 7.1 Distribution of incidents reported, 2009–2014



the Board Audit Committee and the Board of Directors.

7.1.3 Governance of operational risk

Group Risk Management is responsible for developing and maintaining the framework for managing operational risks, and for supporting the business organisation in their implementation of the framework. Information security, physical security, crime prevention as well as educational and training activities are important components when managing operational risks.

The Operational Risk and Compliance Committee prepares proposals on framework, planning and policies and approves activity plans and various risk assessments. The committee is chaired by the Chief Operational Risk Officer.

During 2014, the previously combined function Group Operational Risk & Compliance was separated into Group Compliance and Group Operational Risk respectively.

7.2 Minimum capital requirements for operational risk

Nordea's capital requirement for operational risk is calculated according to the standardised approach. In this approach the institution's activities are divided into eight standardised business lines and the gross income for each business line is multiplied by a pre-defined beta coefficient.

Nordea's capital requirement for operational risk for 2014 amounted to EUR 1,347m (EUR 1,344m) after the divestment of the business in Poland. The capital requirements for operational risk is calculated on a yearly basis, although for 2014 it was recalculated in Q2 due to the divestment of the Polish business.

8. Securitisation and credit derivatives

Nordea's role in securitisation has been limited to that of being a sponsor of various schemes together with some limited trading on credit derivatives. Nordea has not participated in securitisation as originator and hence has not transferred loans or their risk outside of Nordea.

8.1 Introduction to securitisation and credit derivatives trading

The CRR defines securitisation as a transaction or scheme, whereby the credit risk associated with an exposure or pool of exposures is tranching, payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures and the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme. In a traditional securitisation, the ownership of the assets is transferred to a special purpose entity (SPE), which in turn issues securities backed by these assets. In synthetic securitisation, ownership of these assets does not change, however the credit risk is still transferred to the investor through the use of credit derivatives.

Banks can play several roles in securitisation. First, they can act as originators by having assets they themselves originated as underlying exposures. Second, they can act as sponsors in which role they establish and manage securitisations of assets from third party entities. Third, in their credit trading activity banks can themselves invest in these securities or create these exposures in credit derivatives markets.

Nordea has to date not acted as originator in securitisations. However, Nordea has sponsored various securitisation schemes which are described in the following section. Nordea is also acting as an intermediary in the credit derivatives market, especially in Nordic names. In addition to becoming exposed to the credit risk of a single entity, credit derivatives trading often involves buying and selling protection for collateralised debt obligation (CDO) tranches. These can be characterised as credit risk-related financial products, the risk of which depends on the risk of a portfolio of single entities ('a reference portfolio') as well as the subordination. Subordination defines the level of defaults in the reference portfolio after which further defaults will create a credit loss for the investor in the CDO tranche. Because hedging CDO tranches always involves a view on how the correlation between the credit risk of single names evolves it has been customary to talk about correlation trading in this context. The market risk created by Nordea's correlation trading is described in further detail in section 8.3.

8.2 Traditional securitisations where Nordea acts as sponsor

Nordea sponsors a limited number of SPEs. These SPEs

have been established to facilitate or secure customer transactions, either to enable investments in structured credit products or with the purpose of supporting trade receivable or account payable securitisation for Nordea corporate customers. At year-end 2014, Nordea is sponsoring the SPEs presented in Table 8.1.

The decision to sponsor these SPEs has been made by senior management. The SPEs are monitored centrally to ensure appropriate purpose and governance. Nordea's role in these transactions has included acting as arranger, account bank, swap/FX counterparty, administrator, calculation agent and/or CP dealer.

In accordance with IFRS, Nordea does not consolidate SPEs' assets and liabilities beyond its control. In determining whether Nordea controls an SPE or not, Nordea makes judgements about risks and rewards from the SPE and assesses its ability to make operational decisions for the SPE. Nordea consolidates all SPEs where it retains the majority of the risks and rewards. For the SPEs that are not consolidated, the rationale is that Nordea does not have any significant risks or rewards on these assets and liabilities.

The SPEs in Table 8.1 are not consolidated for capital adequacy purposes. Instead, loans and loan commitments to the SPEs are included in the banking book and capital requirements are calculated in accordance with the rules described in chapter 5. Bonds and notes issued by the SPE and held by Nordea as well as credit derivative transactions between Nordea and the SPE are reported in the trading book. Nordea has been approved to calculate the general and specific market risk of these transactions under the VaR model. The counterparty credit risk of credit derivative transactions is calculated in accordance with the current exposure method.

8.2.1 Entities issuing structured credit products

Nordea gives investors an opportunity to invest in different types of structured credit products such as structured credit-linked notes (CLNs) and collateralised mortgage obligations.

Kalmar Structured Finance A/S (Kalmar) was established to allow customers to invest in structured products in the global credit markets. Nordea sells protection in the credit derivative market by entering into a portfolio CDO. At the same time, Nordea purchases protection under similar terms from Kalmar which issues CLNs to investors. This means the investors bear the credit risk of the underlying portfolio. In case of credit losses in the underlying portfolio the collateral given by the investors in connection with the CLN is reduced. There were no notional outstanding CLNs in this category at year-end 2014.

8.2.2 Securitisations of customer assets

Viking ABCP Conduit (Viking) and the AR Finance 11 Conduit were established with the purpose of supporting trade receivable or accounts payable securitisations to core Nordic customers. The SPEs purchase trade receivables (the only asset class purchased) and fund the purchases either by issuing commercial paper via the established asset-backed commercial paper (ABCP) programme or by drawing on the liquidity facilities. Nordea provided liquid-

Table 8.1 Special purpose entities where Nordea is the sponsor, 31 December 2014

EURm		Duration	Accounting treatment	Book	Nordea's investment ¹⁾	Total assets
Viking ABCP Conduit	Receivables Securitisation	< 5 years	Consolidated	Banking	1,103	1,177
AR Finance 11	Receivables Securitisation	< 5 years	Consolidated	Banking	75	80
Total					1,177	1,257

1) Includes all assets towards SPEs (such as bonds, subordinated loans and drawn credit facilities).

ity facilities of maximum EUR 1,520m (EUR 1,646m) at year-end out of which EUR 1,177m (EUR 1,369m) had been utilised. Nordea books utilised liquidity facilities in the banking book at amortized cost in accordance with IAS 39.

Nordea's risks are limited to its holding of commercial paper issued by the SPEs and to the drawings under the liquidity facilities provided by Nordea to the SPEs. First loss protection is provided by the originators of the assets and/or from additional external credit enhancement such as the purchase of credit protection from a credit insurance policy, depending on the nature of the SPE and the quality of the purchased assets. When deciding if Nordea should arrange a new transaction, and in providing the liquidity facilities, Nordea uses the same approach as if it was to provide liquidity directly to the underlying customer.

Nordea uses S&P's model for evaluating the risk of the underlying assets (trade receivables) in these type of transactions. Furthermore, the Viking ABCP program is rated A1 by S&P's and P1 by Moody's, respectively

There was no outstanding commercial paper issue at year-end 2013 or 2014. The liquidity facilities results in an REA of EUR 408m (EUR 665m), which is included within the credit risk framework of Nordea's banking book.

8.3 Credit derivatives trading

Nordea acts as an intermediary in the credit derivatives market, especially in Nordic names. Nordea also uses credit derivatives to hedge positions in corporate bonds and synthetic CDOs.

When Nordea sells protection in a CDO transaction, it carries the risk of losses in the reference portfolio if a credit event occurs. When Nordea buys protection in a CDO transaction, any losses in the reference portfolio triggered by a credit event are carried by the seller of protection.

It is Nordea's policy that CDO positions are held in the trading book and booked at fair value in accordance with IFRS 13, meaning that they are either marked to market or marked to model depending on the availability of external prices. Model prices are derived based on standard industry methods. Inputs are available market prices and assumptions primarily relates to correlation.

Credit derivative transactions create counterparty credit risk in a similar manner to other derivative transactions. Counterparties in these transactions are typically subject to a financial collateral agreement, where the exposure is covered daily by collateral placements.

Table 8.2 and Table 8.3 list the outstanding notional of credit default swaps (CDSs) and CDOs at the end of 2014, split by bought and sold positions.

CDO valuations are subject to fair value adjustments for

model risk. These fair value adjustments are recognised in the income statement. The credit derivative portfolio is part of Nordea Bank Finland Plc.

The risk positions in correlation trading are integrated in Nordea's consolidated market risk management and are as such subject to:

- Limits, including VaR, jump-to-default and correlation risk limits
- The product and transaction approval process

The capital requirement for the comprehensive risk charge specific to the correlation book amounted to EUR 37.4m (EUR 33.7m) as of end 2014 for both Nordea Bank Finland and the consolidated situation of Nordea.

Table 8.2 Credit default swaps (CDSs), 31 December 2014

EURm	Total gross notional sold	Total gross notional bought
Single-name CDS: Investment grade	3,883	4,573
Single-name CDS: Non-investment grade	5,724	5,166
Multi-name CDS: Investment grade indices	21,588	22,678
Multi-name CDS: Non-investment grade indices	13,416	13,262
Total	44,611	45,679

As of December 31, 2014, all CDS positions (except EUR 256m gross sold of multi-name non-investment grade) were part of the trading book.

Table 8.3 Collateralised debt obligations (CDOs) – Exposure (excl. NLP)¹⁾, 31 December 2014

Notionals EURm	Bought protection	Sold protection
CDOs, gross	1,204	1,691
Hedged exposures	1,005	1,004
CDOs, net²⁾	199³⁾	687⁴⁾
Of which:		
– Equity	20	67
– Mezzanine	98	370
– Senior	81	250

1) First-to-default swaps are not classified as CDOs and are therefore not included in the table. Net bought protection amounts to EUR 47m (EUR 47m) and net sold protection to EUR 46m (EUR 18m). Both bought and sold protection are predominantly investment grade.

2) Net exposure disregards exposure where bought and sold tranches are completely identical in terms of reference pool attachment, detachment, maturity and currency.

3) Of which investment grade EUR 54m (EUR 150m) and sub-investment grade EUR 145m (EUR 151m).

4) Of which investment grade EUR 394m (EUR 326m), sub-investment grade EUR 293m (EUR 286m) and not rated EUR 0m (EUR 0m).

9. Liquidity risk and funding

During 2014, Nordea continued to benefit from its focus on prudent liquidity risk management, in terms of maintaining a diversified and strong funding base and had access to all relevant financial markets and was able to actively use all of its funding programmes. Nordea issued approximately EUR 22bn in long-term debt, of which EUR 13bn in the Swedish, Finnish and Norwegian markets for covered bonds.

9.1 Management, governance and measurement of liquidity risk

Liquidity risk is the risk of being able to meet liquidity commitments only at increased cost or, ultimately, being unable to meet obligations as they fall due.

9.1.1 Management of liquidity risk

Nordea's liquidity management and strategy is based on policy statements resulting in various liquidity risk measures, limits and organisational procedures.

Policy statements stipulate that Nordea's liquidity management reflects a conservative attitude towards liquidity

risk. Nordea strives to diversify its sources of funding and seeks to establish and maintain relationships with investors in order to ensure market access. A broad and diversified funding structure is reflected by the strong presence in Nordea's domestic markets in the form of a strong and stable retail customer base and the variety of funding programmes. Funding programmes are both short-term (US commercial paper, European commercial paper, commercial paper, Certificates of Deposits) and long-term (covered bonds, European medium-term notes, medium-term notes) and cover a range of currencies.

In Table 9.1 Nordea's funding sources are presented. At the end of the year, the total volume utilised under short-term programmes was EUR 53.1bn (EUR 52.3bn) with the average maturity being 0.3 (0.2) years. The total volume under long-term programmes was EUR 141.2bn (133.3bn) with the average maturity being 6.4 (5.8) years. Tables 9.2, 9.3 and Figure 9.1 show the balance sheet decomposed by currency and maturity.

Nordea's liquidity risk management includes stress testing and a business continuity plan for liquidity management. Stress testing is defined as the evaluation of potential effects on a bank's liquidity situation under a set of exceptional but plausible events. The stress testing framework also includes survival horizon metrics (see section 9.1.3), which represents a combined liquidity risk scenario (idiosyncratic and market-wide stress).

9.1.1.1 Liquidity risk appetite

The Board of Directors defines the liquidity risk appetite by setting limits for the liquidity risk measures applied by Nordea. The most central measure is survival horizon,

Table 9.1 Funding sources, 31 December 2014

Liability type	Interest rate base	Average maturity (years)	EURm
Deposits by credit institutions			
– shorter than 3 months	Euribor, etc.	0.0	54,155
– longer than 3 months	Euribor, etc.	0.6	2,167
Deposits and borrowings from the public			
– Deposits on demand	Administrative	0.0	121,987
– Other deposits	Euribor, etc.	0.2	75,268
Debt securities in issue			
– Certificates of deposits	Euribor, etc.	0.3	22,927
– Commercial papers	Euribor, etc.	0.3	30,133
– Mortgage covered bond loans	Fixed rate, market-based	7.8	99,244
– Other bond loans	Fixed rate, market-based	3.1	41,970
Derivatives		n.a.	97,340
Other non-interest bearing items		n.a.	34,529
Subordinated debentures			
– Dated subordinated debenture loans	Fixed rate, market-based		4,434
– Undated and other subordinated debenture loans	Fixed rate, market-based		3,508
Equity			29,836
Total			617,498
Liabilities to policyholders			51,843
Total, including life insurance operations			669,341

Table 9.2 Assets and liabilities split by currency, 31 December 2014

EURbn	EUR	DKK	NOK	SEK	USD	Other	Not distributed	Total
Cash and balances with central banks	6.6	7.0	0.2	0.1	22.7	1.5		38.0
Loans to the public	101.0	91.8	46.9	82.2	21.0	5.2		348.1
Loans to credit institutions	2.2	1.1	0.2	1.8	4.0	2.9		12.2
Interest-bearing securities including treasury bills	25.5	20.0	6.2	14.9	10.9	0.4	21.3	99.2
Derivatives	64.2	6.4	5.2	7.7	19.1	2.5		105.1
Other assets							66.7	66.7
Total assets	199.4	126.3	58.8	106.6	77.7	12.4	88.0	669.3
Deposits and borrowings from the public	63.7	50.6	23.0	43.0	11.1	5.9		197.3
Deposits by credit institutions	15.0	8.2	2.5	3.8	23.2	3.6		56.3
Debt securities in issue	49.5	40.6	8.8	35.1	39.8	20.7		194.3
– of which CDs & CPs	11.2		0.3	1.3	28.3	12.0		53.1
– of which covered bonds	20.8	39.7	8.0	28.6	0.9	1.4		99.2
– of which other bonds	17.5	0.9	0.5	5.2	10.6	7.3		42.0
Subordinated liabilities	3.0				4.6	0.3		7.9
Derivatives	59.5	6.3	3.9	5.7	20.0	2.0		97.3
Other liabilities							86.4	86.4
Equity	14.5	6.3	5.3	2.9	0.1	0.7		29.8
Total liabilities and equity	205.2	111.9	43.5	90.5	98.8	33.1	86.4	669.3
Position not reported on the balance sheet	15.3	-10.6	-20.2	-15.2	21.3	18.5		
Net position, currencies	9.5	3.8	-4.9	0.9	0.2	-2.2		

which defines the risk appetite by setting the minimum survival of one month under institution-specific and market-wide stress scenarios with limited mitigation actions.

9.1.2 Governance of liquidity risk

Group Corporate Centre is responsible for pursuing Nordea's liquidity strategy, managing liquidity and for compliance with Group-wide liquidity risk limits set by the Board of Directors and the Risk Committee. GA&LM develops the liquidity risk management frameworks, which consist of policies, instructions and guidelines, as well as defines the principles for pricing liquidity risk, while GMCCR is the second line of defence function with regards to liquidity risk management.

9.1.3 Measurement of liquidity risk

The liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk. In order to manage short-term funding positions, Nordea measures the funding gap risk, which expresses the expected maximum accumulated need for raising liquidity in the course of the next 30 days. Cash flows from both on-balance sheet and off-balance sheet items are included. Funding gap risk is measured and limited for each currency

and as a figure for all currencies combined. The limit for all currencies combined is set by the Board of Directors.

To ensure funding in situations where Nordea is in urgent need of cash and normal funding sources do not suffice, Nordea holds a liquidity buffer. The buffer minimum level is set by the Board of Directors. The liquidity buffer consists of central bank eligible high-grade liquid securities that can be readily sold or used as collateral in funding operations.

Since 2011, the survival horizon metric is being used. The metric is composed of the liquidity buffer and funding gap risk cash flows, and includes expected behavioural cash flows from contingent liquidity drivers. Survival horizon defines the short-term liquidity risk appetite of Nordea (see sections 3.2.2 and 9.1.1.1) and expresses the excess liquidity after a 30-day period without access to market funding.

The Board of Directors has set the limit for minimum survival without access to market funding to 30 days.

Since 2013 the Liquidity Coverage Ratio (LCR) according to Swedish rules is being used. The Board of Directors has set the limit for minimum LCR level.

The structural liquidity risk of Nordea is measured and limited by the Board of Directors through the net balance of stable funding (NBSF), which is defined as the difference

Table 9.3 Maturity analysis for assets and liabilities, 31 December 2014

EURbn	<1 month	1-3 months	3-12 months	1-2 years	2-5 years	5-10 years	>10 years	Not specified	Total
Cash and balances with central banks	38.0								38.0
Loans to the public	70.2	16.8	29.0	22.8	56.3	42.8	110.2		348.1
– of which repos	32.7	4.4	6.7	0.7					44.5
Loans to credit institutions	7.5	0.8	0.5	0.3	2.0	1.0			12.2
– of which repos	3.8	0.5							4.3
Interest-bearing securities including treasury bills	77.9							21.3	99.2
Derivatives								105.1	105.1
Other assets								66.7	66.7
Total assets	193.6	17.6	29.5	23.1	58.4	43.8	110.2	193.1	669.3
Deposits and borrowings from the public	28.2	14.6	15.5	1.4	0.4			137.1	197.3
– of which repos	19.0	2.7	2.5						24.3
Deposits by credit institutions	44.9	8.2	3.0	0.1	0.1				56.3
– of which repos	18.1	2.7	0.6						21.3
Debt securities in issue	9.9	24.1	40.7	24.8	56.4	16.5	21.7		194.3
– of which CDs & CPs	7.9	22.3	21.7	0.8	0.3				53.1
– of which covered bonds	1.9	0.4	15.5	17.7	33.5	8.5	21.7		99.2
– of which other bonds	0.1	1.4	3.5	6.3	22.6	8.0			42.0
Subordinated liabilities						4.4		3.5	7.9
Derivatives								97.3	97.3
Other liabilities								86.4	86.4
Equity								29.8	29.8
Total liabilities and equity	83.0	47.0	59.3	26.3	56.9	20.9	21.8	354.2	669.3

Maturity analysis is based on both contractual and behavioural information of remaining maturity of items. Amortisation is included in the time bucket corresponding to the estimated cash flow date. Time bucket 'Not specified' includes items which are lacking specific timing of cash flows.

Table 9.4 Net balance of stable funding, 31 December 2014

Stable liabilities and equity	EURbn
Tier 1 and tier 2 capital	29.1
Secured/unsecured borrowing > 1Y	120.5
Stable retail deposits	31.7
Less stable retail deposits	57.5
Wholesale deposits < 1Y	70.2
Total stable liabilities	309.0
Stable assets	
Wholesale and retail loans >1Y	233.3
Long-term lending to banks and financial companies	4.6
Other illiquid assets	20.1
Total stable assets	258.0
Off-balance sheet items	2.2
Net balance of stable funding (NBSF)	48.8

between stable liabilities and stable assets. These liabilities primarily comprise retail deposits, bank deposits and bonds with a remaining term to maturity of more than 12 months, as well as shareholders' equity, while stable assets primarily comprise retail loans, other loans with a remaining term to maturity longer than 12 months and committed facilities. The CEO in GEM has set as a target that the NBSF should always be positive, which means that stable assets must be funded by stable liabilities. NBSF is shown in Table 9.4.

9.2 Liquidity risk and funding analysis

Nordea's liquidity buffer is highly liquid, consisting only of securities eligible for pledging with the central bank as shown in Table 9.5.

The short-term liquidity risk remained at low/moderate levels throughout 2014. The average funding gap risk, i.e. the average expected need for raising liquidity in the course of the next 30 days, was EUR +11.0bn (EUR +16.8bn).

Table 9.6 shows the quarterly development of the liquidity buffer. Measured daily, the liquidity buffer ranged between

Figure 9.1 Maturity of assets and liabilities, split by currency, 31 December 2014



Table 9.5 Liquidity buffer split by type of asset and currency, 31 December 2014

Type of asset	Currency distribution, market values in EURm				Total
	SEK	EUR	USD	Other CCY	
Cash and balances with central banks	56	6,567	22,704	8,698	38,025
Balances with other banks	0	3	0	22	24
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks ²⁾	1,832	8,190	6,292	1,954	18,269
Securities issued or guaranteed by municipalities or other public sector entities ²⁾	1,603	694	1,298	272	3,867
Covered bonds issued by the own bank or related unit ²⁾	6,369	8,262	487	12,374	27,491
Covered bonds issued by other bank or financial institute ²⁾	53	1,834	0	4,191	6,078
Securities issued by non-financial corporates ²⁾	0	185	0	2	187
Securities issued by financial corporates, excluding covered bonds ²⁾	239	92	2,203	2,607	5,141
All other eligible and unencumbered securities ³⁾	0	0	0	0	0
Total liquidity buffer¹⁾	10,152	25,825	32,985	30,119	99,082
Adjustments to Nordea's official buffer: Eligible but encumbered securities (+), cash and balances with other banks/central banks (-), central banks haircuts (-)	-56	-6,569	-22,704	-2,438	-31,767
Total liquidity buffer (Nordea definition)	10,096	19,256	10,281	27,681	67,314

1) According to Swedish Bankers' Association's definition 2011-10-07.

2) 0-20% risk weight.

3) All other eligible and unencumbered securities held by Group Treasury.

Table 9.6 Historical quarterly development of the liquidity buffer, 31 December 2014

EURbn						
Type of asset	Q4/14	Q3/14	Q2/14	Q1/14	Q4/13	Q3/13
Cash and balances with central banks	38.0	34.7	36.8	41.5	45.9	35.3
Balances with other banks	0.0	0.7	0.1	2.2	2.4	2.4
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks ²⁾	18.3	17.5	16.9	16.5	16.4	16.3
Securities issued or guaranteed by municipalities or other public sector entities ²⁾	3.9	4.4	4.0	3.6	3.3	3.4
Covered bonds issued by the own bank or related unit ²⁾	27.5	28.0	25.1	24.6	27.3	26.1
Covered bonds issued by other bank or financial institute ²⁾	6.1	3.8	5.5	7.5	8.1	14.1
Securities issued by non-financial corporates ²⁾	0.2	0.2	0.2	0.1	0.2	
Securities issued by financial corporates, excluding covered bonds ²⁾	5.1	3.1	2.6	2.5	2.6	2.4
All other eligible and unencumbered securities ³⁾	0.0	0.0	0.2	0.4	0.5	0.2
Total liquidity buffer¹⁾	99.1	92.3	91.4	99.0	106.6	100.3
Adjustments to Nordea's official buffer.						
Cash and balances with other banks/central banks (-), central bank haircuts(-)	-31.8	-30.8	-29.1	-38.2	-40.8	-33.9
Total liquidity buffer (Nordea definition)	67.3	61.6	62.3	60.7	65.8	66.4

1) According to Swedish Bankers' Association's definition 2011-10-07.

2) 0-20% risk weight.

3) All other eligible and unencumbered securities held by Group Treasury.

Table 9.7 LCR sub-components

EURbn	Combined		USD		EUR	
	After factors	Before factors	After factors	Before factors	After factors	Before factors
Liquid assets level 1	62.9	62.9	31.1	31.1	16.1	16.1
Liquid assets level 2	35.9	42.2	0.7	0.8	7.9	9.3
Cap on level 2	0.0	-0.3	0.0	0.0	0.0	0.0
A. Liquid assets total	98.8	105.1	31.8	31.9	24.0	25.4
Customer deposits	35.7	157.4	4.6	10.2	9.7	47.8
Market borrowing ¹⁾	69.6	69.9	23.2	23.2	19.3	19.5
Other cash outflows ²⁾	8.0	47.5	1.0	7.2	2.2	14.2
B. Cash outflows total	113.4	274.8	28.8	40.5	31.3	81.5
Lending to non-financial customers	6.7	13.4	0.5	1.0	3.1	6.2
Other cash inflows	40.5	42.7	9.5	10.6	24.9	25.5
Limit on inflows	0.0	0.0	0.0	0.0	-4.5	0.0
C. Cash inflows total	47.1	56.1	10.0	11.5	23.4	31.7
Liquidity Coverage Ratio [A/(B - C)]	149%		169%		307%	

1) Corresponds to Chapter 4, Articles 10 – 13 in Swedish LCR regulation, containing e.g. portion of corporate deposits, market funding, repos and other secured funding.
2) Corresponds to Chapter 4, Articles 14 – 25, containing e.g. unutilised credit and liquidity facilities, collateral need for derivatives and derivative outflows.

EUR 59.5 – 67.3bn (EUR 58.2 – 72.5bn) throughout 2014, with an average buffer size of EUR 62.5bn (EUR 64.4bn).

Survival horizon was in the range of EUR 42.1 – 54.7bn (EUR 49.0 – 68.2bn) throughout the year with an average of EUR 46.9bn (EUR 59.0bn).

At the end of the year, the Liquidity Coverage Ratio (LCR) for Nordea was 149% (117%) with a yearly average of 131%. LCR in EUR was 307% (140%) and in USD 169% (127%), with yearly averages of 194% and 136%, respectively. Table 9.7 shows that liquid assets exceed the net cash outflows during 30 days in stressed conditions for all currencies combined as well as in EUR and USD separately.

The target of maintaining a positive NBSF was comfortably achieved throughout 2014 with a yearly average of EUR 51.1bn (EUR 52.8bn).

Nordea has aligned its asset encumbrance reporting methodology with the new EBA Implementing Technical Standards on asset encumbrance, shown in Table A6, Appendix A. In addition to encumbered assets the new framework also includes figures on received collateral. According to EBA definition an asset shall be treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure, collateralise or credit enhance any transaction from which it cannot be freely withdrawn.

10. Risk and capital in the life and pensions operation

The nature of life insurance leads Nordea Life & Pensions (NLP) to take risks that are quite different to those faced in the banking operation. The main risks in Nordea Group's life and pensions operation are market risks and life insurance risks.

10.1 Risk management system and governance

10.1.1 Risk management at NLP

NLP's risk management function is responsible for developing a consistent and coherent risk management system and control framework across NLP in accordance with the Group Directives, comprising policies and charters, and the Risk Appetite Framework of the Nordea Group. The risk management system and internal control framework includes all activities aiming at identifying, measuring, monitoring, managing and reporting on risks and its capital implications with respect to the life insurance operations.

The risk management function is headed by the NLP Group CRO and anchored in the local entities through the local CROs. Local CROs, reporting to the local CEOs and the Group CRO, are responsible for implementing the risk management framework within their local entity and are overall responsible for risk management within their entity, covering the holistic risk picture.

10.1.2 Framework for strategic risk & capital decisions

The ALM square sets out the different areas of consideration that should be balanced when making risk and capital related decisions at NLP. As such, it is central to the implementation of NLP's risk management strategy. The ALM square is illustrated in Figure 10.1.

Table 10.1 shows the assets and liabilities on an IFRS basis. The development of assets and liabilities is determined predominantly by in- and outflows of insurance premiums, claims and investment returns.

10.2 Key risks in the life and pensions operation

10.2.1 Market risk

The market risk exposure on the Nordea Group from NLP is defined as the P/L risk resulting from movements in market rates and prices, and is measured with the following methodologies:

- Market scenario-based risk method: Measures the market risk under defined scenarios taking account of the movement in assets and liabilities
- VaR market risk method: Measures the market risk from the investment of equity capital and subordinated funding separated from policyholders' assets.

The market risk (risk on P/L, solvency ratios and financial

Figure 10.1 The ALM square

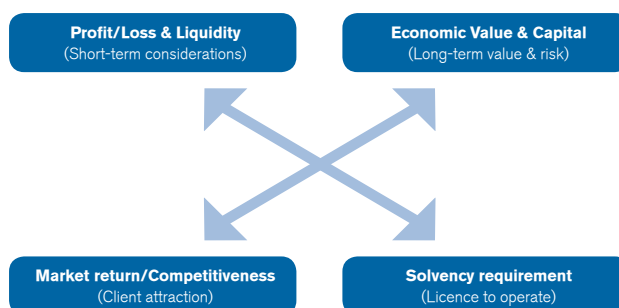


Table 10.1 Assets and liabilities of Nordea Life & Pensions

	31 Dec 2014 EURm	31 Dec 2013 EURm
Assets		
Investment properties	3,127	3,367
Shares	26,016	20,524
Alternative investments	2,805	3,154
Debt securities – At fair value	17,785	19,609
Bonds pledged as collateral	2,711	
Debt securities – Held to maturity	1,854	2,163
Deposits and treasury bills	3,222	3,396
Other financial assets	4,324	702
Other assets	1,304	1,329
Total assets	63,148	54,244
Liabilities and equity		
Traditional provisions	19,705	20,619
Collective bonus potential	3,732	2,897
Unit-linked provisions	11,026	9,577
Investment contracts	16,741	14,080
Other insurance provisions	640	678
Other financial liabilities	8,211	3,522
Other liabilities	1,098	848
Shareholders' equity	1,489	1,508
Subordinated loans	506	515
Total liabilities and equity	63,148	54,244

buffer) is reported weekly to senior management in the Nordea Group. In addition, market risk for the separated equity capital of the legal entities in the life and pensions operation is calculated and reported daily by Group Risk Management.

Table 10.2 shows the effect on policyholders and Nordea Group's own account from market risks. The sensitivity to market movements has only a minor effect on Nordea Group's own account due to financial buffers built up.

10.2.2 Asset Liability Management – Mitigation of guarantees

For NLP, the rate of return achieved on investments is important for the Traditional portfolio and to some extent the

Table 10.2 Life insurance risk and market risk in the life insurance operations

Sensitivities EURm	31 Dec 2014		31 Dec 2013	
	Effect on policyholders	Effect on Nordea's Group's account	Effect on policyholders	Effect on Nordea's Group's account
Mortality – increased living with 1 year	68	-53	75	-57
Mortality – decreased living with 1 year	-1	1	-7	5
Disability – 10% increase	28	-21	28	-22
Disability – 10% decrease	-16	12	-14	11
50 bp increase in interest rates	-915	-8	-794	-20
50 bp decrease in interest rates	1,002	5	852	13
12% decrease in all share prices	-1,684	-2	-1,587	-2
8% decrease in property value	-240	-1	-275	-1
8% loss on counterparties	-32	0	-7	0

"+" means that policyholders' liabilities or Nordea Group's account (profit/equity) increase. "-" means that policyholders' liabilities or Nordea Group's account (profit/equity) decrease. The methodology for calculating the sensitivity effects has been updated during 2014 and the comparison figures for 2013 have been restated for comparability between the years.

Market Return portfolio because policyholders have been promised a guaranteed benefit or an absolute return (either a yearly guarantee or at maturity) under these portfolios. As NLP is carrying the risk of not fulfilling the guarantees to policyholders, a separate liability driven investment unit is in place with the focus on ensuring optimal ALM decisions in respect to both strategic as well as tactical investment aspects.

The figures in Table 10.3 represent the consolidated life companies. The assets under management (AUM) are affected by the investment return and the in- and outflows

Table 10.3 Investment return, traditional life insurance

EURm	31 Dec 2014		31 Dec 2013	
	AUM	Investment return	AUM	Investment return
Interest-bearing securities and deposits	16,933	12.7%	16,841	-0.7%
Shares	7,698	6.8%	6,871	9.3%
Alternative investments	2,799	18.1%	2,783	6.5%
Investment property	2,972	5.9%	2,965	5.1%
Total return	30,402	11.4%	29,460	2.9%

to the different asset classes. Despite the continued low interest rate environment, the effect of the hedging strategy and positive returns on alternative investments resulted in a total investment return for the traditional business of 11.4%.

Table 10.4 shows the insurance provisions and provisions on investment contracts divided into guarantee levels. For policies with a guarantee, the average embedded guarantee for 2014 is relatively unchanged at 2.2% (2.1% in 2013). Migration initiatives, transferring customers from the traditional products to unit-linked, combined with a strong sale of unit-linked (no guarantees) in 2014 increased technical provisions with 'no guarantees' by 25%.

10.2.3 Insurance risk

Insurance risk is defined as the risk on P/L that the NLP operation is facing, stemming from unexpected changes in lapses, mortality, longevity, disability rates and costs of servicing contracts.

10.3 Capital management and solvency position

10.3.1 Development of financial buffers

For policyholders, the financial buffers express the potential for receiving a bonus on top of the guarantees within the Traditional portfolio. For shareholders, the financial buffers are important as they offer a P/L protection against

Table 10.4 Insurance provisions (technical provisions) and provision on investment contracts divided into guarantee levels (technical interest rates)

31 Dec 2014							
EURm	none	0%	0–2%	2–3%	3–4%	>4%	Total liabilities
Technical provision	24,194	2,236	7,854	5,391	3,966	3,830	47,471
31 Dec 2013							
EURm	none	0%	0–2%	2–3%	3–4%	>4%	Total liabilities
Technical provision	19,429	3,885	6,896	5,337	4,015	4,107	43,670

The split in guarantees has been changed to more granular levels than in the 2013 report, to improve the illustration of the development in the business. The figures for 2013 have been restated in order to be comparable with the figures for 2014.

Table 10.5 Financial buffers

EURm	Financial buffers		% of guaranteed liabilities	
	31 Dec 2014	31 Dec 2013	31 Dec 2014	31 Dec 2013
Denmark	1,221	534	8.9%	3.7%
Norway	260	259	5.4%	5.2%
Sweden	1096	1,091	37.6%	39.5%
Finland	1156	1,023	73.4%	54.8%
Total	3,732	2,897	16.2%	12.8%

potentially insufficient investment returns. For NLP, a moderate financial buffer level is a prerequisite in order to achieve a stable P/L due to the mostly fee-based business models. At low financial buffer levels, risk increases and higher P/L volatility can be expected.

The financial buffers developed positively during 2014 as shown in Table 10.5 and Figure 10.2. The increase in the financial buffer was primarily driven by the profits arising from unit-linked business in Finland, together with the change in hedging strategy and the new method of calculating liabilities in Denmark.

10.3.2 Solvency capital and

The solvency ratio on the current regulatory basis (Solvency I) as of end of 2014 is 192% with a solvency balance of EUR 1,044m. The improvement of EUR 188m in the solvency balance on the 2014 figure was mainly driven by an increase in solvency capital of EUR 152m, due to retained earnings and a reduced solvency requirement of EUR 36m, due to the move away from guaranteed business. The solvency ratios for the consolidated life company (Nordea Life Holding AB) as well as for the local entities are reported each month to Group Executive Management and to supervisors. The consolidated solvency position shown in Table 10.6.

10.3.3 Solvency II

NLP is stepping up in its preparation to meet the requirements of the new regulatory regime Solvency II. This includes submitting ORSA-style reports to supervisors including projection of the financial and solvency position over the business planning period. There is uncertainty on the capital implications of the new regime in light of the EIOPA Risk Free project. The aim for NLP is to manage the transition to Solvency II without needing any equity capital injection.

10.3.4 Market Consistent Embedded Value (MCEV)

NLP measures its value towards the Nordea Group by using a Market Consistent Embedded Value (MCEV) approach.

The MCEV approach is used to quantify the net present value of the dividend stream arising from the in-force business consistently with the price that these future dividend streams could achieve in an arm's length commercial transaction.

During 2014, the life and pensions operation experienced an increase in the MCEV value of EUR 58m compared to

Figure 10.2 Financial buffers compared to insurance provisions, rolling 12 months

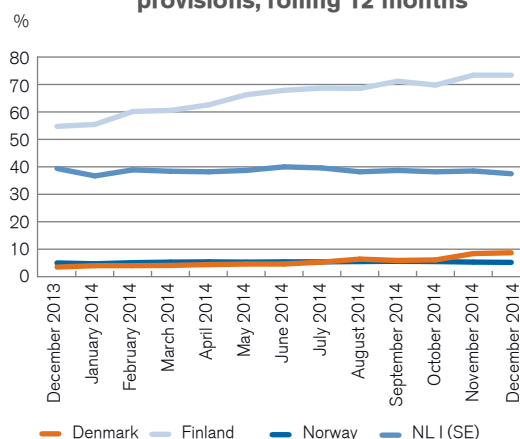


Table 10.6 Solvency I Capital / Ratio

EURm	31 Dec 2014	31 Dec 2013
Tier 1 capital	1,692	1,515
Tier 2 capital	487	512
Solvency capital	2,179	2,027
Less: Solvency requirement	-1,135	-1,171
Solvency balance	1,044	856
Solvency ratio	192%	173%

2013. The development is shown in Table 10.7 and in Table 10.8. The main drivers behind the development were; decrease in interest rates experienced during the year, strengthened financial buffers, higher than expected earnings during the year, increased asset values and continuous inflow of profitable new business. New business sales contributed by EUR 248m.

The MCEV sensitivities are illustrated in Table 10.9. The sensitivity to interest movements varies between countries due to differences in local accounting rules.

10.3.5 Economic capital

NLP's economic capital is included in the Nordea Group economic capital, described in chapter 11. Economic capital is measured and reported to Group Risk Management and Group Executive Management quarterly.

Table 10.7 MCEV development

EURm	31 Dec 2014			31 Dec 2013		
	Traditional	Unit-linked	Total	Traditional	Unit-linked	Total
Denmark	869	291	1,160	1,117	204	1,321
Finland	722	1,093	1,815	670	977	1,647
Norway	682	421	1,102	677	364	1,041
Poland	0	86	86	0	89	89
Sweden	71	524	595	146	456	602
Total	2,343	2,415	4,758	2,610	2,090	4,700

Table 10.8 MCEV movement analysis

EURm	MCEV 2013 Q4	New business	Financial effects	Expected earnings	Other	FX effect	MCEV 2014 Q4
Denmark	1,321	30	-570	17	360	2	1,160
Finland	1,647	143	-99	58	66	0	1,815
Norway	1,041	31	-69	39	148	-88	1,102
Poland	89	1	1	4	-5	-3	86
Sweden	602	43	-29	21	-4	-39	595
Total	4,700	248	-766	139	564	-127	4,758

Table 10.9 MCEV sensitivity analysis

Assumption change	Scenario	Denmark	Finland	Norway	Poland	Sweden	Total
Yield curve change	IntRates -100bp	-19.1%	-1.2%	-9.4%	-23.9%	3.0%	-7.7%
	IntRates -50bp	-8.9%	-0.5%	-3.1%	-11.1%	1.5%	-3.2%
	IntRates +50bp	7.8%	0.4%	1.1%	9.0%	-1.8%	2.4%
	IntRates +100bp	14.4%	0.7%	1.2%	16.7%	-3.9%	4.2%
Equity return 1st year	EquityReturn +10%	2.5%	6.2%	2.5%	11.5%	4.6%	4.3%
	EquityReturn -10%	-2.7%	-6.2%	-2.8%	-11.5%	-4.7%	-4.4%
Admin costs (relative change)	AdminCost +10%	-4.9%	-0.8%	-2.6%	-2.1%	-3.8%	-2.7%
	AdminCost -10%	5.1%	0.8%	2.6%	2.1%	4.0%	2.8%
Surrender rates (relative change)	Surrender +10%	1.1%	-2.0%	-1.2%	-0.2%	-2.0%	-1.0%
	Surrender -10%	-1.2%	2.2%	1.2%	0.2%	2.1%	1.0%
Pay-up rates (relative change)	Lapse +10%	-1.2%	-0.1%	-0.7%	0.0%	-1.5%	-0.7%
	Lapse -10%	1.3%	0.1%	0.7%	0.0%	1.7%	0.7%

11. ICAAP and internal capital requirement

The Internal Capital Adequacy Assessment Process (ICAAP) aims to ensure that Nordea keeps sufficient available capital to cover all risks taken over a foreseeable future, including during periods of stress. The level of capital needs to be adequate from an internal perspective as well as from the perspective of regulators, as well as market participants.

11.1 ICAAP

The purpose of the Internal Capital Adequacy Assessment Process (ICAAP) is to review the management, mitigation and measurement of material risks within the business environment in order to assess the adequacy of capitalisation and to determine an internal capital requirement reflecting the risks of the institution.

The ICAAP is a continuous process which increases awareness of capital requirements and exposure to material risks throughout the organisation, both in the Business Area and legal entity dimensions. Stress tests are important drivers of risk awareness, looking at capital and risk from a firm-wide perspective on a regular basis and on an ad hoc basis for specific areas or segments. The process includes a regular dialogue with supervisory authorities, rating agencies and other external stakeholders with respect to capital management, measurement and mitigation techniques used.

The capital ratios and capital forecasts for the Nordea Group and its legal entities are regularly monitored by GA&LM. The current capital situation and forecasts are reported to ALCO, Risk Committee, GEM and the Board of Directors. Capital requirements and capital adequacy are thoroughly reviewed and documented annually in Nordea's ICAAP report, which is ultimately decided and signed off by the Board of Directors.

11.1.1 Capital planning and capital policy

The capital planning process is intended to ensure that Nordea and its legal entities have sufficient capital to meet minimum regulatory requirements, support its credit rating, growth and strategic options. The process includes forecasts of the capital requirement (e.g. the Pillar I and Pillar II capital requirements), the available capital (e.g. CET1, additional tier 1 and tier 2 capital) as well as the impact of new regulations. The capital planning is based on key components of Nordea's rolling financial forecast, which includes lending volume growth by customer segment and country as well as forecasts of net profit including assumptions of future loan losses. The capital planning process also considers forecasts of the state of the economy

to reflect the future impact of credit risk migration on the capital situation of the Nordea Group and its legal entities. An active capital planning process ensures that Nordea is prepared to make necessary capital arrangements regardless of the state of the economy, the introduction of new capital adequacy regulations and to accommodate strategic and business objectives.

Nordea's capital policy determines target capitalisation levels in Nordea. Nordea reviewed its capital policy in light of new regulatory proposals and market perception in Q4 2014. The current capital position and capital policy is described in chapter 4. The policy reflects Nordea's target capital allocation in terms of CET1, additional tier 1 instruments and tier 2 capital.

The ALCO is responsible for evaluating and deciding on the capitalisation and prepares proposals for decision by the CEO in GEM when needed.

11.1.2 Internal capital requirements

The internal capital requirement is calculated based on a Pillar I plus Pillar II approach. Under this approach Nordea measures various types of risk by applying the same statistical confidence level and measurement period. The measurement period is set to one year and the confidence level is set to 99.9%. This methodology uses the Pillar I capital requirements for credit risk, market risk and operational risk as outlined in the CRR as the starting point for its risk assessment. For these risks, the risk is measured using only models and processes approved by the FSA's for use in the calculation of legal capital requirements.

In Pillar II, risks not included in the CRR are considered – specifically concentration risk, interest rate risk in the banking book, market risk in internal defined pension plans, real estate risk and business risk, which captures the P&L volatility. For each of these risks, Nordea uses internal capital models to define the capital requirement.

The following risk types are included under Pillar II:

- Business risk represents the earnings volatility inherent in all business due to the uncertainty of revenues and costs due to changes in the economic and competitive environment. Business risk is calculated based on the observed volatility in historical profits and losses that are attributed to business risk, i.e. not related to loan losses as well as trading income and expenses.
- Interest rate risk in the banking book consists of exposures deriving from the balance sheet (mainly lending to public and deposits from public) and from Group Treasury's and GA&LM's investment and liquidity portfolios. The interest rate risk is measured in several ways on a daily basis and in accordance with the financial supervisory authorities' requirements. Monitoring of the interest rate risk in the banking book is done daily by controlling interest rate sensitivities, which measure the immediate effects of interest rate changes on the fair values of assets, liabilities and off-balance sheet items. Pillar II market risk for interest rate risk in the banking book is calculated based on daily VaR figures.

- Pension risk is included in the market risk framework and includes equity risk, interest rate risk and FX risk in the Nordea-sponsored defined benefit pension plans. The risk is incorporated in the market risk by including both the asset and liability sides of the pension plans in the Group's VaR calculations and is reported separately in the Pillar II market risk.
- Real estate risk in Pillar II is market risk associated with Nordea's long-term leases of its own office buildings calculated based on the book value of the underlying assets and the future cash flows associated with the remaining maturity of the leasing contract.
- Concentration risk is measured as a Pillar II risk and represents the credit risk related to the degree of diversification in the credit portfolio, i.e. the risk inherent in doing business with large customers or not being equally exposed across industries and regions. Pillar I credit risk calculations assume a fully diversified international bank. Nordea's exposures are well diversified but not to the same extent as a benchmark model fully diversified international bank. The purpose of the concentration risk capital requirement add-on is to capture this difference. A single-factor Merton credit risk model is used to determine the implicit correlations in the Nordea portfolio and to compare the impact of single-name and industry concentrations. The final result of the calculation is a concentration risk Pillar II capital requirement add-on for sector/geography and single-name concentrations.

Liquidity risk is a Pillar II risk but it is only partly covered in the capital framework since it is mitigated through active management of liquidity as defined by the Nordea liquidity risk management framework. The liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk and are governed by measures such as the liquidity coverage ratio and structural liquidity measures. Liquidity risk defined as the risk of profit volatility due to changes in the interest rates is included in the capital requirement add-on for business risk.

In addition to calculating risk capital for its various risk types, Nordea conducts a comprehensive capital adequacy stress test to analyse the effects of a series of global and local shock scenarios. The results of the stress tests are considered in Nordea's internal capital requirement as buffers for economic stress. By considering the stress test results in the assessment of internal capital requirements, the pro-cyclical effects inherent in the risk-adjusted capital calculations of the economic capital and IRB approaches are addressed.

The rationales for using the chosen Pillar I plus Pillar II approach are the following:

- The risk-based nature in the approach, with 80% of the Pillar I capital requirements calculated by internal models, capture the inherent risks within Nordea's different asset classes.
- The approach combines models specified in the regulation with Nordea specific parameters and data in internal models assessed and approved by the supervisors. Hence,

it allows Nordea to use scrutinized models based on best regulatory practice yet tailored with the specific risk profiles known for the individual Nordea portfolios

- The alignment of the confidence level and the measurement period supports comparison and management of risks across asset classes and ensures a capital level for all asset classes sufficient to manage all likely scenarios and most highly unlikely scenarios.
- In addition to the assessment of Pillar I risks Nordea assesses risks not captured by the Pillar I framework, i.e. Pillar II risks, within the internal capital requirement (ICR) framework.
- In parallel to the risk based Pillar I plus Pillar II approach Nordea use other analysis measures such as Basel I floor, large exposures and leverage ratio to understand and compare the nature of the risks within Nordea. These risk measures have minimum levels that may not be breached and if any of these measurements are close to being breached actions will be taken. However, their generic character, i.e. minimum capturing of Nordea specific risks, makes them unsuitable for detailed capital planning, capital allocation, risk and incentive management

11.1.3 FSA capital add-ons under Pillar II

In addition to the regulatory minimum capital requirements, the FSA requires Nordea to hold capital under Pillar II to cover additional risks, not covered in Pillar I.

In September 2014 the Swedish FSA increased the risk weight floor for residential mortgages from 15% to 25%. Stricter capital requirements for residential mortgages are also being introduced in Norway and should be included as part of Pillar II. Based on an average risk weight of 4.2% in Nordea's Swedish mortgage portfolio as per end-2014, Nordea needs to hold CET1 capital under Pillar II amounting to approximately EUR 1.1bn for its Swedish mortgage portfolio. This equates a CET1 capital ratio impact of approximately 78 bps. Assuming a 25% floor in Norway Nordea needs to hold CET1 capital of approximately EUR 0.4bn.

Nordea furthermore needs to hold additional CET1 capital equivalent to 2% of REA due to systemic risk.

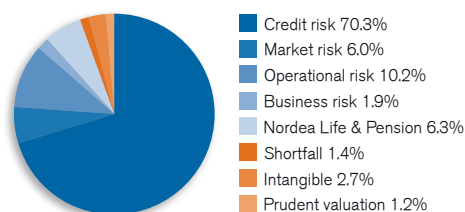
The Swedish FSA has stated it plans to develop additional standardised models for additional risks within Pillar II, covering concentration risk, interstate risk in the banking book and risks in defined pension plans.

The Swedish FSA has stated that there, under normal circumstances, will be no formal decision on Pillar II capital requirements (in the same way as has been done previously). The Pillar II requirement will thus not affect the level where the automatic restrictions on distribution will come into effect (MDA level).

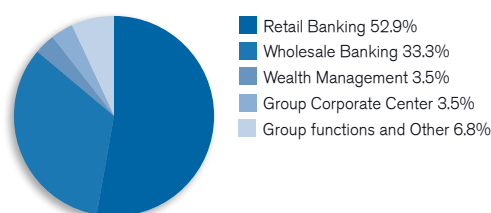
11.2 Economic capital (EC)

Economic Capital is a method for allocating the cost of holding capital, as a result of risk taking, and is a central component in the Economic Profit (EP) framework where EP is calculated as risk adjusted profit less cost of equity. EP supports the operational decision making process in

Figure 11.1 EC distributed by risk type



EC distributed by business area



Nordea in order to enhance performance management and ensure shareholder value creation.

Nordea's EC model is based on the same risk components as the ICAAP where Pillar II risks close the gap between the total capital requirement and the Pillar I capital requirement (REA). EC has been aligned to CET1 capitalisation requirements according to the CRR.

In addition to the risk types featured in the ICAAP, the EC framework also includes the following items:

- Risks in the insurance business (EC is thus calculated for the legal group whereas the ICAAP covers only Nordea Bank AB on the basis of its consolidated situation).
- Certain capital deductions where allocation keys have been agreed upon.

Going forward, changes to the EC framework will mainly be driven by changes to the risk types featured in the ICAAP and continuous efforts to reduce the gap between legal equity and EC, i.e. the inclusion of further capital deductions.

As of end 2014, the total EC of Nordea equals EUR 23.9bn (EUR 24.4bn, restated). Figure 11.1 shows the EC distributed by Business Area and risk type. Notably, credit risk accounts for 70% of the total EC. The main drivers of the decrease in EC were a decrease in credit risk due to FX-movements and improved credit quality. Further there has been a decrease in market risk due to historically lower interest rates negatively affecting the liabilities in Nordea's interest risk in the banking book and NLP. There was also increased operational risk due to increased income in 2013.

11.3 Stress testing governance and framework

Stress testing governance and framework are important due to the vital role of capital for Nordea's management and profitability. Thus an adequate governance structure is required for the stress testing process. Key responsibili-

ties include Group Executive Management (GEM) and the legal entity boards' engagement in the internal assessment of capital (ICAAP) stress testing. In addition, the Executive Management of Group Risk Management (GREM) and the Asset and Liability Committee/Risk Committee review in details the stress test performed and potential implications for future capital.

Capital adequacy stress testing is carried out annually during the first quarter, using end-of-year data. Ad hoc stress testing may be carried out throughout the year when necessary. In order to determine the adequacy of capital for the Nordea Group throughout the scenarios, Key financial targets, which are stated in Nordea's capital policy, are also considered. As long as the capital policy is fulfilled during the scenarios, the adequacy of existing capital can be supported.

The key measure for determining the stress test impact is the CET1 ratio and how it develops during the scenarios. The stress test capital impact is defined as the percentage drop in CET1 ratio in the most stressed year. In addition the stress test capital add-on, defined as the CET1 capital needed to compensate for the increase in REA and reduction in capital due to negative net profit in the stress scenarios, is included as a capital buffer in the bank's internal capital requirement. The impact is then analysed in relation to capital policy, regulatory buffers and internal capital requirements.

11.3.1 Stress tests performed

During 2014, Nordea performed internal stress tests in order to evaluate general effects of an economic downturn scenario as well as effects for specifically identified segments or high risk areas. In addition to the internal stress tests, Nordea has also participated in the stress tests requested by EBA (for Nordea Group) and by ECB (for Nordea Bank Finland Group). The Nordea Group has also been subject to stress tests and capital review exercises performed by financial supervisors and central banks. The result of the ECB Comprehensive assessment (including AQR) and the EBA EU-wide stress test were published on 26 October 2014. The result of the stress test confirmed Nordea's strong position, as the bank stood well above the set thresholds.

As part of the ICAAP and the capital planning process, firm-wide stress tests are used as an important risk management tool in order to determine how severe unexpected changes in the business and macro environment will affect the capital need. The stress tests reveal how the capital need varies during a stress scenario, where the income statements, balance sheet, regulatory capital requirements, EC and capital ratios are impacted.

In addition to the firm-wide stress tests which cover all risks defined in the EC framework, Nordea performs ad hoc stress tests and sensitivity analyses of various risk parameters and risk factors on a need-by-need basis.

Nordea carries out reverse stress tests of various recovery environments in relation to the development of the recovery and resolution plan. Several standalone stress tests for

Table 11.1 Parameters in the annual stress test

Parameter	Impact
Volumes	Lending volumes are dependent on lending growth specified in the scenario and on inflow to default and loss provisions. Deposit volumes are given directly by the RFF.
Margins	Corporate lending margins are country and rating specific and therefore sensitive to rating migrations. Retail margins are country specific and split by mortgage lending and other lending. Defaulted (but performing) customers are assigned a lower margin. Deposit margins are given by the RFF.
Net interest income	Net interest income figures are adjusted according to the change in volume and margins for deposits and lending, as well as increased funding cost (see below).
Funding cost	Changes in funding costs are derived from the assumption of Nordea being down-rated. The increases funding cost, due to a lower rating, reduces net interest income.
Net fee and commission income	Net fee and commission income is calculated according to product mix. Commission income is assumed to follow market movements and is adjusted according to changes in the stock index, whereas other items are adjusted according to changes in GDP.
Operating expenses	Operating expenses are assumed to be constant except for variable salary expenses, which are adjusted according to changes in net profit the previous year.
Loan losses	Loan losses are calculated based on a bottom-up, EL-based model. The EL-calculations are carried out on stressed rating distributions, stressed point in time PD curves and stressed LGD values (see below). The model covers both collective and specific provisions. The loan loss model consists of two components that cover losses related to (i) a general macroeconomic scenario and (ii) industry specific and idiosyncratic loss events.
P/L effect of Operational- and Market Risk	Stressed losses related to operational risk and market risk are calculated using assumed loss distributions and correlations between the risk types.
Rating/Scoring migration	For corporate customers, rating migrations are calculated on customer level based on stressing their financial statements for each year and scenario. For retail and bank customers, rating/scoring migrations are calculated based on central macro-economic variables per year and scenario.
Probability of default	Stressed PD values are calculated on customer level based on the stressed rating/scoring migrations (see above). For loan loss calculations point in time PDs are used. The point in time PDs are dependent on the severity of the macroeconomic scenario. In addition the PDs contain an add-on factor to reflect industry specific and idiosyncratic risk.
Collateral values	The collateral coverage is stressed by moving parts of the exposure from secured to unsecured, resulting in an increase in average weighted LGD.
Risk exposure amount (REA)	Credit risk REA is calculated on customer/exposure level based on stressed PDs and LGDs. REA is also dependent on changes in volumes (EAD) which are a function of lending growth and inflow to default.

each risk type such as market risk and liquidity risk are also carried out (see chapters 6 and 9 for further details).

Nordea continuously refines its stress testing methodologies and practises to ensure a forward-looking element.

The general stress test process may be divided into the following three steps:

- Scenario development and translation
- Calculation
- Analysis and reporting.

These steps are described further in the sections following.

11.3.2 Scenario development and translation

The annual ICAAP stress test is based on three-year macroeconomic scenarios for each Nordic and Baltic country. The scenarios are designed to replicate shocks that are particularly relevant in the current macroeconomic environment. Stress scenarios are designed by economists in the Nordea Economic Research division in each Nordic country. Nordea also uses its rolling financial forecast for complementary assumptions of the baseline scenario. The difference between the stressed scenarios and the baseline scenario is used to determine the stress effect and the additional capital need.

While the annual stress test is based on comprehensive macroeconomic scenario which involves estimates of several macroeconomic factors, the ad hoc stress tests are based on direct estimates of risk parameter changes or on changes of a few selected macroeconomic variables. This enables senior management to define scenarios and evaluate the effect of them in capital planning.

After a scenario is developed, the effects on risk drivers are translated and new financial parameters are simulated. Advanced models in combination with expert judgment from Business Areas are used in order to determine the effect of the scenario.

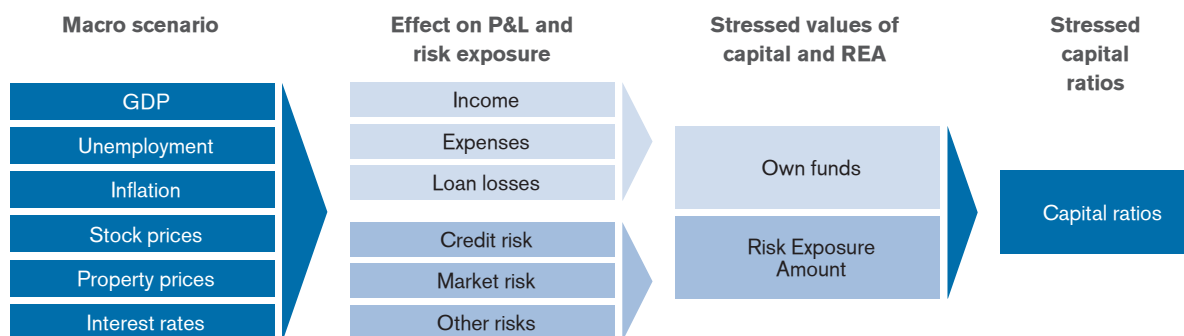
As an example, in the annual stress test, the scenario is translated into an impact on the parameters listed in Table 11.1.

11.3.3 Calculation

The stressed figures and parameters from the scenario are used to calculate the effects on the regulatory capital requirements and the financial statements. The regulatory capital is calculated for the credit risk, market risk and operational risk according to the CRR with regards to the IRB approaches used. The calculations for each risk type are aggregated into total capital requirement figures.

Stressed figures for loan losses are calculated bottom-up, based on stressed rating migrations and collateral values. Stressed point-in-time PDs that are functions of the downturn scenario, are used in the calculation of loan losses. The loan loss calculation also covers idiosyncratic losses related to the exposure to single customers and industries. The loan loss model covers both specific and collective provisions. Together with net profit and dividend from the stressed financial statements are used to calculate the effect on the own funds components. Own funds is set in relation

Figure 11.2 Calculation process



to the stressed risk exposure amount in order to calculate the effect on capital ratios during a stress scenario. Figure 11.2 shows the calculation process used in the stress test framework.

11.3.4 Analysis and reporting

The first level of reporting in Nordea is the ALCO and the Risk Committee, which review the details of the stress tests and implications on future capital need. The results, showing the implications of the stress tests on the adequacy of existing capital are distributed to GEM and the Board of Directors. A similar governance process is used for the subgroups and legal entities.

The results of the stress tests support senior management's understanding of the implications of the current capital strategy given potential market shocks. Based on this information senior management is able to ensure that Nordea holds enough capital against potential economic downturns and other stress events. Business Area involvement in defining and assessing the stress tests is seen as important in order to increase the risk awareness throughout the organisation and the understanding of the relation between capital requirements and exposure to material risks.

The outcome of the stress tests demonstrate how Nordea's loan loss and capital ratios will change during a stress scenario. The outcomes are then analysed in order to decide the capital need during a downturn period in order to ensure that Nordea remains well capitalised.

12. Regulatory development

Capital Requirements Directive IV and the Capital Requirements Regulation were introduced during 2014. The regulatory landscape will continue to undergo changes over the forthcoming years.

12.1 Current regulatory framework for capital adequacy

The Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR) for the European financial market entered into force from 1 January 2014. The Regulation became applicable in all EU countries 1 January 2014 while the Directive was implemented through national law within all EU member states during 2014, through national processes. In Norway the CRD IV/CRR is yet to be agreed within the EEA.

12.1.1 Regulatory minimum capital requirements

The CRR includes a revised definition of own funds, increasing the quality of capital, hence creating better loss absorbing capacity. The CRR also increases the requirements for capital of better quality. The CRR requires banks to comply with the following minimum capital ratios:

- Common equity tier 1 capital ratio of 4.5%
- Tier 1 capital ratio of 6%
- Capital ratio of 8%

12.1.2 Capital buffers

CRD IV introduced a number of capital buffer requirements. The capital buffer requirements are expressed in relation to REA to be covered by CET1 capital and represent additional capital to be held on top of minimum regulatory requirements. The levels and the phasing-in of the buffer requirements are subject to national discretion.

The mandatory buffers introduced are the capital conservation buffer of 2.5%, the countercyclical capital buffer and the buffer for globally systemically important institutions (G-SII) of 1–3.5%. The institution specific countercyclical capital buffer will be in the range of 0–2.5%, depending on the buffer rate in the countries where the institution has their exposures. In addition, CRD IV allows for a systemic risk buffer (SRB) to be added as well as a buffer for other systemically important institutions (O-SIIs). These buffers should be seen in conjunction with the other buffers and should also be met with CET1. The O-SII buffer can be set up to 2% and the SRB can be set up to 3% for a banks all exposures and up to 5% for a banks domestic exposures. These buffers are together to be seen as a combined buffer. The combined buffer requirement is the sum of the capital conservation buffer, the countercyclical capital buffer and;

- where the SRB is applicable for all exposures, the highest of the SRB and the highest SII buffer.
- where the SRB is applicable only on domestic exposures, the sum of the highest SII buffer and the SRB.

12.1.3 Risk exposure amount (REA)

REA has mainly been affected by additional requirements related to counterparty credit risk, the introduction of an asset correlation factor for exposures towards financial institutions and a multiplication factor for exposures to SMEs. Several countries have also introduced higher risk weights or other restrictions on mortgage lending.

For banks calculating REA according to the IRB approach, the transitional floor (Basel I floor) states that minimum own funds cannot be less than 80% of the minimum own funds calculated under Basel I. The CRR extends these transitional rules until 31 December 2017.

12.1.4 Nordic implementation

Many of the changes in the CRD IV/CRR are being gradually phased-in. However, the CRR also opens up for local regulators to phase in certain requirements faster.

12.1.4.1 Denmark

According to the CRR local authorities have the option to phase-in the new requirements. This option has been used by the Danish FSA in a number of cases. The capital conservation buffer will be phased-in from 2016 to 2019 and the countercyclical capital buffer will be phased-in from 2015 to 2019, however there has been no statement from Danish authorities on the setting of the countercyclical buffer yet. In addition to this, a systemic risk buffer requirement for systemically important institutions will be phased-in between 2015 and 2019. Nordea Bank Danmark (together with five other institutions) has been identified as systemically important and will be subject to a 2% CET1 systemic risk buffer requirement when fully phased-in. In addition to this there is also a possible Pillar II requirement that is set on an individual basis. Finally a number of transition rules are relevant for Nordea Bank Danmark. The shortfall deduction will in the period from 2014 to 2019 step wise be changed from a deduction 50/50 in CET1 and tier 2 to a 100% deduction in CET1. The transition rules regarding unrealised gain and losses and deduction for defined pension assets included in CET1 are also implemented.

12.1.4.2 Finland

In Finland the capital conservation buffer is set to 2.5% CET1 from 1 January 2015. The countercyclical capital buffer will also be applicable from 1 January 2015, however there has been no statement from the Finnish authorities on the setting of the countercyclical buffer yet. In addition to this there will be a buffer requirement for systemically important institutions (O-SII) from 1 January 2016 of maximum 2% CET1. It has not yet been communicated by the Finnish FSA which institutions are to be seen as O-SII, but it is assumed that Nordea Bank Finland will be considered as one.

Investigations related to implementation of systemic risk buffer in Finland is on-going.

12.1.4.3 Norway

In Norway, the CRD IV/CRR is not yet incorporated in

the EEA agreement. New and national regulations that resemble the CRD IV/CRR rules have been continuously introduced since 1 July 2013 however, several detailed rules remains to be implemented, of which the capital requirement to the SME segment is one. Further national adjustments and new rules are expected during 2015 in connection to liquidity requirements, leverage ratio and Pillar II requirements.

Norwegian financial institutions must have a CET1 capital ratio of at least 4.5%, a Tier 1 ratio of at least 6% and a total capital ratio of 8%. In addition, a capital conservation buffer of at least 2.5% CET1 and a systemic risk buffer of 2% CET1 apply. The systemic risk buffer was increased from 2% to 3% from 1 July 2014. The quarterly assessed level of the countercyclical capital buffer, currently set to 1%, applies to all institutions from 30 June 2015. Furthermore, the Ministry of Finance decided, in June 2014, that Nordea Bank Norge, together with two other banks, are considered as systemically important institutions in Norway and must therefore hold an additional buffer of 1% CET1 from 1 July 2015 and 2% CET1 from 1 July 2016. The buffer requirement is the same for the three institutions and applies on all levels. In October 2013, stricter risk weights were adopted for residential mortgages for Norwegian regulated IRB banks, through an increased LGD floor from 10% to 20%. In July 2014, the Financial Supervisory Authority issued a new guideline regarding supervisory practices introducing additional national adjustments to PD and LGD to the IRB models to mortgages in Norway, with effect from first quarter 2015.

12.1.4.4 Sweden

As communicated by Swedish authorities already in 2011 the CET1 requirement for the four large Swedish banks will be 10% in 2014 and 12% from 2015. This has been achieved by setting the capital conservation buffer to 2.5% CET1 and by setting the SRB to 3% from 2015. In addition there has been an additional SRB requirement of 2% CET1 within Pillar II from September 2014. On top of this the Swedish FSA has decided that the countercyclical capital buffer will be set to 1% CET1 from 13 September 2015, hence there is currently no applicable institution specific countercyclical buffer rate for Nordea. Finally there will also be a Pillar II requirement.

The Swedish FSA has also decided that the risk weight floor for residential mortgages shall be set to 25% from September 2014.

12.1.5 European Banking Authority

The creation of a single rule book within the EU remains the main task of the European Banking Authority (EBA). The CRD IV and CRR frameworks call on a strong commitment from all EU Member States to follow the single rule book, which will help to strengthen the financial stability and the integrity of the Single Market as well as reduce the supervisory burden for cross-border institutions. To further clarify the CRD IV/CRR, the EBA is still developing a large number of binding technical standards, guidelines, reports, and opinions.

12.1.6 Financial supervision in the EU

Starting in November 2014 the European Central Bank (ECB) is responsible for the supervision of banks in the framework of the Single Supervisory Mechanism (SSM) within the Euro area. National supervisors will however continue to play an important role in preparing and implementing the ECB's decisions. The SSM also establishes rules on the governance and responsibility of the ECB which should ensure a separation between its tasks as a supervisor and its monetary policy functions. For banks active in several countries, both inside and outside the Euro zone, existing home/host supervisor coordination procedures will continue to exist as they do today. The SSM is fully open to all Member States that have decided to enter into close cooperation. Supervision is based on a regulatory framework including commonly agreed principles and standards and is shared between the ECB and national supervisors of participating Member States. The ECB will directly supervise significant banks, while the national supervisors will supervise less significant banks.

12.2 Forthcoming regulation

The changes for financial institutions in the regulatory area related to capital and risk are extensive. In addition to the ongoing regulatory updates of CRD IV/CRR, other closely related regulations are also emerging. These include a new framework for dealing with bank failure (Bank Recovery and Resolution Directive – BRRD), a proposal for a Banking Union (including the already agreed single supervisory mechanism and the single resolution mechanism), a review regarding treatment of the trading book from the Basel Committee on Banking Supervision (Fundamental review of the Trading Book), a potential proposal regarding a structural reform primarily related to trading activities as well as changes to accounting regulation that will have an effect on capital and risk.

12.2.1 Updates on Basel III and the CRD IV/CRR

Basel III and the CRD IV/CRR are at various stages of regulatory implementation and there are still a number of updates currently ongoing.

12.2.1.1 Proposal on revised capital floor (Basel I floor)

On 22 December 2014 the Basel Committee on Banking Supervision (BCBS) published a consultative document on the design of a permanent floor, replacing the Basel I (transitional) floor applicable today. The BCBS proposal is that the floor should be based on the revised standardised approaches for credit-, market- and operational risks that is currently on consultation or has recently been consulted on. The calibration of the floor, i.e. the percentage of the standardised REA which will set the floor level, is outside the scope for the consultation. The BCBS will undertake a quantitative impact study to understand the impact of the proposed floor framework during 2015.

12.2.1.2 Revised standardised approach for credit risk

On 22 December 2014 the BCBS published a consultative paper on the revision of the standardised approach for credit risk. The BCBS ambition with the revision is to reduce the reliance on external rating, increase risk sensitivity, reduce national discretions, strengthen the link between the different approaches and enhance the comparability of capital requirements between banks. The intention is to finalise the work by end-2015.

12.2.1.3 Fundamental review of the trading book

In December 2014, the BCBS published a third consultative document on the fundamental review of the trading book (FRTB). The aim with the FRTB is to strengthen the resilience to markets risks due to observed weaknesses during the crisis. The review sets out a potential definition of the scope of the trading book and proposes to strengthen the relationship between the standardised and internal model-based approaches. According to a statement from the BCBS in November 2014 the work with FRTB is intended to be finalised by end-2015.

12.2.1.4 Revision to the simpler approaches for operational risk

On 6 October 2014 the BCBS published a consultative document on the revision of the simpler approaches for operational risk. The proposal is to replace the current simpler approaches (the basic indicator approach and the standardised approach) with one approach. The capital requirement for the current approaches is based on the gross income indicator and for the standardised approach different business segments receive different capital requirements ranging from 12% to 18% depending on business line. In the proposal the capital requirement will be based on a new indicator, business indicator, and with a capital requirement ranging between 10–30% depending on the size of the bank. The intention from the Basel Committee is to finalise the work by mid-2015.

12.2.1.5 Pillar II

In December 2014 the Swedish FSA published a proposal for standardised methods for assessing the capital adequacy requirement within Pillar II for three different types of risk. These types of risk are concentration risk, interest rate risk in the banking book (IRRBB) and pension risk. The Swedish FSA intends to use the methods in the course of the SREP in 2015. The intention is also to publish the results of the assessments on a quarterly basis.

12.2.1.6 Leverage ratio

The CRR introduced a non-risk based measure, the leverage ratio, in order to limit an excessive build-up of leverage on credit institutions' balance sheets in an attempt to contain the cyclicity of lending. The impact of the ratio is being monitored by the supervisory authorities with an aim to migrate to a binding measure in 2018, based on appropriate review and calibration. The leverage ratio will be calculated as the tier 1 capital divided by the exposure (on-balance and off-balance sheet exposures, with adjust-

ments for certain items such as derivatives and securities financing transactions).

On 17 January 2015 a revised version of the calculation of the leverage ratio was published in the Official Journal entering into force the day after. The revised version is an update of the CRR to be more in line with the BCBS leverage ratio framework from January 2014.

12.2.1.7 Liquidity regulations

The objective of the liquidity reform is to improve the banking sector's ability to absorb liquidity shocks arising from financial and economic stress, thus reducing the risk of spill-over from the financial sector to the real economy. In the CRD IV/CRR two new quantitative liquidity standards have been introduced: liquidity coverage ratio (LCR) and net stable funding ratio (NSFR).

LCR requires that a bank shall hold liquidity buffers which are adequate to face imbalance between liquidity inflows and outflows under gravely stressed conditions over a period of 30 days. The EU Commission has published a delegated act on LCR specifying details for the calculations of inflows and outflows. The detailed LCR rules will enter into force on 1 October 2015 with phase-in of 60% in 2015, 70% in 2016, 80% in 2017 and 100% in 2018. The Swedish FSA has progressed faster in liquidity regulations and implemented a tougher LCR requirement already in the beginning of 2013 (all currencies combined, but also separately for USD and EUR). It is unclear if the content of Swedish LCR will be aligned with the EU LCR in 2015.

NSFR requires that a bank shall ensure that long term obligations are adequately met with a diversity of stable funding instruments under both normal and stressed conditions. CRD IV/CRR does not contain detailed rules for NSFR. BCBS published detailed proposals for NSFR in 2010. After further revisions, BCBS published a final recommendation on NSFR in October 2014. It is the BCBS's intention to introduce NSFR as a minimum standard in 2018. Within the EU, EBA is currently analysing the BCBS final recommendation and will possibly present a proposal to the EU Commission who is expected to present a proposal by late 2016.

12.2.2 Bank Recovery and Resolution Directive (BRRD)

The Banking Recovery and Resolution Directive (BRRD) were published in the Official Journal in June 2014 together with the Directive on Deposit Guarantee Scheme (DGS). The BRRD outlines the tools and powers available to the relevant authorities in the EU, which are aimed at both preventing bank defaults as well as handling banks in crises, while maintaining financial stability. The DGS strengthens the protection of citizens' deposits in case of bank failures. The BRRD require banks to draw up recovery plans to describe the measures they would take in order to remain viable if their financial situation is considerably weakened. The recovery plans may include changed management, appointment of a special manager, convening meeting of shareholders to adopt new business plans, etc. The BRRD also sets the minimum requirement for own funds and

eligible assets (MREL) for all EU banks. In November 2014, the EBA published a technical standard describing the calculation of the MREL requirement. The final version of the EBA technical standard will be applied for all EU banks at the latest in 2016. In November 2014 the Financial Stability Board (FSB) published a consultation on the total loss absorbing capacity (TLAC). The TLAC is intended to ensure adequate availability of loss-absorbing capacity for global systemic banks in resolution, similar to the MREL. The TLAC requirement will not be applied before 2019. Both BRRD and DGS must be transposed into national legislation within a defined timeline. Bank deposits in all member states continue to be guaranteed up to EUR 100,000 and the deposits should be paid out within seven working days.

12.2.2.1 Denmark

In December 2014 the Danish government proposed to the Parliament the legislation that implements the BRRD. In addition it includes a proposal of a capital buffer for mortgage institutes. The buffer will be 2% of the accounting value of mortgage loan (unweighted amount) with a phase in period from 2016 to 2020. The buffer will be on top of other capital requirements, capital buffers and pillar II add-ons. The buffer has to be covered by Tier 1 or Tier 2 instruments or unsecured senior debts, which fulfil certain criteria.

12.2.3 Bank structural reform

In February 2012, the EU Commission established a high-level expert group (HLEG) with the task to assess whether additional reforms on the structure of individual banks should be considered. The HLEG answer to the task was presented in a report in October 2012 and suggested mandatory separation of proprietary trading and other high-risk trading activities from the normal banking activities. The main purpose would be to separate certain particularly risky parts of financial activities from deposit taking activities within a banking group. The underlying objective is to make deposit taking banks safer and less connected to trading activities. Risky financial activities are defined as proprietary trading and all securities or derivatives incurred in the process of market-making as well as exposures towards hedge funds, private equity investments and structured investment vehicles.

A proposal from the European Commission was released in January 2014. The Commission proposal is currently being discussed both in the European Parliament and in the Council. Time for finalisation of the proposal and implementation is still unclear.

12.2.4 Solvency II

The Solvency II regime, which will come into force from 1 January 2016 introduces a consistent prudential framework for insurance regulation across Europe. The main objectives of Solvency II are to:

The main objectives of Solvency II are to:

- have a forward-looking risk-based solvency capital assessment and replace the old "volume-based" capital requirement framework

- ensure that the risk ownership is anchored with executive management and the Board of Directors
- ensure that the risk measurement and governance is embedded into business operations and strategic planning
- strengthen the supervision of insurance groups.

12.2.5 Accounting standards

Nordea's accounting policies, which follow IFRS, are under change. Nordea's assessment is that the most important changes are related to Financial Instruments (IFRS 9) and Insurance Contracts (IFRS 4), although other changes might also have an impact on Nordea. IFRS 9 will become mandatory from 2018 if endorsed in the EU. The finalisation dates and effective date for the amended IFRS 4 is still pending.

List of abbreviations

ABCP	Asset-backed commercial paper	GEM CC	Group Executive Management Credit Committee
ADF	Actual Default Frequency	GICS	Global Industries Classification Standard
AIRB	Advanced Internal Ratings Based approach	GMCCR	Group Market and Counterparty Credit Risk
ALCO	Asset and Liability Committee	GVC	Group Valuation Committee
ALM	Asset and Liability Management	HLEG	High-level expert group
AML	Anti-money laundering	IAS	International Accounting Standard
AQR	Asset Quality Review	ICAAP	Internal Capital Adequacy Assessment Process
AR	Annual Report	IFRS	International Financial Reporting Standard
AT1	Additional Tier 1	IMM	Internal Model Method
AUM	Assets under management	IRB	Internal Ratings Based approach
AVA	Additional valuation adjustments	IRM	Incremental Risk Measure
BCBS	Basel Committee on Banking Supervision	LCR	Liquidity Coverage Ratio
BEM	Banks and emerging markets	LGD	Loss given default
BRRD	Banking Recovery and Resolution Directive	LTV	Loan-to-value
CCF	Credit Conversion Factor	MCEV	Market-Consistent Embedded Value
CCO	Chief Credit Officer	MREL	Minimum requirement for own funds and eligible liabilities
CCoB	Capital conservation buffer	NBSF	Net balance of stable funding
CCP	Central Counterparties	NLP	Nordea Life & Pensions
CCyB	Countercyclical capital conservation buffer	NSFR	Net stable funding ratio
CDO	Collateralised debt obligation	ORSA	Own Risk and Solvency Assessment
CDS	Credit default swap	O-SII	Other systemically important institutions
CEM	Current Exposure Method	OTC	Over-the-counter
CET1	Common equity tier 1	ORX	Operational Riskdata eXchange Association
CEO	Chief Executive Officer	P/L	Profit and loss
CFO	Chief Financial Officer	PD	Probability of default
CIB	Corporate and Institutional banking	PIT	Point-in-time
CLN	Credit-linked notes	QRA	Quality and Risk Analysis
CLS	Continuous Linked Settlement	RCSA	Risk and Control Self-Assessment
CMO	Collateralised mortgage obligations	REA	Risk exposure amount
CRD	The EU's Capital Requirements Directive	RFF	Rolling Financial Forecast
CRM	Comprehensive Risk Measure	RTS	Regulatory Technical Standard
CRO	Chief Risk Officer	S&P	Standard & Poor's
CRR	The EU's Capital Requirements Regulation	SA	Standardised approach
CVA	Credit valuation adjustment	SII	Systemically important institution
DGS	Directive on Deposit Guarantee Scheme	SIIR	Structural Interest Income Risk
EAD	Exposure at default	SME	Small and medium-sized enterprises
EBA	European Banking Authority	SOO	Shipping, oil and offshore
EC	Economic capital	SPE	Special Purpose Entity
ECB	European Central Bank	SPRAT	Social and Political Risk Assessment Tool
ECC	Executive Credit Committee	SRB	Systemic Risk Buffer
EL	Expected loss	SREP	Supervisory Review and Evaluation Process
EP	Economic profit	SRP	Supervisory Review Process
ERAT	Environmental Risk Assessment Tool	SSM	Single Supervisory Mechanism
EU	European Union	sVaR	Stressed Value-at-Risk
EV	Economic value	T2	Tier 2
FFFS	Finansinspektionens Författningssamling (The Swedish FSA's directive)	TLAC	Total Loss Absorbing Capacity
FIRB	Fundation Internal Rating Based approach	TTC	Through-the-cycle
FRTB	Fundamental review of the trading book	VaR	Value-at-Risk
FSA	Financial Supervisory Authority		
FSB	Financial Stability Board		
FX	Foreign exchange		
G-SII	Global systemically important institutions		
GA&LM	Group Asset & Liability Management		
GCCR	Group Credit Committee Retail Banking		
GDP	Gross Domestic Product		
GCCW	Group Credit Committee Wholesale Banking		
GEM	Group Executive Management		

Appendix A

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Table A1 Mapping of own funds to the balance sheet, 31 December 2014

Assets (EURm)	Nordea Group	Nordea NLP	Nordea Banking group	Row in transitional own funds template (Table A2)
Intangible assets	2,908	324	2,584	
– of which: Goodwill and other intangible assets	–2,908	–324	–2,584	8
Deferred tax assets	130	7	123	
– of which: Deferred tax assets that rely on future profitability excluding those arising from temporary differences	0	0	0	10 ¹⁾
Retirement benefit assets	42	0	42	
– of which: Retirement benefit assets net of tax	–33	0	–33	15
Liabilities (EURm)				
Deferred tax liabilities	983	231	751	
– of which: Deductible deferred tax liabilities associated with deferred tax assets that rely on future profitability and do not arise from temporary differences	0	0	0	10 ¹⁾
Subordinated liabilities	7,942	0	7,942	
– of which: AT1 Capital instruments and the related share premium accounts	1,224		1,224	30
– of which: Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	2,024		2,024	33 and 47 ²⁾
– of which: Direct and indirect holdings by an institution of own AT1 Instruments	–32		–32	37
– of which: T2 Capital instruments and the related share premium accounts	4,496		4,496	46
– of which: Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	69		69	47
– of which: Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–46		–46	52
Equity (EURm)			0	
Share capital	4,050	0	4,050	1
Share premium reserve	1,080	0	1,080	
– of which: Capital instruments and the related share premium accounts	1,080	0	1,080	1
– of which: Retained earnings	0	0	0	2
Other reserves	–970	–7	–962	
– of which: Retained earnings	–637	7	–644	2
– of which: Accumulated other comprehensive income	–333	–14	–318	3
– of which: Fair value reserves related to gains or losses on cash flow hedges	–5	0	–5	11
Retained earnings net of proposed dividend	25,674	779	24,895	
– of which: Profit/loss for the year	831	273	558	5a
– of which: Retained earnings	22,348	506	21,842	2
– of which: Direct holdings by an institution of own CET1 instruments (negative amount)	–6	0	–6	16

1) If CA4 1.2 > CA4 2.2.1 then CA4 1.2 – CA4 2.2.1 to row 10.

2) 80% to row 33, col A & 20% col C & 20% row 47, col A.

Table A2 Transitional own funds, 31 December 2014

	(A) amount at disclosure date	(B) regulation (EU) no 575/2013 article reference	(C) amounts subject to pre- regulation (EU) no 575/2013 treatment or prescribed residual amount of regulation (EU) no 575/2013
Common Equity Tier 1 capital: instruments and reserves			
1	Capital instruments and the related share premium accounts	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: Share capital	5,130 EBA list 26 (3)	
2	Retained earnings	4,050 EBA list 26 (3)	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	21,198 26 (1) (c)	
3a	Funds for general banking risk	-318 26 (1)	
4	Amount of qualifying items referred to in article 484 (3) and the related share premium accounts subject to phase out from CET1 Public sector capital injections grandfathered until 1 January 2018	0 26 (1) (f)	
5	Minority interests (amount allowed in consolidated CET1)	0 486 (2)	0
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	0 483 (2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	0 84, 479, 480	0
		558 26 (2)	
		26,567	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-272 34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	-2,584 36 (1) (b), 37, 472 (4)	0
9	Empty Set in the EU	N/A	
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where the conditions in article 38 (3) are met) (negative amount)	0 36 (1) (c), 38, 472 (5)	0
11	Fair value reserves related to gains or losses on cash flow hedges	-5 33 (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-344 36 (1) (d), 40, 159, 472 (6)	0
13	Any increase in equity that result from securitised assets (negative amount)	0 32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-49 33 (b)	
15	Defined-benefit pension fund assets (negative amount)	-33 36 (1) (e), 41, 472 (7)	0
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-6 36 (1) (f), 42, 472 (8)	0
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	0 36 (1) (g), 44, 472 (9)	0
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	0 36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	0
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0 36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	0
20	Empty Set in the EU	N/A	
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0 36 (1) (k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)	0 36 (1) (k) (i), 89 to 91	

20c		36 (1) (k) (ii)		
		243 (1) (b)		
		244 (1) (b)		
	of which: securitisation positions (negative amounts)	0	258	
20d		36 (1) (k) (iii), 379		
	of which: free deliveries (negative amount)	0	(3)	
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	36 (1) (c), 38, 48 (1)		
		0	(a), 470, 472 (5)	0
22	Amount exceeding the 15% threshold (negative amount)	0	48 (1)	
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	36 (1) (i), 48 (1) (b),		
		0	470, 472 (11)	
24	Empty Set in the EU	N/A		
25		36 (1) (c), 38, 48 (1)		
	of which: deferred tax assets arising from temporary differences	0	(a), 470, 472 (5)	
25a	Losses for the current financial year (negative amount)	0	36 (1) (a), 472 (3)	
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) (l)	
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0		
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	-453	467	
	Of which: ...filter for unrealised loss 1	0	467	5
	Of which: ...filter for unrealised gain 1	-453	468	0
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	0	481	
	Of which: ...	0	481	
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	36 (1) (j)	
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	-3,747		0
29	Common Equity Tier 1 (CET1) capital	22,821		0
Additional Tier 1 (AT1) capital: instruments				
30	Capital instruments and the related share premium accounts	1,224	51, 52	
31	of which: classifies as equity under applicable accounting standards	0		
32	of which: classified as liabilities under applicable accounting standards	0		
33	Amount of qualifying items referred to in article 484 (4) and the related share premium accounts subject to phase out from AT1 Public sector capital injections grandfathered until 1 January 2018	1,576	486 (3)	447
		n/a	486 (3)	
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0	85, 86, 480	
35	of which: instruments issued by subsidiaries subject to phase out	0	486 (3)	
36	Additional Tier 1 (AT1) capital before regulatory adjustments	2,800		
Additional Tier 1 (AT1) capital: regulatory adjustments				
37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	-32	52 (1) (b), 56 (a), 57, 475 (2)	0
38	Holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56 (b), 58, 475 (3)	0
39	Direct and indirect holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	0	56 (c), 59, 60, 79, 475 (4)	0

40	Direct and indirect holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above the 10% threshold net of eligible short positions) (negative amount)	56 (d), 59, 79, 475 0 (4)	0
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013 Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 0 472 (11) (a)	0
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013 Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	477,477 (3), 477 0 (4) (a)	0
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR Of which: ...possible filter for unrealised losses Of which: ...possible filter for unrealised gains Of which: ...	0 467, 468, 481 0 467 0 468 0 481	0
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0 56 (e)	
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	-32	
44	Additional Tier 1 (AT1) capital	2,768	
45	Tier 1 capital (T1 = CET1 + AT1)	25,588	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	4,496	
47	Amount of qualifying items referred to in article 484 (5) and the related share premium accounts subject to phase out from T2 Public sector capital injections grandfathered until 1 January 2018	516 486 (4) 0 483 (4)	-447
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0 87, 88, 480	0
49	of which: instruments issued by subsidiaries subject to phase out	0 486 (4)	0
50	Credit risk adjustments	0 62 (c) & (d)	
51	Tier 2 (T2) capital before regulatory adjustments	5,012	
Tier 2 (T2) capital: regulatory adjustments			
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	63 (b) (i), 66 (a), 67, -46 477 (2)	
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0 66 (b), 68, 477 (3)	
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	66 (c), 69, 70, 79, 0 477 (4)	0
54a	Of which new holdings not subject to transitional arrangements	0	
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	0	0

55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	66 (d), 69, 79, 477 (4)	-505	0
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)		0	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013 Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)	0	0
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013 Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc	475, 475 (2) (a), 475 (3), 475 (4) (a)	0	0
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR Of which: ...possible filter for unrealised losses Of which: ...possible filter for unrealised gains Of which: ...	467, 468, 481 467 468 481	0	0
57	Total regulatory adjustments to Tier 2 (T2) capital		-551	
58	Tier 2 (T2) capital		4,461	
59	Total capital (TC = T1 + T2)		30,049	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013(i.e. CRR residual amounts) Of which: ...items not deducted from CET1 (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Deferred tax assets that rely on future profitability net of related tax liability, indirect holdings of own CET1, etc) Of which: ...items not deducted from AT1 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc) Items not deducted from T2 items (Regulation (EU) No 575/2013residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b) 475, 475 (2) (b), 475 (2) (c), 275 (4) (b) 477, 477 (2) (b), 477 (2) (c), 477 (4) (b)	0	0
60	Total risk weighted assets		145,475	
Capital ratios and buffers				
61	Common Equity Tier 1 (as a percentage of risk exposure amount)		15.7%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)		17.6%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)		20.7%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)		2.5%	CRD 128, 129, 130
65	of which: capital conservation buffer requirement		2.5%	
66	of which: countercyclical buffer requirement		0.0%	

67	of which: systemic risk buffer requirement	0.0%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.0%	CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	11.2%	CRD 128

Amounts below the thresholds for deduction (before risk weighting)

72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	36 (1) (h), 45, 46, 472 (10)	233	56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	36 (1) (i), 45, 48, 470, 472 (11)	926	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in article 38 (3) are met)	36 (1) (c), 38, 48, 470, 472 (5)	0	

Applicable caps on the inclusion of provisions in Tier 2

76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	0	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	105,637	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	634	62

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)

80	Current cap on CET1 instruments subject to phase out arrangements	0	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements	1,576	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-447	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	764	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)

Table A3 Capital instruments' main features template¹⁾ – Common Equity Tier 1, 31 December 2014

1	Issuer	Nordea Bank AB (publ)
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	SE0000427361
3	Governing laws of the instrument	Swedish
	<i>Regulatory treatment</i>	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-) consolidated/ solo & sub-)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital as published in Regulation (EU) No 575/2013 article 28
	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 4,050m
8	Nominal amount of instrument	EUR 4,049,951,919
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
	<i>Coupons / dividends</i>	
17	Fixed or floating dividend / coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of pricing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of a step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or non-convertible	N/A
24	If convertible, conversion triggers	N/A
25	In convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	In convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1
36	Non-complaint transitioned features	No
37	If yes, specify non-compliant features	N/A

1) 'N/A' inserted if the question is not applicable

Table A4 Capital instruments' main features template¹⁾ – Additional Tier 1, 31 December 2014

		Loan 1	Loan 2	Loan 3	Loan 4	Loan 5	Loan 6	Loan 7
1	Issuer	Nordea Bank AB (publ)	Nordea Bank AB (publ)	Nordea Bank AB (publ)	Nordea Bank AB (publ)	Nordea Bank AB (publ)	Nordea Bank AB (publ)	Nordea Bank AB (publ)
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0200688256	W5795#AA7	US65557AAB35/ USW5816FCM42	W5795#AB5	XS0453319039	US- 65557CAM55/ US- 65557DAM39	US- 65557CAN39/ US65557DAL55
3	Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by Swedish law	Governed by English law, except for the subordination provisions which are governed by Swedish law	Governed by the laws of the State of New York, except for the subordination provisions which are governed by Swedish law	Governed by English law, except for the subordination provisions which are governed by Swedish law	Governed by English law, except for the subordination provisions which are governed by Swedish law	Governed by English law, except for the subordination provisions which are governed by Swedish law	Governed by English law, except for the subordination provisions which are governed by Swedish law
<i>Regulatory treatment</i>								
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Tier 2	Ineligible	Ineligible	Ineligible	Ineligible	Additional Tier 1	Additional Tier 1
6	Eligible at solo/(sub-) consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 (grandfathered) as published in Regulation (EU) No 575/2013 article 484.4	Additional Tier 1 (grandfathered) as published in Regulation (EU) No 575/2013 article 484.4	Additional Tier 1 (grandfathered) as published in Regulation (EU) No 575/2013 article 484.4	Additional Tier 1 (grandfathered) as published in Regulation (EU) No 575/2013 article 484.4	Additional Tier 1 (grandfathered) as published in Regulation (EU) No 575/2013 article 484.4	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 484.4	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 484.4
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 500m	EUR 138m	EUR 494m	EUR 69m	EUR 823m	EUR 816m	EUR 408m
9	Nominal amount of instrument	EUR 500m	JPY 20,000m	USD 600m	JPY 10,000m	USD 1,000m	USD 1,000m	USD 500m
9a	Issue price	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	17-Sep-04	04-Mar-05	20-Apr-05	12-Oct-05	25-Sep-09	23-Sep-14	23-Sep-14
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity	No maturity	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes

15	Optional call date, contingent call dates, and redemption price	17-Sep-09 In addition tax/regulatory call 100 per cent of nominal amount	4-Mar-35 In addition tax/regulatory call 100 per cent of nominal amount	20-Apr-15 In addition tax/regulatory call 100 per cent of nominal amount	12-Oct-35 In addition tax/regulatory call 100 per cent of nominal amount	25-Mar-15 In addition tax/regulatory call 100 per cent of nominal amount	23-Sep-19 In addition tax/regulatory call 100 per cent of nominal amount	23-Sep-24 In addition tax/regulatory call 100 per cent of nominal amount
16	Subsequent call dates, if applicable	17-Mar and 17-Sep each year after first call date	4-Mar and 4-Sep each year after first call date	20-Jan, 20-Apr, 20-Jul and 20-Oct each year after first call date	12-Apr and 12-Oct each year after first call date	25-Mar and 25-Sep each year after first call date	23-Mar and 23-Sep each year after first call date	23-Mar and 23-Sep each year after first call date
<i>Coupons / dividends</i>								
17	Fixed or floating dividend/coupon	Floating	Fixed to floating	Fixed to floating	Fixed to floating	Fixed	Fixed	Fixed
18	Coupon rate and any related index	Floating 10-year CMS +0.05 per cent per annum subject to 8 per cent cap	Fixed USD 3.75 per cent per annum, until first call date, thereafter floating 6-month JPY deposit +1.22 per cent per annum	Fixed 5.424 per cent per annum, until first call date, thereafter floating 3-month LIBOR +1.5875 per cent per annum	Fixed USD 3.84 per cent per annum, until first call date, thereafter floating 6-month JPY deposit +1.40 per cent per annum	Fixed 8.375 per cent per annum until first call date, thereafter 5-year US Treasury +5.985 per cent per annum, until 25 March 2020, thereafter 5-year US Treasury +8.9775 per cent per annum	Fixed 5.50 per cent per annum, until first call date, thereafter fixed 5-year mid swap +3.563 per cent per annum	Fixed 6.125 per cent per annum, until first call date, thereafter fixed 5-year mid swap +3.388 per cent per annum
19	Existence of a dividend stopper	Yes	Yes	Yes	Yes	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary Dividend stopper	Partially discretionary Dividend stopper	Partially discretionary Dividend stopper	Partially discretionary Dividend stopper	Partially discretionary Dividend pusher	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary	Partially discretionary	Partially discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	Yes	Yes	Yes	Yes	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers	N/A	N/A	N/A	N/A	N/A	N/A	N/A
25	In convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A
27	In convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A	N/A

28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30	Write-down features	Yes	Yes	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger (s)	To avoid liquidation	To avoid liquidation	To avoid liquidation	To avoid liquidation	To avoid or remedy any breach of Applicable Banking Regulations, shareholders resolution	Group CET1 ratio <8 per cent Issuer CET1 ratio <5.125 per cent	Group CET1 ratio <8 per cent Issuer CET1 ratio <5.125 per cent
32	If write-down, full or partial	Full or Partially	Full or Partially	Full or Partially	Full or Partially	Full or Partially	Full or Partially	Full or Partially
33	If write-down, permanent or temporary	Temporary	Temporary	Temporary	Temporary	Temporary	Temporary	Temporary
34	If temporary write-down, description of write-up mechanism	Shareholders resolution regarding reconversion and reinstatement made out of available distributable funds	Shareholders resolution regarding reconversion and reinstatement, made out of available distribution funds	Shareholders resolution regarding reconversion and reinstatement made out of available distributable funds	Shareholders resolution regarding reconversion and reinstatement, made out of available distribution funds	Shareholders resolution regarding reconversion and reinstatement, made out of available distribution funds	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes	Yes	Yes	No	No
37	If yes, specify non-compliant features	No specified trigger level, dividend stopper	No specified trigger level, step-up, dividend stopper	No specified trigger level, step-up, dividend stopper	No specified trigger level, step-up, dividend stopper	No specified trigger level, step-up, dividend pusher	N/A	N/A

1) 'N/A' inserted if the question is not applicable

Table A5 Capital instruments' main features template¹⁾ – Tier 2, 31 December 2014

	Loan 1	Loan 2	Loan 3	Loan 4	Loan 5	Loan 6	Loan 7
1 Issuer	Nordea Bank Norge ASA	Nordea Bank Finland PLC	Nordea Bank AB (publ)	Nordea Bank AB (publ)	Nordea Bank AB (publ)	Nordea Bank AB (publ)	Nordea Bank AB (publ)
2 Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	GB0001961928	N/A	XS0497179035	XS0544654162	US-65557FAA49/ US65557HAA05	XS0743689993	US-65557FAD87/ US65557HAD44
3 Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by Norwegian law	Governed by English law, except for the subordination provisions which are governed by Finnish law	Governed by English law, except for the subordination provisions which are governed by Swedish law	Governed by English law, except for the subordination provisions which are governed by Swedish law	Governed by the laws of the State of New York, except for the subordination provisions which are governed by Swedish law	Governed by English law, except for the subordination provisions which are governed by Swedish law	Governed by the laws of the State of New York, except for the subordination provisions which are governed by Swedish law
<i>Regulatory treatment</i>							
4 Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5 Post-transitional CRR rules	Tier 2	Ineligible	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6 Eligible at solo/ (sub-)consolidated/solo & (sub-) consolidated	Solo, sub-consolidated & consolidated	Solo, sub-consolidated & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7 Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 (grandfathered) as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8 Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 165m	EUR 69m	EUR 997m	EUR 747m	EUR 1,023m	EUR 748m	EUR 816m
9 Nominal amount of instrument	USD 200m	JPY 10,000m	EUR 1,000m	EUR 750m	USD 1,250m	EUR 750m	USD 1,000m
9a Issue price	100 per cent	100 per cent	99.810 per cent	99.699 per cent	99.508 per cent	99.803 per cent	99.364 per cent
9b Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10 Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11 Original date of issuance, restructuring date if applicable	04-Nov-86	22-Aug-01	26-Mar-10	29-Sep-10	13-May-11	15-Feb-12	21-Sep-12
12 Perpetual or dated	Perpetual	Perpetual	Dated	Dated	Dated	Dated	Dated
13 Original maturity date	No maturity	No maturity	26-Mar-20	29-Mar-21	13-May-21	15-Feb-22	21-Sep-22
14 Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes	Yes
15 Optional call date, contingent call dates, and redemption price	18-Nov-91 In addition tax call 100 per cent of nominal amount	26-Feb-29 In addition tax call 100 per cent of nominal amount	Tax/regulatory call 100 per cent of nominal amount	Tax call 100 per cent of nominal amount	Tax call 100 per cent of nominal amount	15-Feb-17 In addition tax call 100 per cent of nominal amount	Tax call/regulatory call, 100 per cent of nominal amount
16 Subsequent call dates, if applicable	18-May and 18-Nov each year after first call date	26-Feb and 26-Aug each year after first call date	N/A	N/A	N/A	N/A	N/A
<i>Coupons / dividends</i>							
17 Fixed or floating dividend/coupon	Floating	Fixed to floating	Fixed	Fixed	Fixed	Fixed	Fixed

18	Coupon rate and any related index	Floating 6-month USD +0.1875 per cent per annum	Fixed USD 4.51 per cent per annum to call date, thereafter floating rate equivalent to 6-month JPY Deposit +2.00 per cent per annum	4.50%	4.00%	4.875%	Fixed 4.625 per cent per annum (equivalent to Euro Swap Rate +3.15 per cent per annum) to call date, thereafter reset fixed rate to Euro Swap Rate +3.15 per cent per annum	4.25%
19	Existence of a dividend stopper	No	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary Dividend pusher	Partially discretionary Dividend pusher	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	Yes	No	No	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers	N/A	N/A	N/A	N/A	N/A	N/A	N/A
25	In convertible, fully or partially	N/A	N/A	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A	N/A	N/A
27	In convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt	Senior debt
36	Non-compliant transitioned features	No	Yes	No	No	No	No	No
37	If yes, specify non-compliant features	N/A	Step-up	N/A	N/A	N/A	N/A	N/A

1) 'N/A' inserted if the question is not applicable

Table A6 Disclosure on asset encumbrance, as of 31 December 2014

Template A-Assets

		Carrying amount of encumbered assets 010	Fair value of encumbered assets 040	Carrying amount of unencumbered assets 060	Fair value of unencumbered assets 090
010	Assets of the reporting institution	141,681		480,379	
030	Equity instruments	3,068	3,068	5,464	5,464
040	Debt securities	13,337	13,337	62,788	62,799
120	Other assets	16,890		117,653	

Template B-Collateral received

		Fair value of encumbered collateral received or own debt securities issued 010	Fair value of collateral received or own debt securities issued available for encumbrance 040
130	Collateral received by the reporting institution	29,524	37,957
150	Equity instruments	0	6,161
160	Debt securities	29,524	11,575
230	Other collateral received	0	12,320
240	Own debt securities issued other than own covered bonds or ABSs	0	12

Template C-Encumbered assets/collateral received and associated liabilities

		Matching liabilities, contingent liabilities or securities lent 010	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered 030
010	Carrying amount of selected financial liabilities	186,003	168,286

D – Information on importance of encumbrance

The main source of encumbrance for Nordea is covered bond issuance programs where the required overcollateralisation levels are defined according to the relevant statutory regimes. Other contributors to encumbrance are derivatives and repos where the activity is concentrated to Finland. Historically, the evolution of asset encumbrance for Nordea has been stable over time which illustrates the fact that the asset encumbrance for Nordea is a reflection of a structural phenomenon of the Scandinavian financial markets and savings behavior. Major part of the unencumbered assets are loans and the rest are equity instruments, debt securities and other assets.