

Half-year financial report January-June 2016

Nordea Bank Finland Plc

Nordea is among the ten largest universal banks in Europe in terms of total market capitalisation and has around 11 million customers, 30,000 employees and approximately 600 branch office locations. The Nordea share is listed on the Nasdaq Stockholm, Nasdaq Helsinki and Nasdaq Copenhagen exchanges.

We have a broad expertise across the wide range of products, services and solutions that we provide within banking, asset management and insurance. In Nordea we build trusted relationships through our strong engagement with both customers and society.

Nordea Bank Finland Group

Result summary January-June 2016

The first half of 2016 showed a decrease of 28% in total income to EUR 1,002m (1,389). Total expenses increased 4% and amounted to EUR 500m (480). Net loan losses were on a low level and amounted to EUR 8m (55). (The comparison figures in brackets refer to the first six months of 2015.)

NBF's operating profit decreased 42% compared to the same period last year and amounted to EUR 494m (854). Return on equity was 6.7% (13.5) and the cost/income ratio 50% (35). Net profit decreased 38% to EUR 407m (656).

Macroeconomic trend

With the passing of the second quarter of 2016, the global economy entered into a less benign environment for economic growth. In the advanced economies, the recovering growth has been under pressure from weakening labour markets, while emerging markets have continued to suffer from a contraction in world trade, manufacturing and investments. Although growth in Europe continued its stable recovery, confidence suffered following the UK's EU referendum. Financial markets reacted adversely to the UK's vote to leave the EU, resulting in a flight to quality assets and a sharp decrease in bond yields. In Q2, the ECB initiated its expanded quantitative easing program, including long term refinancing operations and a corporate sector debt purchase programme. In the US, while household consumption remained stable, the economy showed signs of a slowdown with low growth and a weakening labour market. The increasing global risks to growth led the Federal Reserve to leave policy rates unchanged in Q2. In China, manufacturing PMIs deteriorated alongside a slowing of investment growth. In financial markets, Q2 began on a strong note with performance in equity and credit markets, but by mid-April sentiment turned in favour of safer fixed income assets.

Market performance in Finland in January-June 2016

Fresh data shows that the Finnish economy was stronger than anticipated both at the second half of 2015 and Q1 of 2016. Therefore, the starting point for Q2 and the rest of 2016 is more positive than expected. This implies that GDP growth forecasts are likely to be revised up this year. More importantly, however, the economic outlook remains cloudy and pretty much unaltered even though growth numbers finally begin to look a bit nicer. The start of Q2 was weaker than expected in terms of foreign trade, manufacturing output, and new order flow, suggesting that there are still big challenges on the road to a broad based recovery. Fortunately, the domestic demand side looks a little bit brighter. Private consumption has remained surprisingly robust. Especially the demand for services and durables, notably cars, has been strong. Going forward, however, mild improvement in purchasing power, challenges in the labour market and low confidence keep consumption under pressure. The housing market shows clear signs of recovery. New mortgages and house prices are increasing moderately again. Residential construction leads the promising rise of investment, while corporate intangible investment and acquisitions of machinery and equipment are still stagnant.

Legal structure of the Nordea Group

As announced in July 2015, Nordea seeks to simplify its legal structure by changing its subsidiary banks Nordea Bank Danmark A/S, Nordea Bank Finland Plc and Nordea Bank Norge ASA to branches of Nordea Bank AB (publ) by three separate cross border mergers. The Annual General Meeting of Nordea Bank AB (publ) approved the merger plans, which the Board of Directors of Nordea Bank AB (publ) and each of the boards of directors of the subsidiary banks have approved. The mergers are expected to take place in early 2017.

Throughout this report, "Nordea Bank Finland" and "NBF" refer to the parent company Nordea Bank Finland Plc, business identity code 1680235-8, with its subsidiaries. The registered office of the company is in Helsinki. Nordea Bank Finland Plc is a wholly-owned subsidiary of Nordea Bank AB (publ), the listed parent company of the whole Nordea Group. The business operations of the Nordea Group have been organised in three business areas, with full responsibility for their value chains: Retail Banking, Wholesale Banking and Wealth Management. The consolidated interim report of Nordea Bank AB (publ) embraces all the activities of the Nordea Group and provides the most complete and fair view. This statutory half-year report covers the operations of the legal entity Nordea Bank Finland Plc with its subsidiaries.

The changes in the legal structure depend on, among other things, regulatory approvals and a satisfactory outcome of discussions with local authorities.

Changes in NBF's group structure

The Board of Nordea Bank Finland Plc decided on 3 March 2016 to propose to the extraordinary General Meeting to approve the demerger plan of Nordea Bank Finland Plc. The General Meeting held on 3 March approved the demerger plan.

According to the demerger plan Nordea Bank Finland Plc will transfer all assets, liabilities and reserves relating to its covered bond funding business to a new acquiring company established in connection of the demerger. The precondition for the demerger is that the acquiring company obtains a mortgage credit bank license and authorisation as a credit institution. An application for such license and authorisation has been filed with the Finnish Financial Supervisory Authority and the European Central Bank.

Nordea Bank Finland Plc plans to merge to its parent company Nordea Bank AB (publ) in early 2017. In connection of the merger, the assets and liabilities of Nordea Bank Finland Plc will be transferred to the Finnish branch of Nordea Bank AB (publ), apart from the assets and liabilities relating to the covered bond funding business, which will be separated from Nordea Bank Finland Plc through the demerger executed before the merger.

During the first half of 2016, the wholly-owned subsidiary of NBF, Nordea Securities Holding (U.K.) Ltd and its subsidiary Nordea Securities UK Ltd were liquidated. The liquidations had no material impact on the Group's result.

Nordea Bank Finland Plc sold its ownership in the associated company Realia Holding Oy in June 2016. The sale resulted in a loss of EUR 7m.

Comments on the income statement

Income

Net interest income decreased 17% compared to the first half last year and amounted to EUR 435m (526). The January-June net interest income includes the resolution fee of EUR 65m for the whole year 2016. Lending volumes decreased 10% year-on-year. Excluding reverse repurchase agreements, lending was stable. Deposits and borrowings from the public decreased 14% year-on-year. Excluding repurchase agreements, total deposits were stable. Lending margins increased compared to the first half of 2015 whereas deposit margins are still under pressure.

Net fee and commission income was EUR 46m (28). Commission income was 5% lower than in the first half of 2015 and amounted to EUR 362m (382). Commission expenses decreased to EUR 316m (354) mainly due to the lower guarantee fee paid to Nordea Bank AB (publ).

Net result from items at fair value decreased 39% to EUR 480m (786). The decrease is partly explained by high valuation adjustments and partly by the favourable market making conditions in the corresponding period last year.

Other operating income including profit from companies accounted for under the equity method was EUR 41m (49) and it includes a gain of EUR 24m related to Visa Inc's acquisition of Visa Europe.

Expenses

Total operating expenses increased to EUR 500m (480).

Staff costs were stable and amounted to EUR 263m (264). The number of employees has increased by around 110 from the first half of 2015 and by around 130 compared to the year-end 2015.

Other operating expenses were higher than in the corresponding period last year and totalled EUR 223m (202). Main contributors to the increase were the sales loss from Realia Holding shares and higher IT expenses.

Depreciation of tangible and intangible assets amounted to EUR 14 m (14).

The cost/income ratio was 50% (35) in the first half of 2016.

Loan losses

Net loan losses totalled EUR 8m (55) corresponding to a loan loss ratio of 2 basis points (10). The guarantee between NBF and Nordea Bank AB (publ) decreased loan losses EUR 7m in January-June 2016 compared to an increase of EUR 3m in previous year.

Taxes

The effective tax rate for the first half of 2016 was approximately 18% (23).

Net profit

Net profit decreased 38% to EUR 407m (656), corresponding to a return on equity of 6.7% compared to 13.5% in the first half of last year.

Comments on the balance sheet

(Comparison figures in brackets refer to December 2015 figures.)

The total assets of NBF amounted to EUR 322bn (302).

Total loans to the public increased 3% compared to the end of 2015. Excluding repurchase agreements, lending was stable.

Asset values of derivatives increased 7% to 86bn (81) as an outcome of wider credit spreads and lower long-term interest rates. The corresponding change was seen in the derivatives liabilities.

Deposits and borrowings from the public increased from the year-end level and amounted to EUR 70bn (62). Excluding repurchase agreements, deposits decreased 2% to EUR 52bn (53).

Capital position and capital management

At the end of June, NBF's risk exposure amount (REA, previously referred to as risk-weighted assets, RWA) was EUR 58.3bn including Basel I rules, compared to 58.2bn at year-end 2015 and EUR 61.1bn one year ago. Excluding Basel I rules, REA amounted to EUR 45.3bn at the end of June 2016.

The Tier 1 ratio including profit and including Basel I rules was 20.9% and the total capital ratio 21.1%. Excluding profit and including Basel I rules the Tier 1 ratio was 20.0% and total capital ratio 20.2%. Excluding profit and excluding Basel I rules, the common equity Tier 1 capital ratio stood at 24.1% at the end of June 2016.

NBF has not included the interim profits net of any foreseeable charges or dividend in common equity Tier 1 as no permission from the supervising authority has been asked for.

On 13 April 2016, the Finnish Financial Supervision Authority announced that the ECB and the local competent authorities have reached a common understanding regarding the conditions for the treatment of central bank reserves with respect to the Liquidity Coverage Requirement (LCR). Only the part of the daily account holdings that exceed the average daily required reserves is considered withdrawable at any time in periods of stress and is eligible for inclusion as level 1 assets.

Credit portfolio

Total lending was EUR 105bn (116) at the end of June 2016. The share of lending to corporate customers was 63% (67).

Impaired loans gross increased 9% and amounted to EUR 1,632m at the end of June 2016 compared to EUR 1,501m at the end of December 2015. Individually assessed impaired loans, net, amounted to EUR 1,145m (978), representing 0.86% of total loans before allowances. At year-end 2015 the ratio was 0.73%.

Off-balance sheet commitments

The total amount of off-balance sheet commitments was EUR 26.0bn compared to EUR 26.4bn at year-end 2015.

Compliance risk

In mid-April we initiated an internal investigation in full cooperation with all relevant authorities to verify that the business activities in our Private Banking operations are in line with internal policies as well as external tax rules and anti-money laundering regulations. The investigation covered Panama-related offshore structures in Nordea Bank S.A. in Luxembourg (NBSA) as well as Nordic Private Banking. The main conclusions from the investigation are presented in a separate press release that Nordea issued today.

Risks and uncertainties

Nordea's revenue base reflects the Group's business with a large and diversified customer base, comprising household customers, corporate customers and financial institutions, representing different geographic areas and industries.

Nordea's main risk exposure is credit risk. The Group also assumes risks such as market risk, liquidity risk, operational risk and life insurance risk. For further information on risk composition, see the Annual Report.

None of the above exposures and risks is expected to have any significant adverse effect on the Group or its financial position in the medium term.

Within the framework of the normal business operations, the Group faces claims in civil lawsuits and other disputes, most of which involve relatively limited amounts. None of these disputes are considered likely to have any significant adverse effect on the Group or its financial position in the next six months.

Changes in the management

The Board of Directors of Nordea Bank Finland Plc comprises four members.

Board members were as follows:

1 Jan - 26 Jan 2016

Torsten Hagen Jørgensen, chairman
Casper von Koskull, vice chairman
Carl-Johan Granvik
Gunn Wærsted

27 Jan 2016 – 11 Feb 2016

Heikki Ilkka, chairman
Erik Ekman, vice chairman
Johan Ekwall
Carl-Johan Granvik

12 Feb 2016 – 30 Jun 2016

Heikki Ilkka, chairman
Erik Ekman, vice chairman
Carl-Johan Granvik
Lennart Jacobsen

1 Jul 2016 -

Heikki Ilkka, chairman
Erik Ekman, vice chairman
Carl-Johan Granvik
Tom Johannessen

Helsinki, 20 July 2016
Board of Directors

Income statement

EURm	Jan-Jun 2016	Jan-Jun 2015	Change %	Full year 2015
Net interest income	435	526	-17	1 052
Net fee and commission income	46	28	64	105
Net result from items at fair value	480	786	-39	1 257
Equity method	7	2		5
Other operating income	34	47	-28	66
Total operating income	1,002	1,389	-28	2 485
Staff costs	-263	-264	0	-547
Other expenses	-223	-202	10	-413
Depreciation of tangible and intangible assets	-14	-14	0	-31
Total operating expenses	-500	-480	4	-991
Profit before loan losses	502	909	-45	1 494
Net loan losses	-8	-55	-85	-92
Operating profit	494	854	-42	1 402
Income tax expense	-87	-198	-56	-347
Net profit for the period	407	656	-38	1 055

Business volumes, key items¹

EURm	30 Jun 2016	30 Jun 2015	Change %	31 Dec 2015	Change %
Loans to the public	104,620	116,430	-10	101,447	3
Loans to the public, excl. repos	66,588	66,339	0	66,569	0
Deposits and borrowings from the public	70,369	81,868	-14	62,153	13
Equity	11,876	9,882	20	12,296	-3
Total assets	322,151	355,622	-9	301,590	7

¹ End of period

Ratios and key figures

	Jan-Jun 2016	Jan-Jun 2015	Full year 2015
Return on equity %	6.7	13.5	9.6
Cost/income ratio, %	50	35	40
Loan loss ratio, basis points	2	10	9
Common Equity Tier 1 capital ratio, excl. Basel I floor ^{1,2} , %	24.1	17.9	24.8
Tier 1 capital ratio, excl. Basel I floor ^{1,2} , %	25.3	19.1	26.0
Total capital ratio, excl. Basel I floor ^{1,2} , %	25.5	19.2	26.2
Common Equity Tier 1 capital ratio, incl. Basel I floor ^{1,2} , %	19.1	14.5	19.3
Tier 1 capital ratio, incl. Basel I floor ^{1,2} , %	20.0	15.4	20.2
Total capital ratio, incl. Basel I floor ^{1,2} , %	20.2	15.6	20.3
Tier 1 capital ^{1,2} , EURm	11,462	9,255	11 548
Risk exposure amount, excl. Basel I floor ¹ , EURm	45,334	48,505	44 378
Risk exposure amount, incl. Basel I floor ¹ , EURm	58,252	61,115	58,188
Number of employees (full-time equivalents) ¹	6,722	6,615	6,595

¹ End of period

² Excluding profit, except full year 2015 figures

Definitions/Alternative Performance measures

Return on equity

Net profit for the year excluding non-controlling interests as a percentage of average equity for the year. Average equity including net profit for the year and dividend until paid, non-controlling interests excluded.

Cost/income ratio

Total operating expenses divided by total operating income.

Loan loss ratio

Net loan losses (annualised) divided by the closing balance of loans to the public (lending).

Impairment rate, gross, basis points

Individually assessed impaired loans before allowances divided by total loans before allowances.

Impairment rate, net, basis points

Individually assessed impaired loans after allowances divided by total loans before allowances.

Total allowance ratio, basis points

Total allowances divided by total loans before allowances.

Allowances in relation to impaired loans ratio, %

Allowances for individually assessed impaired loans divided by individually assessed impaired loans before allowances.

Total allowances in relation to gross impaired loans (%) (provisioning ratio)

Total allowances divided by total gross impaired loans before allowances.

Common Equity Tier 1 capital ratio

The CET 1 ratio is total CET1 Capital divided by total Risk Exposure Amount calculated in accordance to the requirements in the CRR.

Tier 1 capital ratio

Tier 1 ratio is total tier 1 capital divided by total Risk Exposure Amount. Tier 1 Capital consist of both CET 1 capital and Additional Tier 1 capital.

Total capital ratio

Total capital ratio is total own funds divided by total Risk Exposure Amount. Total own funds is the sum of Tier 1 and Tier 2 capital.

Tier 1 capital

Tier 1 capital consists of both Common Equity Tier 1 capital (CET 1) and additional tier 1 capital.

Risk Exposure Amount

Risk Exposure Amount is calculated in accordance with the requirements in the CRR.

For a list of further Alternative performance measures and definitions, see <http://www.nordea.com/en/investor-relations/reports-and-presentations/select-reports-and-presentations/> and the Annual Report.

Income statement

EURm	Note	Jan-Jun 2016	Jan-Jun 2015	Full year 2015
Operating income				
<i>Interest income</i>		721	781	1,532
<i>Interest expense</i>		-286	-255	-480
Net interest income		435	526	1,052
<i>Fee and commission income</i>		362	382	759
<i>Fee and commission expense</i>		-316	-354	-654
Net fee and commission income	3	46	28	105
Net result from items at fair value	4	480	786	1,257
Profit from companies accounted for under the equity method		7	2	5
Other operating income		34	47	66
Total operating income		1,002	1,389	2,485
Operating expenses				
General administrative expenses:				
Staff costs		-263	-264	-547
Other expenses		-223	-202	-413
Depreciation, amortisation and impairment charges of tangible and intangible assets		-14	-14	-31
Total operating expenses		-500	-480	-991
Profit before loan losses		502	909	1,494
Net loan losses	6	-8	-55	-92
Operating profit		494	854	1,402
Income tax expense		-87	-198	-347
Net profit for the period		407	656	1,055
Attributable to:				
Shareholders of Nordea Bank Finland Plc		407	656	1,055
Non-controlling interests		-	-	-
Total		407	656	1,055

Statement of comprehensive income

EURm	Jan-Jun 2016	Jan-Jun 2015	Full year 2015
Net profit for the period	407	656	1,055
Items that may be reclassified subsequently to the income statement			
Currency translation differences during the period	0	0	0
Available-for-sale investments ¹ :			
-Valuation gains/losses during the period, net of recycling	3	-4	-18
-Tax on valuation gains/losses during the period	-1	1	4
Cash flow hedges:			
-Valuation gains/losses during the period, net of recycling	0	19	20
-Tax on valuation gains/losses during the period	0	-4	-4
Items that may not be reclassified subsequently to the income statement			
Defined benefit plans:			
-Remeasurement of defined benefit plans	-61	-58	89
-Tax on remeasurement of defined benefit plans	12	12	-18
Other comprehensive income, net of tax	-47	-58	73
Total comprehensive income	360	714	1,128
Attributable to:			
Shareholders of Nordea Bank Finland Plc	360	714	1,128
Non-controlling interests	-	-	-
Total	360	714	1,128

¹Valuation gains/losses related to hedged risks under fair value hedge accounting are accounted for directly in the income statement.

Balance sheet

EURm	Note	30 Jun 2016	31 Dec 2015	30 Jun 2015
Assets				
Cash and balances with central banks		46,905	32,613	39,511
Loans to central banks	7	2,248	5,328	4,300
Loans to credit institutions	7	26,414	27,089	44,956
Loans to the public	7	104,620	101,447	116,430
Interest-bearing securities		28,774	30,143	34,300
Financial instruments pledged as collateral		5,431	4,627	9,372
Shares		1,163	2,020	2,088
Derivatives		86,490	80,557	85,894
Fair value changes of the hedged items in portfolio hedge of interest rate risk		51	51	58
Investments in associated undertakings		28	42	39
Intangible assets		42	44	47
Properties and equipment		78	76	76
Investment properties		1	1	1
Deferred tax assets		27	14	11
Current tax assets		3	1	1
Retirement benefit assets		26	90	86
Other assets		19,423	17,015	18,015
Prepaid expenses and accrued income		427	432	437
Total assets		322,151	301,590	355,622
Liabilities				
Deposits by credit institutions		95,110	78,162	113,979
Deposits and borrowings from the public		70,369	62,153	81,868
Debt securities in issue		34,894	43,407	37,256
Derivatives		86,413	83,538	88,120
Fair value changes of the hedged items in portfolio hedge of interest rate risk		829	557	490
Current tax liabilities		30	77	64
Other liabilities		21,357	20,066	22,549
Accrued expenses and prepaid income		493	567	631
Deferred tax liabilities		56	54	58
Provisions		79	81	74
Retirement benefit obligations		6	4	27
Subordinated liabilities		639	628	624
Total liabilities		310,275	289,294	345,740
Equity				
Share capital		2,319	2,319	2,319
Share premium reserve		599	599	599
Other reserves		4,850	4,897	2,882
Retained earnings		4,108	4,481	4,082
Total equity		11,876	12,296	9,882
Total liabilities and equity		322,151	301,590	355,622
Assets pledged as security for own liabilities		43,275	40,932	42,134
Other assets pledged		953	4,811	5,772
Contingent liabilities		11,618	12,432	13,176
Credit commitments ¹		14,030	13,613	13,679
Other commitments		376	359	437

¹ Including unutilised portion of approved overdraft facilities of EUR 3,044m (31 Dec 2015: EUR 7,411m, 30 Jun 2015: EUR 7,370m).

Statement of changes in equity

Attributable to shareholders of Nordea Bank Finland Plc										
EURm	Share capital ¹	Share premium reserve	Cash flow hedges	Other reserves:			Retained earnings	Total	Non-control-ling interests	Total equity
				Available-for-sale invest-ments	Other reserves	Defined benefit plans				
Balance at 1 Jan 2016	2,319	599	14	29	4,848	6	4,481	12,296	-	12,296
Net profit for the period							407	407		407
Other comprehensive income, net of tax			0	2	0	-49	0	-47		-47
<i>Total comprehensive income</i>			<i>0</i>	<i>2</i>	<i>0</i>	<i>-49</i>	<i>407</i>	<i>360</i>	<i>-</i>	<i>360</i>
Share-based payments							0	0		0
Dividend for 2015							-780	-780		-780
Balance at 30 Jun 2016	2,319	599	14	31	4,848	-43	4,108	11,876	-	11,876

Attributable to shareholders of Nordea Bank Finland Plc										
EURm	Share capital ¹	Share premium reserve	Cash flow hedges	Other reserves:			Retained earnings	Total	Non-control-ling interests	Total equity
				Available-for-sale invest-ments	Other reserves	Defined benefit plans				
Balance at 1 Jan 2015	2,319	599	-2	43	2,848	-65	3,876	9,618	-	9,618
Net profit for the period							1,055	1,055		1,055
Other comprehensive income, net of tax			16	-14	0	71	0	73		73
<i>Total comprehensive income</i>			<i>16</i>	<i>-14</i>	<i>0</i>	<i>71</i>	<i>1,055</i>	<i>1,128</i>	<i>-</i>	<i>1,128</i>
Share-based payments							0	0		0
Dividend for 2014							-450	-450		-450
Other changes					2,000 ²		0	2,000	-	2,000
Balance at 31 Dec 2015	2,319	599	14	29	4,848	6	4,481	12,296	-	12,296

¹ Total shares registered were 1,030.8 million (31 Dec 2015: 1,030.8 million, 30 Jun 2015: 1,030.8 million).

² Capital injection paid by Nordea Bank AB (publ).

Statement of changes in equity, *continued*

Attributable to shareholders of Nordea Bank Finland Plc										
EURm	Share capital ¹	Share premium reserve	Cash flow hedges	Other reserves:			Retained earnings	Total	Non-control-ling interests	Total equity
				Available-for-sale investments	Other reserves	Defined benefit plans				
Balance at 1 Jan 2015	2,319	599	-2	43	2,848	-65	3,876	9,618	-	9,618
Net profit for the period							656	656		656
Other comprehensive income, net of tax			15	-3	-	46	0	58		58
<i>Total comprehensive income</i>			15	-3	-	46	656	714	-	714
Share-based payments							0	0		0
Dividend for 2014							-450	-450		-450
Balance at 30 Jun 2015	2,319	599	13	40	2,848	-19	4,082	9,882	-	9,882

¹ Total shares registered were 1,030.8 million (31 Dec 2015: 1,030.8 million, 30 Jun 2015: 1,030.8 million).

Cash flow statement, condensed

EURm	Jan-Jun 2016	Jan-Jun 2015	Full year 2015
<i>Operating activities</i>			
Operating profit	494	854	1,402
Adjustments for items not included in cash flow	-287	1,270	738
Income taxes paid	-137	-158	-304
Cash flow from operating activities before changes in operating assets and liabilities	70	1,966	1,836
Changes in operating assets and liabilities	16,885	12,308	6,700
Cash flow from operating activities	16,955	14,274	8,536
<i>Investing activities</i>			
Sale/acquisition of business operations	13	0	0
Properties and equipment	-34	-13	-30
Intangible assets	-1	-6	-7
Net investments in debt securities, held to maturity	0	0	-
Other financial fixed assets	0	1	26
Cash flow from investing activities	-22	-18	-11
<i>Financing activities</i>			
Issued/amortised subordinated liabilities	11	4	8
Dividend paid	-780	-450	-450
Other changes	-45	140	2,073
Cash flow from financing activities	-814	-306	1,631
Cash flow for the period	16,119	13,950	10,156
Cash and cash equivalents at beginning of the period	39,870	29,714	29,714
Translation difference	516	-1,910	-
Cash and cash equivalents at end of the period	55,473	45,574	39,870
Change	16,119	13,950	10,156
Cash and cash equivalents	30 Jun	30 Jun	31 Dec
The following items are included in cash and cash equivalents (EURm):	<u>2016</u>	<u>2015</u>	<u>2015</u>
Cash and balances with central banks	46,905	39,511	32,613
Loans to credit institutions	8,568	6,063	7,257
Total cash and cash equivalents	55,473	45,574	39,870

Cash comprises legal tender and bank notes in foreign currencies. Balances with central banks consist of deposits in accounts with central banks and postal giro systems under government authority, where the following conditions are fulfilled:

- the central bank or the postal giro system is domiciled in the country where the institution is established
- the balance on the account is readily available at any time.

Loans to credit institutions, payable on demand include liquid assets not represented by bonds or other interest-bearing securities.

Notes to the financial statements

Note 1 Accounting policies

NBF's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed by the EU Commission. In addition, certain rules in the Finnish Accounting Act, the Finnish Credit Institutions Act, the Financial Supervisory Authority's regulations and guidelines and the Decree of the Ministry of Finance on the financial statements and consolidated financial statements of credit institutions, have also been applied.

These statements are presented in accordance with IAS 34 "Interim Financial Reporting". The interim report is unaudited.

Changed accounting policies

The accounting policies, basis for calculations and presentation are, in all material aspects, unchanged in comparison with the 2015 Annual Report.

The following amendments published by the IASB were implemented 1 January 2016 but have not had any significant impact on Nordea's financial statements:

- Amendments to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"
- IAS 1 "Disclosure Initiative"
- Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortisation"
- Annual Improvements to IFRSs, 2012-2014 Cycle.

Changed presentation of resolution fees

Nordea has, in order to align with local market practice, reclassified resolution fees from "Net fee and commission income" to "Net interest income". The comparable figures have been restated and the impact on the current and comparative periods can be found in the table below. The change in presentation has not had any impact on the balance sheet or equity.

Changed presentation of Net fee and commission income

The presentation within Note 3 "Net fee and commission income" has, in addition to the changes described above, been changed. The main change is that income and expenses have been set off to better reflect the net return from different business activities. Commission expenses have been split more granularly to better match the related commission income.

Commission income in connection with initial public offerings (IPOs) have in addition been reclassified from "Custody and issuer services" to "Brokerage, securities issues and corporate finance" (impact full year 2015 EUR 4m). This reclassification has been made to better reflect the purpose of services performed/ received.

Impact on capital adequacy from new or amended IFRS standards not yet applied IFRS 9 "Financial instruments"

IASB has completed the new standard for financial instruments, IFRS 9 "Financial instruments". IFRS 9 covers classification and measurement, impairment and general hedging and replaces the current requirements covering these areas in IAS 39. IFRS 9 is effective as from annual periods beginning on or after 1 January 2018. Earlier application is permitted, but IFRS 9 is not yet endorsed by the EU commission. Nordea does not currently intend to early adopt the standard.

The changes in classification and measurement are not expected to have a significant impact on Nordea's income statement or balance sheet as the mixed measurement model will be maintained, and as there will still be a measurement category similar to the current Available For Sale (AFS) category in IAS 39.

Income statement EURm	Jan-Jun 2016		Jan-Jun 2015		Full year	
	New policy	Old policy	New policy	Old policy	New policy	Old policy
Net interest income	435	500	526	527	1,052	1,053
- of which resolution fees	-65		-1		-1	
Net fee and commission income	46	-19	28	27	105	104
- of which resolution fees		-65		-1		-1

Significant reclassifications between fair value and amortised cost or impact on the capital adequacy and large exposures are not expected in the period of initial application, but this is naturally dependent on the financial instruments on Nordea's balance sheet at transition.

The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the current incurred loss model in IAS 39. In general, it is expected that the new requirements will increase loan loss provisions, decrease equity and have a negative impact on capital adequacy, but no impact on large exposures, in the period of initial application. IFRS 9 requires all assets measured at amortised cost and fair value through other comprehensive income, as well as guarantees and loan commitments, to be included in the impairment test. Currently Nordea does not calculate collective provisions for off balance sheet exposures or the AFS portfolio. The assets to test for impairment will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant deterioration in credit risk, stage 2 includes assets where there has been a significant deterioration and stage 3 includes assets that have been individually assessed to be impaired. In stage 1, the provisions should equal the 12 month expected loss. In stage 2 and 3, the provisions should equal the lifetime expected losses. Nordea's current model for calculating collective provisions defines a loss event as a deterioration in rating/scoring, but it is not expected that the loss event in the current model will equal the trigger event for moving items from stage 1 to stage 2 under IFRS 9. Currently Nordea does not, in addition, hold any provisions for assets where there has been no deterioration in credit risk. For assets where there has been a significant deterioration in credit risk, Nordea currently holds provisions based on the losses estimated to occur during the period between the date when the loss event occurred and the date when the loss event is identified on an individual basis, the so called "Emergence period", while IFRS 9 will require provisions equal to the lifetime expected loss. This means total provisions will increase when IFRS 9 is implemented.

The main change to the general hedging requirements is that the standard aligns hedge accounting more closely with the risk management activities. As Nordea generally uses macro (portfolio) hedge accounting Nordea's assessment is that the new requirements will

not have any significant impact on Nordea's financial statements, capital adequacy, or large exposures in the period of initial application.

Nordea has not yet finalised the impact assessment of the implementation of IFRS 9.

IFRS 15 "Revenue from Contracts with Customers"

The IASB has published the new standard, IFRS 15 "Revenue from Contracts with Customers". The new standard outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition standards and interpretations within IFRS, such as IAS 18 "Revenue". The new standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The EU-commission is expected to endorse the standard during the third quarter 2016. Nordea does not currently intend to early adopt the standard. The standard does not apply to financial instruments, insurance contracts or lease contracts. Nordea has not finalised the investigation of the impact on the financial statements but the current assessment is that the new standard will not have any significant impact on Nordea's financial statements, capital adequacy, or large exposures in the period of initial application.

IFRS 16 "Leases"

The IASB has published the new standard, IFRS 16 "Leases". The new standard changes the accounting requirements for lessees. All leases (except for short term- and small ticket leases) should be accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding liability, and the lease payments should be recognised as amortisation and interest expense. The accounting requirements for lessors are unchanged. Additional disclosures are also required. The new standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The new standard is not yet endorsed by the EU-commission. Nordea does not currently intend to early adopt IFRS 16. Nordea's current assessment is that the new standard will change the accounting of property leases which mainly affects Nordea's balance sheet.

Other amendments to IFRS

Other amendments to IFRS are not assessed to have any significant impact on Nordea's financial statements, capital adequacy or large exposures in the period of initial application.

Note 2 Segment reporting

	Operating segments					
	Retail Banking		Wholesale Banking		Group Corporate Centre	
	Jan-Jun 2016	Jan-Jun 2015	Jan-Jun 2016	Jan-Jun 2015	Jan-Jun 2016	Jan-Jun 2015
EURm						
Total operating income	807	868	318	645	59	34
Operating profit	415	465	215	535	39	3
Loans to the public	55,296	54,581	49,270	61,794	21	1
Deposits and borrowings from the public	35,517	34,280	28,144	41,216	6,204	6,095

	Total Operating segments		Reconciliation		Total Group	
	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun
	2016	2015	2016	2015	2016	2015
EURm						
Total operating income	1,184	1,547	-182	-158	1,002	1,389
Operating profit	669	1,003	-175	-149	494	854
Loans to the public	104,587	116,376	33	54	104,620	116,430
Deposits and borrowings from the public	69,865	81,591	504	277	70,369	81,868

Break-down of Retail Banking

	Retail Banking Nordic ¹		Retail Banking Baltic countries ²		Retail Banking Other ³		Retail Banking	
	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun
	2016	2015	2016	2015	2016	2015	2016	2015
EURm								
Total operating income	761	812	21	23	25	33	807	868
Operating profit	372	424	16	16	27	25	415	465
Loans to the public	47,397	45,965	1,678	1,517	6,221	7,099	55,296	54,581
Deposits and borrowings from the public	35,514	34,274	-	-	3	6	35,517	34,280

¹Retail Banking Nordic includes banking operations in Finland

²Retail Banking Baltic countries include operations in Estonia, Latvia and Lithuania.

³Retail Banking Other includes the support areas Development & Projects, Distribution, Segments, Products and IT.

Break-down of Wholesale Banking

EURm	Corporate & Institutional Banking		Shipping, Offshore & Oil Services	
	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun
	2016	2015	2016	2015
Total operating income	141	162	48	51
Operating profit	88	102	33	37
Loans to the public	8,279	8,480	2,887	3,122
Deposits and borrowings from the public	8,056	10,136	732	914

EURm	Capital Markets unallocated ⁵		Wholesale Banking Other ⁴		Wholesale Banking	
	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun
	2016	2015	2016	2015	2016	2015
Total operating income	107	405	22	27	318	645
Operating profit	87	382	7	14	215	535
Loans to the public	38,033	50,091	71	100	49,270	61,794
Deposits and borrowings from the public	18,770	30,069	586	97	28,144	41,216

⁴Wholesale Banking Other include International Division and WB COO, Wholesale Banking Chief Operating Officer, organisation.

⁵Allocation on Nordea Group level

Reconciliation between total operating segments and financial statements

EURm	Operating profit		Loans to the public		Deposits and borrowings from the public	
	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun	Jan-Jun
	2016	2015	2016	2015	2016	2015
Total Operating segments	669	1,003	104,587	116,376	69,865	81,591
Group functions ¹ and unallocated items	-175	-149	33	54	504	277
Total	494	854	104,620	116,430	70,369	81,868

¹ Consists of Group Risk Management, Group Internal Audit, Group Identity & Communications, Group Human Resources and Group Executive Management.

Measurement of operating segments' performance

The measurement principles and allocation between operating segments follow the information reported to the Chief Operating Decision Maker (CODM), as required by IFRS 8. In NBF the CODM has been defined as Group Executive Management.

Financial results are presented for the main business areas Retail Banking and Wholesale Banking, with a further breakdown on operating segments, and the operating segment Group Corporate Centre. Other operating segments below the quantitative thresholds in IFRS 8 are included in Other operating segments. Group functions and eliminations are shown separately as reconciling items.

Note 3 Net fee and commission income

	Jan-Jun 2016	Jan-Jun 2015	Full year 2015
EURm			
Asset management commissions	38	44	85
Life & Pensions	4	6	10
Deposit Products	1	1	1
Brokerage, securities issues and corporate finance	-168	-163	-301
Custody and issuer services	9	9	20
Payments	92	94	185
Cards	36	35	69
Lending products	51	44	96
Guarantees	-11	-35	-53
Other	-6	-7	-7
Total	46	28	105

Note 4 Net result from items at fair value

	Jan-Jun 2016	Jan-Jun 2015	Full year 2015
EURm			
Equity related instruments	47	70	163
Interest related instruments and foreign exchange gains/losses	386	672	1,039
Other financial instruments (including credit and commodities)	48	45	57
Investment properties	-1	-1	-2
Total	480	786	1,257

Note 5 Other expenses

	Jan-Jun 2016	Jan-Jun 2015	Full year 2015
EURm			
Information technology	-96	-91	-183
Marketing and representation	-6	-8	-17
Postage, transportation, telephone and office expenses	-18	-17	-33
Rents, premises and real estate	-34	-37	-74
Other	-69	-49	-106
Total	-223	-202	-413

Note 6 Net loan losses

EURm	Jan-Jun 2016	Jan-Jun 2015	Full year 2015
Loan losses divided by class			
Recoveries on previous realised loan losses	-	0	0
Provisions	-	-	-
Reversal of previous provisions	-	-	0
Loans to credit institutions	-	0	0
Realised loan losses	-44	-70	-129
Allowances to cover realised loan losses	36	52	96
Recoveries on previous realised loan losses	5	7	14
Provisions	-51	-69	-184
Reversal of previous provisions	45	27	95
Loans to the public	-9	-53	-108
Realised loan losses	-	-	-
Allowances to cover realised loan losses	-	-	-
Provisions	-1	-2	3
Reversal of previous provisions	2	0	13
Off-balance sheet items	1	-2	16
Net loan losses	-8	-55	-92

Key ratios

	Jan-Jun 2016	Jan-Jun 2015	Full year 2015
Loan loss ratio, basis points ¹	2	10	9
- of which individual	0	11	9
- of which collective	1	-1	0

¹ Net loan losses (annualised) divided by closing balance of loans to the public (lending).

Note 7 Loans and impairment

EURm	Total		
	30 Jun 2016	31 Dec 2015	30 Jun 2015
Loans, not impaired	132,245	132,990	165,235
Impaired loans	1,632	1 501	1,060
- of which performing	624	646	436
- of which non-performing	1,008	855	624
Loans before allowances	133,877	134,491	166,295
Allowances for individually assessed impaired loans	-487	-523	-501
- of which performing	-248	-277	-253
- of which non-performing	-239	-246	-248
Allowances for collectively assessed impaired loans	-108	-104	-108
Allowances	-595	-627	-609
Loans, carrying amount	133,282	133,864	165,686

EURm	Central banks and credit institutions			The public		
	30 Jun 2016	31 Dec 2015	30 Jun 2015	30 Jun 2016	31 Dec 2015	30 Jun 2015
Loans, not impaired	28,662	32 417	49,256	103,583	100,573	115,979
Impaired loans	-	-	0	1,632	1,501	1,060
- of which performing	-	-	-	624	646	436
- of which non-performing	-	-	0	1,008	855	624
Loans before allowances	28,662	32 417	49,256	105,215	102,074	117,039
Allowances for individually assessed impaired loans	-	-	-	-487	-523	-501
- of which performing	-	-	-	-248	-277	-253
- of which non-performing	-	-	-	-239	-246	-248
Allowances for collectively assessed impaired loans	0	-	0	-108	-104	-108
Allowances	0	-	0	-595	-627	-609
Loans, carrying amount	28,662	32 417	49,256	104,620	101,447	116,430

Allowances and provisions

EURm	30 Jun 2016	31 Dec 2015	30 Jun 2015
Allowances for items on the balance sheet	-595	-627	-609
Provisions for off balance sheet items	-13	-15	-32
Total allowances and provisions	-608	-642	-641

Key ratios

	30 Jun 2016	31 Dec 2015	30 Jun 2015
Impairment rate, gross ¹ , basis points	122	112	64
Impairment rate, net ² , basis points	86	73	34
Total allowance rate ³ , basis points	44	47	37
Allowances in relation to impaired loans ⁴ , %	30	35	47
Total allowances in relation to impaired loans ⁵ , %	36	42	57
Non-performing, not impaired ⁶ , EURm	87	95	131

¹ Individually assessed impaired loans before allowances divided by total loans before allowances.

² Individually assessed impaired loans after allowances divided by total loans before allowances.

³ Total allowances divided by total loans before allowances.

⁴ Allowances for individually assessed impaired loans divided by individually assessed impaired loans before allowances.

⁵ Total allowances divided by total impaired loans before allowances.

⁶ Past due loans, not impaired due to future cash flows (included in Loans, not impaired).

Note 8 Classification of financial instruments

EURm	Loans and receivables	Held to maturity	Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Available for sale	Total
Financial assets							
Cash and balances with central banks	46,905						46,905
Loans to central banks	200		2,048				2,248
Loans to credit institutions	23,805		2,609				26,414
Loans to the public	66,588		38,032				104,620
Interest-bearing securities		42	19,770			8,962	28,774
Financial instruments pledged as collateral			5,431				5,431
Shares			1,157	6			1,163
Derivatives			85,443		1,047		86,490
Fair value changes of the hedged items in portfolio hedge of interest rate risk	51						51
Other assets	3,607			15,548			19,155
Prepaid expenses and accrued income	97						97
Total 30 Jun 2016	141,253	42	154,490	15,554	1,047	8,962	321,348
Total 31 Dec 2015	124 652	41	151 073	15 292	812	8 888	300 758
Total 30 Jun 2015	149,299	67	182,551	13,024	822	8,960	354,723

EURm	Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities	Total
Financial liabilities					
Deposits by credit institutions	22,404			72,706	95,110
Deposits and borrowings from the public	18,770			51,599	70,369
Debt securities in issue	7,168			27,726	34,894
Derivatives	86,163		250		86,413
Fair value changes of the hedged items in portfolio hedge of interest rate risk				829	829
Other liabilities	8,274	8,531		4,393	21,198
Accrued expenses and prepaid income				164	164
Subordinated liabilities				639	639
Total 30 Jun 2016	142,779	8,531	250	158,056	309,616
Total 31 Dec 2015	124 828	8 832	255	154 586	288 501
Total 30 Jun 2015	167,446	8,534	297	168,592	344,869

Note 9 Fair value of financial assets and liabilities

EURm	30 Jun 2016		31 Dec 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and balances with central banks	46 905	46 905	32,613	32,613
Loans	133 333	133 416	133,915	133,622
Interest-bearing securities	28 774	28 775	30,143	30,145
Financial instruments pledged as collateral	5 431	5 431	4,627	4,627
Shares	1 163	1 163	2,020	2,020
Derivatives	86 490	86 490	80,557	80,557
Other assets	19 155	19 155	16,781	16,781
Prepaid expenses and accrued income	97	97	102	102
Total	321 348	321 432	300,758	300,467
Financial liabilities				
Deposits and debt instruments	201 202	201 207	184,279	184,260
Derivatives	86 413	86 413	83,538	83,538
Other liabilities	21 198	21 198	19,879	19,879
Accrued expenses and prepaid income	164	164	177	177
Subordinated liabilities	639	639	628	628
Total	309 616	309 621	288,501	288,482

The determination of fair value is described in the Annual Report 2015, Note 39 "Assets and liabilities at fair value". The fair value for loans has been estimated by discounting the expected future cash flows with an assumed customer interest rate that would have been used on the market if the loans had been issued at the time of the measurement. The assumed customer interest rate is calculated as the benchmark interest rate plus the average margin on new lending in Retail Banking and Wholesale Banking respectively.

Note 10 Financial assets and liabilities held at fair value on the balance sheet

Categorisation into the fair value hierarchy

EURm	Quoted prices in active markets for the 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 sheet¹				
Loans to central banks	-	2 048	-	2 048
Loans to credit institutions	-	2 609	-	2 609
Loans to the public	-	38 032	-	38 032
Interest-bearing securities	11 550	17 145	37	28 732
Financial instruments pledged as collateral	3 562	1 869	-	5 431
Shares	1 039	56	68	1 163
Derivatives	234	84 525	1 731	86 490
Other assets	-	15 548	-	15 548
Total 30 Jun 2016	16 385	161 832	1 836	180 053
Total 31 Dec 2015	17 518	156 755	1 793	176 066
Liabilities at fair value on the balance sheet¹				
Deposits by credit institutions		22 404		22 404
Deposits and borrowings from the public		18 770		18 770
Debt securities in issue ²		7 168		7 168
Derivatives ²	184	84 334	1 895	86 413
Other liabilities	6 357	10 448		16 805
Total 30 Jun 2016	6 541	143 124	1 895	151 560
Total 31 Dec 2015	6 974	125 390	1 551	133 915

¹ All items are measured at fair value on a recurring basis at the end of each reporting period.

² For structured bonds the host contract and the embedded derivative are presented separately. The host contract is presented on the balance sheet as "Debt securities in issue" and the embedded derivative on the balance sheet as "Derivatives". The total fair value of the structured bonds is EUR 6,944m (EUR 7,949m), of which EUR 7,169m (EUR 7,610m) is categorised into Level 2 and a net negative fair value of EUR -225m (net positive fair value of EUR 339m) into Level 3 in the fair value hierarchy.

Determination of fair values for items measured at fair value on the balance sheet

"Nordea incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA) into derivative valuations. CVA and DVA reflect the impact on fair value of the counterparty's credit risk and Nordea's own credit quality, respectively.

Calculations are based on estimates of exposure at default, probability of default and recovery rates, on a counterparty basis.

Generally, exposure at default for CVA and DVA is based on expected exposure and estimated through the simulation of underlying risk factors. Where possible, probabilities of defaults (PDs) and recovery rates are sourced from the CDS markets. For counterparties where this information is not directly available, PDs and recovery rates are estimated using a cross sectional approach where the illiquid counterparties are mapped to comparable liquid CDS names.

The impact of funding costs and funding benefits on valuation of uncollateralised and imperfectly collateralised derivatives is recognised as a funding fair valuation adjustment (FFVA). In 2015 Nordea has developed its FFVA framework to incorporate an estimated funding curve which reflects the market cost of funding. Since FFVA is a newly developing market practice, Nordea is continuously monitoring the market practices, and consequently reviewing and developing the methodology in use.

For more information about valuation techniques and inputs in the fair value measurement, see the Annual Report 2015, Note 39 "Assets and liabilities at fair value".

Transfers between Level 1 and 2

During the period, NBF transferred interest-bearing securities (including such financial instruments pledged as collateral) of EUR 147m from Level 1 to Level 2 and EUR 80m from Level 2 to Level 1 of the fair value hierarchy. NBF also transferred derivative assets of EUR 61m from Level 2 to Level 1 and derivative liabilities EUR 72m from Level 2 to Level 1. The reason for the transfers from Level 1 to Level 2 was that the instruments ceased to be actively traded during the period and fair values have now been obtained using valuation techniques with observable market inputs. The reason for the transfer from Level 2 to Level 1 was that the instruments have again been actively traded during the period and reliable quoted prices are obtained in the market. Transfers have also occurred following the implementation of an improved and more granular classification approach. Transfers between levels are considered to have occurred at the end of the reporting period.

Movements in Level 3

EURm	1 Jan	Fair value gains/losses recognised in the income statement during the year		Purchases/ Issues	Sales
		Realised	Unrealised		
Interest-bearing securities	59	-1	14	6	-21
Shares	72	48	-49	44	-47
Derivatives (net)	111	-7	-399	-	-
Total 2016, net	242	40	-434	50	-68
Total 2015, net	339	20	-117	32	-91

EURm	Settlements	Transfers into Level 3	Transfers out of Level 3	Translation differences	30 Jun
Interest-bearing securities	1	1	-22	-	37
Shares	-	-	-	-	68
Derivatives (net)	7	40	84	-	-164
Total 2016, net	8	41	62	-	-59
Total 2015, net	-48	450	-128	-	457

Unrealised gains and losses relate to those assets and liabilities held at the end of the reporting period. During the period NBF transferred interest-bearing securities of EUR 22m from level 3 to level 2. During the period NBF transferred also derivatives (net) of EUR 40m from Level 2 to Level 3 and EUR 84m from Level 3 to Level 2. The reason for the transfer from Level 3 to Level 2 was that observable market data became available. The reason for the transfer from Level 2 to Level 3 was that observable market data was no longer available. Transfers between levels are considered to have occurred at the end of the reporting period. Fair value gains and losses in the income statement during the period are included in "Net result from items at fair value". Assets and liabilities related to derivatives are presented net.

The valuation processes for fair value measurements in Level 3

For information about valuation processes for fair value measurement in Level 3, see the Annual Report 2015 Note 39 "Assets and liabilities at fair value".

Deferred day 1 profit

The transaction price for financial instruments in some cases differs from the fair value at initial recognition measured using a valuation model, mainly due to that the transaction price is not established in an active market. If there are significant unobservable inputs used in the valuation technique (Level 3), the financial instrument is recognised at the transaction price and any difference between the transaction price and fair value at initial recognition measured using a valuation model (Day 1 profit) is deferred. For more information see the Annual Report 2015 Note 1 "Accounting policies". The table below shows the aggregate difference yet to be recognised in the income statement at the beginning and end of the period and a reconciliation of how this aggregated difference has changed during the period (movement of deferred Day 1 profit).

Deferred day 1 profit - Derivatives (net)

EURm	2016	2015
Opening balance at 1 Jan	-44	-44
Deferred profit on new transactions	-5	-10
Recognised in the income statement during the period	3	4
Subsequent move to observability	14	-
Closing balance at 30 Jun	-32	-50

Valuation techniques and inputs used in the fair value measurements in Level 3

EURm	Fair value	Valuation techniques	Unobservable input	Range of fair value ²
Interest-bearing securities				
Mortgage and other credit institutions	36	Discounted cash flow	Credit spread	-2/2
Corporates	1	Discounted cash flow	Credit spread	-0/0
Total 30 Jun 2016	37			-2/2
Total 31 Dec 2015	59			-4/4
Shares				
Private equity funds	0	Net asset value ¹		-0/0
Hedge funds	1	Net asset value ¹		-0/0
Credit funds	-			-
Other funds	62	Net asset value ¹		-3/3
Other	5	-		-0/0
Total 30 Jun 2016	68			-3/3
Total 31 Dec 2015	72			-4/4
Derivatives, net				
Interest rate derivatives	91	Option model	Correlations Volatilities	-25/17
Equity derivatives	-251	Option model	Correlations Volatilities Dividends	-20/14
Foreign exchange derivatives	2	Option model	Correlations Volatilities	-0/0
Credit derivatives	-34	Credit derivative model	Correlations Recovery rates	-7/4
Other	28	Option model	Correlations Volatilities	-0/0
Total 30 Jun 2016	-164			-52/35
Total 31 Dec 2015	111			-60/44

¹ The fair values are based on prices and net assets values delivered by external suppliers/custodians. The prices are fixed by the suppliers/custodians on the basis of the development in assets behind the investments.

² The column "Range of fair value" shows the sensitivity of Level 3 financial instruments to changes in key assumptions. For more information see the Annual Report 2015, Note 39 "Assets and liabilities at fair value".

Note 11 Capital adequacy**Summary of items included in own funds**

EURm	30 Jun 2016	31 Dec ³ 2015	30 Jun 2015
Calculation of own funds			
Equity in consolidated situation	11,469	12,296	9,226
Proposed/actual dividend		-780	
Common Equity Tier 1 capital before regulatory adjustments	11,469	11,516	9,226
Deferred tax assets			
Intangible assets	-41	-44	-47
IRB provisions shortfall (-)	-191	-207	-175
Deductions for investments in credit institutions (50%)			
Pension assets in excess of related liabilities ¹	-21	-72	-69
Other items, net	-304	-196	-230
Total regulatory adjustments to Common Equity Tier 1 capital	-557	-518	-521
Common Equity Tier 1 capital (net after deduction)	10,912	10,998	8,705
Additional Tier 1 capital before regulatory adjustments	550	550	550
Total regulatory adjustments to Additional Tier 1 capital			
Additional Tier 1 capital	550	550	550
Tier 1 capital (net after deductions)	11,462	11,548	9,255
Tier 2 capital before regulatory adjustments	88	76	73
IRB provisions excess (+)			
Deductions for investments in credit institutions (50%)			
Deductions for investments in insurance companies			
Pension assets in excess of related liabilities			
Other items, net			
Total regulatory adjustments to Tier 2 capital			
Tier 2 capital	88	76	73
Own funds (net after deductions)²	11,550	11,624	9,328

¹ Based on conditional FSA approval² Own funds adjusted for IRB provision, i.e. adjusted own funds equal EUR 11,741 m by 30 Jun 2016³ Including profit of the period**Own funds including profit**

EURm	30 Jun 2016	31 Dec 2015	30 Jun 2015
Common Equity Tier 1 capital, including profit	11,459	10,998	9,436
Total own funds, including profit	12,096	11,624	10,059

Note 11, continued

Minimum capital requirement and REA						
	30 Jun 2016	30 Jun 2016	31 Dec 2015	31 Dec 2015	30 Jun 2015	30 Jun 2015
EURm	Minimum capital requirement	REA	Minimum capital requirement	REA	Minimum capital requirement	REA
Credit risk	2,769	34,609	2,713	33,909	2,897	36,212
- of which counterparty credit risk	630	7,873	586	7,330	567	7,093
IRB	2,061	25,757	2,018	25,226	1,925	24,064
- corporate	1,271	15,888	1,214	15,175	1,085	13,564
- <i>advanced</i>	858	10,730	811	10,143	722	9,026
- <i>foundation</i>	413	5,158	403	5,032	363	4,538
- institutions	263	3,280	295	3,683	335	4,192
- retail	512	6,397	500	6,248	485	6,058
- <i>secured by immovable property collateral</i>	215	2,681	216	2,699	205	2,556
- <i>other retail</i>	297	3,716	284	3,549	280	3,502
- other	15	192	9	120	20	250
Standardised	708	8,852	695	8,683	972	12,148
- central governments or central banks	16	194	7	90	3	42
- regional governments or local authorities	19	233	13	166	13	165
- public sector entities	2	30	2	30	2	25
- multilateral development banks	2	25	0	0	0	0
- international organisations						
- institutions	533	6,669	538	6,728	767	9,592
- corporate	90	1,123	81	1,007	89	1,114
- retail	37	464	35	433	33	416
- secured by mortgages on immovable properties						
- in default	1	10	1	16	1	14
- associated with particularly high risk						
- covered bonds	0	5	4	48	4	43
- institutions and corporates with a short-term credit assessment						
- collective investments undertakings (CIU)						
- equity	4	49	5	59	5	56
- other items	4	50	9	106	55	681
Credit Value Adjustment Risk	136	1,702	130	1,625	154	1,915
Market risk	365	4,565	346	4,329	492	6,149
- trading book, Internal Approach	253	3,167	231	2,887	363	4,533
- trading book, Standardised Approach ¹	105	1,315	108	1,350	124	1,550
- banking book, Standardised Approach	7	83	7	92	5	67
Operational risk	333	4,163	338	4,229	338	4,229
Standardised	333	4,163	338	4,229	338	4,229
Additional risk exposure amount due to Article 3 CRR	24	295	23	286		
Sub total	3,627	45,334	3,550	44,378	3,880	48,505
Adjustment for Basel I floor						
Additional capital requirement according to Basel I floor	1,033	12,918	1,105	13,810	1,009	12,610
Total	4,660	58,252	4,655	58,188	4,888	61,115

¹Market risk – of which trading book, Standardised Approach is restated for 30 Jun 2015

Note 11, continued

Minimum capital requirement and Capital Buffers

Percentage	Minimum capital requirement	Capital Buffers				Capital Buffers total ¹	Total
		CCoB	CCyB	O-SII	SRB		
Common Equity Tier 1 capital	4.5	2.5	0.2	2.00		4.7	9.2
Tier 1 capital	6.0	2.5	0.2	2.00		4.7	10.7
Own funds	8.0	2.5	0.2	2.00		4.7	12.7
EURm							
Common Equity Tier 1 capital	2,040	1,133	103	907		2,143	4,183
Tier 1 capital	2,720	1,133	103	907		2,143	4,863
Own funds	3,627	1,133	103	907		2,143	5,770

¹Only the maximum of the SRB and O-SII is used in the calculation of the total capital buffers.

Common Equity Tier 1 available to meet Capital Buffers

Percentage points of REA	30 Jun 2016	31 Dec ¹ 2015	30 Jun 2015
Common Equity Tier 1 capital	17.5	9.9	11.2

¹Including profit of the period

Capital ratios

Percentage	30 Jun 2016	31 Dec 2015	30 Jun ¹ 2015
Common Equity Tier 1 capital ratio, including profit	25.3	24.8	19.5
Tier 1 capital ratio, including profit	26.5	26.0	20.6
Total capital ratio, including profit	26.7	26.2	20.7
Common Equity Tier 1 capital ratio, excluding profit	24.1	24.0	17.9
Tier 1 capital ratio, excluding profit	25.3	25.3	19.1
Total capital ratio, excluding profit	25.5	25.4	19.2

Capital ratios including Basel I floor

Percentage	30 Jun 2016	31 Dec 2015	30 Jun ¹ 2015
Common Equity Tier 1 capital ratio, including profit	20.0	19.3	15.7
Tier 1 capital ratio, including profit	20.9	20.2	16.6
Total capital ratio, including profit	21.1	20.3	16.7
Common Equity Tier 1 capital ratio, excluding profit	19.1	18.7	14.5
Tier 1 capital ratio, excluding profit	20.0	19.6	15.4
Total capital ratio, excluding profit	20.2	19.8	15.6

¹ Market Risk – of which trading book, Standardised Approach restated 30 Jun 2015

Leverage ratio

	30 Jun 2016	31 Dec ¹ 2015	30 Jun 2015
Tier 1 capital, transitional definition, EURm	11,462	11,548	9,255
Leverage ratio exposure, EURm	282,281	255,891	296,425
Leverage ratio, percentage	4.1	4.5	3.1

¹Including profit of the period

Note 11, continued

Credit risk exposures for which internal models are used, split by rating grade

	On-balance exposure, EURm	Off-balance exposure, EURm	Exposure value (EAD), EURm ¹	Of which EAD for off-balance, EURm	Exposure- weighted average risk weight:
30 Jun 2016					
Corporate, foundation IRB:	2,698	1,486	12,466	0	41.4
- of which rating grades 6	210	72	3,851	0	14.2
- of which rating grades 5	431	242	3,434	0	27.8
- of which rating grades 4	866	507	3,366	0	56.1
- of which rating grades 3	518	283	968		87.1
- of which rating grades 2	122	82	427	0	164.9
- of which rating grades 1	22	17	27		176.4
- of which unrated	441	240	166		103.0
- of which defaulted	88	43	227		
Corporate, advanced IRB:	23,755	21,282	29,151	8,483	36.8
- of which rating grades 6	5,418	1,413	5,477	699	9.7
- of which rating grades 5	3,469	7,553	6,713	3,259	24.1
- of which rating grades 4	9,867	8,403	11,832	3,320	39.6
- of which rating grades 3	2,676	2,271	2,918	770	58.5
- of which rating grades 2	1,010	957	947	302	95.4
- of which rating grades 1	135	41	108	11	93.3
- of which unrated	345	367	428	122	54.5
- of which defaulted	835	277	728		130.9
Institutions, foundation IRB:	6,198	1,252	12,840	552	25.5
- of which rating grades 6	804	327	2,353	297	13.7
- of which rating grades 5	5,221	361	9,353	109	23.4
- of which rating grades 4	79	230	935	51	51.5
- of which rating grades 3	55	248	150	80	128.5
- of which rating grades 2	17	55	22	11	219.2
- of which rating grades 1	1	7	3	2	268.2
- of which unrated	21	24	24	2	161.4
- of which defaulted					
Retail, of which secured by real estate:	28,295	398	28,540	244	9.4
- of which scoring grades A	12,161	159	12,260	100	3.1
- of which scoring grades B	9,628	97	9,687	59	6.3
- of which scoring grades C	4,311	76	4,357	45	12.7
- of which scoring grades D	1,425	56	1,457	32	24.0
- of which scoring grades E	0	5	5	5	62.5
- of which scoring grades F	207	2	209	1	66.9
- of which not scored	8	1	8	0	23.7
- of which defaulted	555	2	557	2	115.3
Retail, of which other retail:	10,279	4,977	11,646	2,513	31.9
- of which scoring grades A	1,129	2,499	2,207	1,248	7.4
- of which scoring grades B	1,965	1,146	2,257	555	14.0
- of which scoring grades C	1,815	532	1,781	283	24.3
- of which scoring grades D	1,967	369	1,950	212	30.9
- of which scoring grades E	1,641	166	1,681	110	32.5
- of which scoring grades F	1,365	78	1,330	42	46.2
- of which not scored	59	95	77	16	43.4
- of which defaulted	338	92	363	47	277.4
Other non credit-obligation assets:	222	31	191	10	100.0

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

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

Note 11, continued

Capital requirements for market risk, 30 June 2016

EURm	Trading book, IM		Trading book, SA		Banking book, SA		Total	
	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement
Interest rate risk & other ¹	1,351	108	1,123	90			2,474	198
Equity risk	165	13	156	12			321	26
Foreign exchange risk	300	24			83	7	383	31
Commodity risk			35	3			35	3
Diversification effect	-545	-44					-545	-44
Stressed Value-at-Risk	851	68					851	68
Incremental Risk Measure	527	42					527	42
Comprehensive Risk Measure	517	41					517	41
Total	3,167	253	1,315	105	83	7	4,565	365

¹Interest rate risk column Trading book IM includes both general and specific interest rate risk which is elsewhere referred to as interest rate VaR and credit spread VaR.