Nordea

Annual Report 2016

Nordea Bank Finland

Nordea Bank Finland Plc is part of the Nordea Group. Nordea is among the ten largest universal banks in Europe in terms of total market capitalization and has around 11 million customers, 31,500 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.

Contents

Nordea Bank Finland Group

Five-year overview of the Directors' Report

Income statement

EURm	2016	2015[1]	2014	2013	2012
Net interest income	865	1,052	1,189	1,183	1,258
Net fee and commission income	131	105	75	-113	295
Net result from items at fair value	1,142	1,257	970	1,114	1,217
Profit from associated undertakings accounted for under the equity method	13	5	3	8	18
Other operating income	94	66	41	32	36
Total operating income	**2,245**	**2,485**	**2,278**	**2,224**	**2,824**
General administrative expenses:					
Staff costs	-515	-547	-559	-553	-574
Other expenses	-451	-413	-433	-466	-447
Depreciation, amortisation and impairment charges of tangible and intangible assets	-28	-31	-92	-40	-50
Total operating expenses	**-994**	**-991**	**-1,084**	**-1,059**	**-1,071**
Profit before loan losses	**1,251**	**1,494**	**1,194**	**1,165**	**1,753**
Net loan losses	-57	-92	-60	-53	-144
Impairment of securities held as financial non-current assets	-	-	-	1	-
Operating profit	**1,194**	**1,402**	**1,134**	**1,113**	**1,609**
Income tax expense	-232	-347	-232	-285	-428
Net profit for the year	**962**	**1,055**	**902**	**828**	**1,181**

[1] The comparative figures for 2015 have been restated

Balance sheet

EURm	2016	2015	2014	2013	2012
Loans to central banks and credit institutions	26,643	32,417	35,351	35,767	36,827
Loans to the public	64,611	101,447	113,748	113,779	100,765
Interest-bearing securities and pledged instruments	31,507	34,770	45,701	34,246	37,896
Derivatives	68,563	80,557	105,254	70,234	117,213
Other assets	47,451	52,399	46,144	50,735	42,760
Total assets	**238,775**	**301,590**	**346,198**	**304,761**	**335,461**
Deposits by credit institutions	63,918	78,162	87,368	79,426	74,666
Deposits and borrowings from the public	55,352	62,153	76,879	80,909	70,212
Debt securities in issue	18,507	43,407	48,472	47,130	48,999
Derivatives	70,864	83,538	102,876	67,109	115,836
Subordinated liabilities	632	628	620	429	514
Other liabilities	18,092	21,406	20,365	20,244	16,017
Equity	11,410	12,296	9,618	9,514	9,217
Total liabilities and equity	**238,775**	**301,590**	**346,198**	**304,761**	**335,461**

Ratios and key figures[3]

Group

	2016	2015	2014	2013	2012
Return on equity, %	8.1	9.6	9.4	8.8	11.3
Return on total assets, %	0.4	0.3	0.3	0.3	0.3
Cost/income ratio, %	44	40	48	48	38
Loan loss ratio, basis points	9	9	5	5	14
Common Equity Tier 1 capital ratio, incl. Basel I floor[1, 2], %	22.2	19.3	14.2	15.0	18.0
Tier 1 capital ratio, incl. Basel I floor [1, 2], %	23.4	20.2	15.1	15.0	18.0
Total capital ratio, incl. Basel I floor [1, 2], %	23.5	20.3	15.2	15.8	18.8
Common Equity Tier 1 capital, incl. Basel I floor[1, 2], EURm	10,203	10,998	8,454	8,430	8,246
Tier 1 capital[1, 2], EURm	10,753	11,548	9,004	8,430	8,246
Risk exposure amount, incl. Basel I floor[1] EURm	46,476	58,188	61,328	56,077	45,733
Number of employees (full-time equivalents)[1]	6,575	6,595	6,653	7,981	8,252
Average number of employees	7,326	7,285	7,802	8,937	9,269
Salaries and remuneration, EURm	-397	-413	-420	-426	-434
Equity to total assets, %	4.8	4.1	2.8	3.1	2.7

[1] End of the year

[2] Since 2014 ratios are reported using the Basel III (CRR/CRDIV) framework.

[3] For more information regarding ratios and key figures and key figures defined as Alternative performance measures, see http://www.nordea.com/en/investor-relations/.

Business definitions and exchange rates

These definitions apply to the descriptions in the Annual Report.

Cost/income ratio
Total operating expenses divided by total operating income.

Equity to total assets
Total shareholders' equity including minority interests as a percentage of total assets at year-end.

Own funds
Own funds include the sum of the Tier 1 capital and the supplementary capital consisting of subordinated loans, after the potential deduction for expected shortfall.

Loan loss ratio
Net loan losses (annualised) divided by the closing balance of loans to the public (lending), basis points.

RAROCAR, %
(Risk-adjusted return on capital at risk), Risk-adjusted profit relative to Economic capital.

Return on equity (ROE)
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.

Return on total assets (ROA)
Operating profit less taxes as a percentage of average total assets. Average total assets are calculated as the mean of total assets at the beginning and end of the year.

Risk exposure amount
Total assets and off-balance-sheet items valued on the basis of the credit and market risks, as well as the operational risks of the Group's undertakings, in accordance with regulations governing capital adequacy, excluding carrying amount of shares which have been deducted from the capital base and intangible assets.

Tier 1 capital
The Tier 1 capital of an institution consists of the sum of the Common Equity Tier 1 capital and Additional Tier 1 capital of the institution. Common Equity Tier 1 capital includes consolidated shareholders´ equity excluding proposed dividend, deferred tax assets, intangible assets in the banking operations, the full expected shortfall deduction (the negative difference between expected losses and provisions) and finally other deductions such as cash flow hedges.

Tier 1 capital ratio
Tier 1 capital as a percentage of risk exposure amount. The Common equity Tier 1 capital ratio is calculated as Common equity Tier 1 capital as a percentage of risk exposure amount.

Total capital ratio
Own funds as a percentage of risk exposure amount.

Exchange rates applied (end of year rates as at 31 December 2016)

EUR	1.0000	**USD**	1.0541	**DKK**	7.4344
GBP	0.85618	**CHF**	1.0739	**SEK**	9.5525
NOK	9.0863	**PLN**	4.4103	**SGD**	1.5234

Rating, Nordea Bank Finland

31 Dec 2016	Short	Long
Moody's	P-1	Aa3
Standard & Poor's	A-1+	AA-[1]
Fitch	F1+	AA-
DBRS	R-1 (mid)	AA (low)

[1] Negative outlook

Nordea Bank Finland

Directors' Report

Throughout this report the terms "Nordea Bank Finland", "NBF" and "Bank Group" refer to Nordea Bank Finland Plc and its subsidiaries. Nordea Bank Finland Plc is a wholly-owned subsidiary of Nordea Bank AB (publ), the parent company in the Nordea Group. The Nordea Group is referred to as "Nordea".

Nordea Bank Finland Plc is domiciled in Helsinki and its business identity code is 1680235-8.

As part of the Nordea Group, NBF operates in the banking business. All the operations of NBF are integrated into the operations of the Nordea Group's annual report, with activities and earnings reported by the business areas, encompasses the operations of NBF in their entirety.

This report covers the operations of Nordea Bank Finland Plc and its subsidiaries in Finland and abroad. The Finnish Mortgage Bank operations as well as Asset Management & Life operations are included in the Annual Report of the Nordea Group.

Subsidiaries and foreign branches
NBF has subsidiaries in Finland and abroad. The most significant subsidiary is Nordea Finance Finland Ltd, which is responsible for the Group's finance company operations in Finland. The Nordea Finance Finland Group comprises one Finnish financial institution and several real estate companies, four associated companies as well as three subsidiaries operating in the Baltic market: Nordea Finance Estonia Ltd, Nordea Finance Latvia Ltd and Nordea Finance Lithuania Ltd.

NBF has foreign branches in New York and Singapore. NBF has no foreign representative offices.

Simplifying the legal structure
In February 2016, the Board of Directors of Nordea Bank Danmark A/S, Nordea Bank Finland Plc and Nordea Bank Norge ASA signed merger plans with the purpose to change the Norwegian, Danish and Finnish subsidiary banks to branches of the Swedish parent company, Nordea Bank AB (publ), by means of cross-border mergers. The Annual General Meeting of Nordea Bank AB (publ) resolved to approve the merger plans on 17 March 2016.
The remaining approvals needed in order to execute the mergers between Nordea Bank AB (publ) and Nordea Bank Danmark A/S, Nordea Bank Finland Plc and Nordea Bank Norge ASA, respectively, were obtained during 2016.

As part of the merger process a new Mortgage Credit Institution (Nordea Mortgage Bank Plc) was established in Finland on 1 October 2016 in order to continue the covered bonds operations performed by Nordea Bank Finland Plc.

The cross border mergers between Nordea Bank AB (publ) and its subsidiary banks in Denmark, Finland and Norway were executed on 2 January 2017. As a result, all assets and liabilities of the subsidiary banks were transferred to Nordea Bank AB (publ) and each of Nordea Bank Danmark A/S, Nordea Bank Finland Plc and Nordea Bank Norge ASA were dissolved. The banking business in Denmark, Finland and Norway is now carried out in branches of Nordea Bank AB (publ).

The new simplified legal structure supports the work to increase agility, efficiency and benefits of scale and it strengthens governance.

Changes in NBF Group's structure
In addition to the partial demerger mentioned above, Nordea Bank Finland Plc dissolved its wholly-owned subsidiary, Nordea Securities Holding (U.K.) Ltd, during 2016. The dissolution had no material impact on the Group's result.

Additionally, three small subsidiaries were sold during the year.

Nordea Bank Finland Plc's associated company Realia Holding Oy was sold during 2016. The sale resulted in a loss of EUR 7m.

On 25 August 2016, Nordea and DNB announced an agreement to combine their operations in Estonia, Latvia and Lithuania to create a leading main bank in the Baltics with strong Nordic roots. The new bank will benefit from larger scale and the complementary nature of Nordea's and DNB's Baltic operations in terms of business lines and geographical footprint.

The transaction is conditional upon regulatory approvals and conditions and is expected to close in the second quarter of 2017. The banks will remain competitors and operate independently until all necessary approvals have been obtained and the transaction has closed.

NBF's finance company operations in Estonia, Latvia and Lithuania are included in the agreement. The impact on the 2016 income statement is disclosed in Note 47 for comparison purposes. Impact on the balance sheet was EUR 1.7bn.

Business development in 2016

2016 was probably the most eventful year in the history of Nordea. Continued negative rates, regulatory uncertainty and digital transformation have been in focus for the sector. The unexpected outcome on the referendum in the UK and the US presidential elections both created short term turmoil on the financial markets, however it seems like investors have been used to deal with geopolitical uncertainties.

The Nordic economies were characterised by divergence. In Sweden the economic picture was strong. In Denmark, the economy initially grew firmly, but then slowed somewhat in the second half of 2016. The full-year picture remained robust, continuing the gradual improving trend. In Norway growth also initially held up, but as the deterioration in oil prices accelerated the economy was gradually impacted, weighing also on forward looking expectations. In Finland, the economic picture remained more muted, with growth swaying between positive and negative territory over the quarters.

Result summary

Both the 2016 income statement and balance sheet of NBF were affected by the partial demerger. NBF's total operating income decreased 10%. Profit before loan losses was 16% and operating profit 15% lower than in the previous year. Loan loss ratio remained at a moderate level being 9 basis points. Profit before tax totalled EUR 1,194m (2015: 1,402), and return on equity was 8.1% (9.6).

Comments on the income statement

Operating income

Total operating income decreased to EUR 2,245m (2,485), mainly explained by the lower net interest income as well as lower result from items at fair value.

Net interest income decreased 18% to EUR 865m (1,053). The resolution fee decreased net interest income EUR 66m and the partial demerger approximately EUR 55m. Lending volumes decreased 36% and deposit volumes 11%. Lending was stable when excluding the reverse repurchase agreements and the impact of the partial demerger. Average lending margins were slightly higher than in the previous year. The negative trend in deposit margins has turned to a slight improvement.

Net fee and commission income increased 25% to EUR 131m (105). Fee and commission income was 2% lower and totalled EUR 741m (759). Fee and commission expenses decreased EUR 44m and totalled EUR 610m (654). The guarantee fee paid to Nordea Bank AB (publ) was significantly lower than in 2015.

Net result from items at fair value decreased to EUR 1,142m (1,257) from the exceptionally high level in 2015.

Other operating income including profit from associated undertakings accounted for under the equity method increased to EUR 107m (71). A gain of EUR 58m related to Visa Inc's proposed acquisition of Visa Europe. The total gain is split on "Profit from companies accounted for under the equity method" (EUR 9m) and "Other operating income" (EUR 49m).

Operating expenses

Total operating expenses were nearly at the same level as in the previous year and totalled EUR 994m (991).

Staff costs decreased 6% to EUR 515m (547). Investments in the compliance issues increased fixed salaries whereas profit related salaries and the reservation for the profit sharing scheme were lower. The number of employees, measured by full-time equivalents, was stable and amounted to 6,575 at the end of the year.

Other expenses were up 9% and amounted to EUR 451m (413). Most significant increases were seen in IT and consulting expenses.

Depreciations and impairment charges were slightly lower than in the previous year and amounted to EUR 28m (31).

Loan losses

Net loan losses amounted to EUR 57m (92) and the loan loss ratio was 9 (9) basis points. Provisions for individually assessed loans totalled EUR 19m and provisions for collectively assessed loans EUR 38m.

Individual loan losses amounted to 3 basis points of loans to the public in 2016 compared to 9 basis points in 2015. Collective provisions net amounted to 6 basis points in 2015 compared to 0 basis points in 2015.

Nordea Bank AB (publ) has guaranteed part of NBF's corporate exposures and based on the agreement NBF's loan losses decreased EUR 24m in 2016 and EUR 22m in 2015.

Taxes
Income tax expenses were EUR 232m (347). The effective tax rate amounted to 19% (25).

Net profit
Net profit for the year amounted to EUR 962m (1,055). Return on equity was 8.1% (9.6).

Comments on the balance sheet

Assets
Consolidated *total assets* amounted to EUR 239bn at year-end, showing a decrease of EUR 63bn compared to the previous year-end. The partial demerger decreased total assets approximately EUR 26bn.

Cash and balances with central banks decreased to 29bn (33).

Loans to central banks and credit institutions decreased to EUR 27bn (32).

Loans to the public decreased to EUR 65bn (101). Volumes of reverse repurchase agreements decreased EUR 13bn, and the impact of the demerger was approximately EUR 24bn. Excluding reverse repurchase agreements and the demerger, loans to the public was stable.

Mainly due to the partial demerger, mortgage lending decreased 75% and totalled EUR 7bn (29). Corporate lending decreased 25% compared to the previous year totalling EUR 48bn (63). Excluding repurchase agreements, the decrease was 9%. Consumer lending to households was slightly higher than in the previous year and amounted to EUR 9bn.

Interest-bearing securities and financial instruments pledged as collateral decreased to EUR 32bn (35).

Positive market values of *derivatives* decreased EUR 12bn to EUR 69bn (81) due to increased central counterparty clearing and increase in interest rates.

Other assets decreased approximately EUR 2bn.

Liabilities
Total liabilities amounted to EUR 227bn (289), showing a decrease of EUR 62bn.

Deposits by credit institutions and central banks decreased EUR 14bn to EUR 64bn (78).

Deposits and borrowings from the public decreased EUR 7bn to EUR 55bn (62). Volumes of repurchase agreements decreased EUR 5bn. Excluding repurchase agreements, deposits decreased 1bn.

Debt securities in issue decreased to EUR 19bn (43). After the demerger covered bonds were issued by Nordea Mortgage Bank. Other issued securities mainly comprised short-term debt instruments with a maturity less than one year.

Negative market values of *derivatives* decreased EUR 13bn to EUR 71bn (84).

Other liabilities were approximately EUR 3bn lower compared to the previous year-end.

Equity
Shareholders' equity amounted to EUR 12,296m at the beginning of 2016. EUR 780m was paid as dividend to Nordea Bank AB (publ). The partial demerger decreased equity EUR 1,052m. Net profit for the year was EUR 962m. At the end of 2016 total equity amounted to EUR 11,410m.

Appropriation of distributable funds

The parent company's distributable funds on 31 December 2016 were 7,687m of which the profit for the year is EUR 851m. It is proposed that the profit for the year will be transferred to retained earnings.

Off-balance sheet commitments

The bank's business operations include a considerable proportion of off-balance sheet items, such as guarantees, documentary credits and credit commitments. Credit commitments and unutilised credit lines amounted to EUR 15.0bn (13.6), while guarantees and granted but not utilised documentary credits as well as other off-balance sheet commitments, excluding the nominal values of derivative contracts, totalled EUR 27.6bn (12.8). The increase is mainly due to the guarantee given by NBF in favour of the holders of Nordea Mortgage Bank's covered bonds.

The nominal values of derivatives decreased to EUR 7,448bn (7,620).

Capital adequacy

At year-end, the Group's total capital ratio was 23.5% (20.3) and the Tier 1 ratio 23.4% (20.2). Risk exposure amount totalled EUR 46bn (58).

Risk, Liquidity and Capital management

Management of risk, liquidity and capital is a key success factor in the financial services industry.

Maintaining risk awareness in the organisation is ingrained in the business strategies. Nordea has defined clear risk, liquidity and capital management frameworks, including policies and instructions for different risk types, capital adequacy and capital structure.

Management principles and control
Board of Directors and Board Risk Committee
The Board of Directors has the ultimate responsibility for limiting and monitoring the Group's risk exposure as well as for setting the targets for the capital ratios. Risk is measured and reported according to common principles and policies approved by the Board of Directors, which also decides on Group Directives for credit risk, counterparty credit risk, market risk, liquidity risk, business risk, life insurance risk, operational risk, model risk, compliance risk as well as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP).

In the credit instructions, the Board of Directors decides on powers-to-act for major credit committees at different levels within the Business Areas. These authorisations vary for different decision-making levels, mainly in terms of the 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 the Group.

The Board Risk Committee (BRIC) 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 the Nordea's operations.

Responsibility of CEO and GEM
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 Group Executive Management (GEM) regularly review reports on risk exposure and have established a number of committees for risk, liquidity and capital management.

- The Asset and Liability Committee (ALCO), chaired by the Chief Operating Officer (COO), prepares issues of major importance concerning the Group's financial operations and balance sheet risks either for decision by the CEO in GEM or for recommendation by the CEO in GEM and for decision by the Group Board.
- Financial Management Committee (FMC) has been established next to ALCO and Risk Committee. FMC governs performance management and financial reporting related issues (e.g. Group Valuation Committee).
- The Risk Committee, chaired by the Chief Risk Officer (CRO), oversees the management and control of the Group's risks on aggregate level and evaluates the sufficiency of the risk frameworks, controls and processes associated with these risks. Furthermore, the Risk Committee decides, within the scope of resolutions adopted by the Board of Directors, on the allocation of credit risk limits, market risk limits as well as the liquidity risk limits to the risk taking units. The heads of the units allocate the respective limits within the unit and may introduce more detailed limits and other risk-mitigating techniques such as stop-loss rules. The Risk Committee has established sub-committees for its work and decision-making within specific risk areas.
- The Group Executive Management Credit Committee is chaired by the CEO. As of January 2017, the Executive Credit Committee is chaired by the Head of Group Credit Risk Management (GCRM), while the Group Credit Committee Commercial and Business Banking and the Group Credit Committee Wholesale Banking are chaired by the Chief Credit Officer (CCO). These credit committees approve major internal credit risk limits constituting the maximum credit risk appetite on the customer in question. Individual credit decisions within approved internal credit risk limits are taken within the customer responsible units (CRUs). Internal credit risk limits are granted as individual limits for customers or consolidated customer groups as well as industry limits for certain defined industries.

Governance of Risk Management and Compliance
Group Risk Management & Control and Group Compliance are the 2nd line of defence. The flow of risk related information from the Business Areas and the Group Functions to the Board of Directors passes through Risk Committee and Board Risk Committee (BRIC). Reporting from Group Compliance is presented directly to the Board of Directors as well as discussed in the Board Audit Committee (BAC).

As of January 2017, Group Risk Management & Control is organised in the following divisions covering all risk types except compliance risk: Group Credit Risk & Control, Group Market and Counterparty Credit Risk, Group Operational Risk, Balance Sheet Risk Controls, Chief Operational Officer Function, and CRO Office, The flow of information starts with the divisions that monitor and analyse information on the respective risk type. The risks are presented and discussed in the Risk Committee and sub committees. Information on risk is then brought to BRIC, where risk issues are being discussed and prepared before presented to the Board of Directors.

The other second line function, Group Compliance, consists of central units as well as business area specific divisions, facilitating and overseeing the effectiveness and integrity of the Group's compliance risk management. Group Compliance adds value to the Group and its stakeholders by providing an independent view on compliance with applicable rules and regulations, based to a great extent on conducted monitoring activities. Furthermore, Group Compliance advises and supports the 1st line of defence on ways to effectively and efficiently manage compliance obligations.

Risk appetite

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

The Board of Directors is ultimately responsible for the Group's overall risk appetite 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 topdown 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. This is achieved through a limit scale with three levels:

- Green: Risk level is well within the defined risk appetite
- Amber: A threshold set as a trigger level for further monitoring, investigation, or analysis
- Red: The limit of the bank's risk appetite.

The starting point for defining Nordea's Risk Appetite is the available own funds and overall business strategy. The Risk Appetite framework considers key risks relevant to Nordea's business activities and is at an aggregate level represented in terms of credit risk, market risk, liquidity risk, operational risk, solvency and compliance/non-negotiable risks. The Risk Appetite framework is further presented in the Capital and Risk Management Report.

Monitoring and reporting

The "Policy for Internal Control in the Nordea Group" states the components of the internal control framework as: Control environment, risk assessment, control activities, information and communication, and monitoring (including reporting of finding and deficiencies). It creates the necessary preconditions for the whole organisation to contribute to the effectiveness and the high quality of internal control. It is based on clear definitions, assignments of roles and responsibilities, common tools and procedures and is expressed in a common language.

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 methodology to its needs. In order to support all employees in managing risks, Nordea has gathered relevant e-learnings, policies and guidelines internally defined as Licence to work. Licence to Work is a set of stepwise requirements for learning about risk and compliance and shall be renewed every year.

The control environment is, among other things, based on the principles for 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, operational risk, IT risk and overall capital adequacy. 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 to this Nordea's compliance with regulatory requirements is reported to GEM and Board of Directors. The Board of Directors and CEO in each legal entity regularly receives local risk reporting.

Disclosure requirements of the CRR – Capital and Risk Management Report 2016

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2016, in accordance with the Capital Requirements Regulation (CRR), which is based on the Basel III framework issued by the Basel Committee on Banking Supervision. The report is available at www.nordea.com.

Risk management

Credit Risk management

Credit Risk Management in 1st line of defence is responsible for the credit process framework and Group Risk Management and Control (2nd line of defence) is responsible for the credit risk management framework, consisting of policies, instructions and guidelines for the Group. Group Risk Management and Control is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process. Each division/unit is primarily responsible for managing the credit risks in its operations within the applicable framework and limits, including identification, control and reporting.

Within the powers to act granted by the Board of Directors, internal credit risk limits are approved by decision-making authorities on different levels in the organisation constituting the maximum risk appetite on the customer in question. Individual credit decisions within the approved internal credit risk limit are taken within the customer responsible unit (CRU). The risk categorization of the customer and the exposure decide the level at which the decision will be made. Responsibility for a credit exposure lies with the relevant customer responsible unit. Customers are risk categorized by a rating or score in accordance with the Nordea’s rating and scoring guidelines. From 1.1.2017 representatives from 1st line of defence credit organisation independently approve the rating.

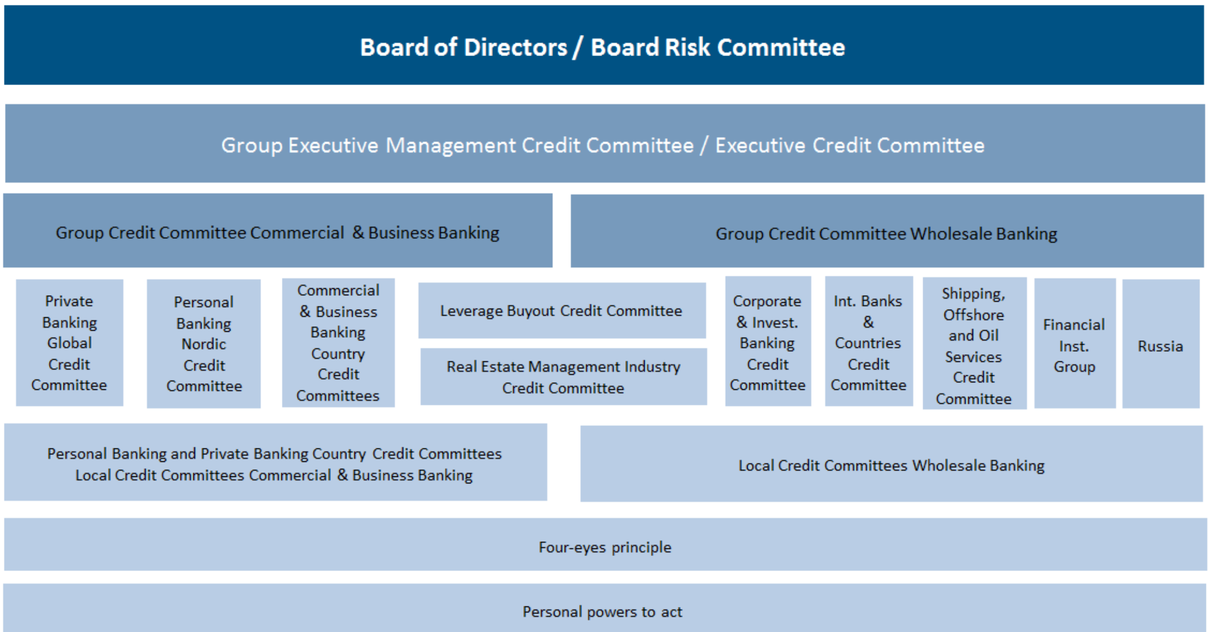
Credit risk definition and identification

Credit risk is defined as the potential for loss due to failure of a borrower(s) to meet its obligations to clear a debt in accordance with agreed terms and conditions. The potential for loss is lowered by credit risk mitigation techniques. It stems mainly from various forms of lending, but also from issued guarantees and documentary credits. Credit risk includes counterparty credit risk, transfer risk and settlement risk. Credits granted within Nordea shall conform to a common framework. For monitoring the distribution of a portfolio, improving the risk management and defining a common strategy towards specific industries there are specific industry credit principles and policies in place establishing requirements and caps.

Credit risk mitigation

Credit risk mitigation is an inherent part of the credit decision process. In every credit decision and review, the valuation of collaterals is considered as well as the adequacy of covenants and other risk mitigations. Pledging of collateral is the main credit risk mitigation technique. In corporate exposures, the main collateral types are real estate mortgages, floating charges and leasing objects. Collateral coverage is higher for exposures to financially weaker customers than for those who are financially strong. Limit decisions are taken independent from collateral coverage.

Credit Committee Structure



Regarding large exposures, syndication of loans is the primary tool for managing concentration risk, while credit risk mitigation by the use of credit default swaps is applied to a limited extent. Covenants in credit agreements are an important complement to both secured and unsecured exposures. Most exposures of substantial size and complexity include appropriate covenants. Financial covenants are designed to react to early warning signs and are carefully monitored.

Individual and collective assessment of impairment

Throughout the process of identifying and mitigating credit impairments, Nordea continuously reviews the quality of the credit exposures. Weak and impaired exposures are closely and continuously 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 provision is recognised if there is objective evidence based on loss events and observable data that the customer's future cash flow is weakened to the extent that full repayment is unlikely, pledged collateral included. Exposures with individual provisions are considered as impaired. The size of the provision is equal to the estimated loss being the difference between the book value of the outstanding exposure and the discounted value of the future cash flow, including the value of pledged collateral. Impaired exposures can be either servicing or non-servicing. Exposures that have been past due more than 90 days are by definition regarded as defaulted and non-servicing, and reported as impaired or not impaired depending on the deemed loss potential.

Forbearance is negotiated terms or restructuring due to the borrower experiencing or about to experience financial difficulties.

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 recognized if necessary. Forborne rated 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 of all individually significant customers, collective impairment testing is performed for groups of customers that have not been found to be impaired on individual level. 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 base-line for assessing the amount of provisions needed for the parts of Nordea's portfolios that are not individually assessed. The Collective provisioning model is based on migration of rated and scored customers in the credit portfolio. The assessment of collective impairment is built on an incurred loss concept, where the credit quality of each exposure is related to its initial credit quality. If the credit quality has deteriorated, collective provisions corresponding to a true and fair assessment of the expected loss is calculated by the model. Moreover, defaulted customers without individual provisions are also collectively assessed. The output of the model is complemented with an expert based analysis process to ensure adequate provisioning. The model is executed quarterly and the output is a result of a bottom-up calculation from sub-exposure level, taking the latest portfolio development into account.

Credit risk exposure and loans
(excluding cash and balances at central banks and settlement risk exposure)

	Group		Parent company	
EURm	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Loans to central banks and credit institutions	**26,643**	**32,417**	**31,856**	**38,636**
Loans to the public	**64,611**	**101,447**	**56,754**	**94,063**
- of which corporate	47,687	63,179	42,913	58,818
- of which household	15,844	36,998	12,761	33,975
- of which public sector	1,080	1,270	1,080	1,270
Total loans	**91,254**	**133,864**	**88,610**	**132,699**
Off-balance credit exposure	42,459	26,025	39,558	23,344
Counterparty risk exposure	27,648	29,561	27,648	29,561
Interest-bearing securities[1]	31,507	34,770	31,507	34,770
Total credit risk exposure in the banking operations	**192,868**	**224,220**	**187,323**	**220,374**

[1] Also includes interest-bearing securities pledged as collateral in repurchase agreements

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.

Further information on credit risk is presented in Note 43 to the financial statements.

Credit portfolio
Credit risk is measured, monitored and segmented in different ways. 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 the principal amount of on-balance sheet claims, i.e. loans to central banks and credit institutions, loans to the public and off-balance sheet potential claims on customers and counterparts, net after allowances. Credit risk exposure also includes the risk related to derivative contracts and securities financing.

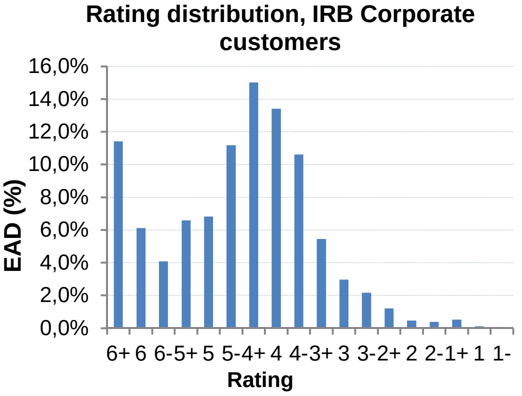
NBF's total lending decreased to EUR 65bn (101) during 2016. It is attributable to decrease of 25% in the corporate portfolio and a decrease of 57% in the household portfolio. Part of the corporate portfolio is guaranteed by NBF's parent company Nordea Bank AB (publ). Including off-balance sheet exposures, the total credit risk exposure at year-end was EUR 193bn (224). Out of lending to the public, corporate customers accounted for 74% (62) and household customers 25% (36). Loans to credit institutions mainly in the form of inter-bank deposits, decreased to EUR 27bn (32) at the end of 2016.

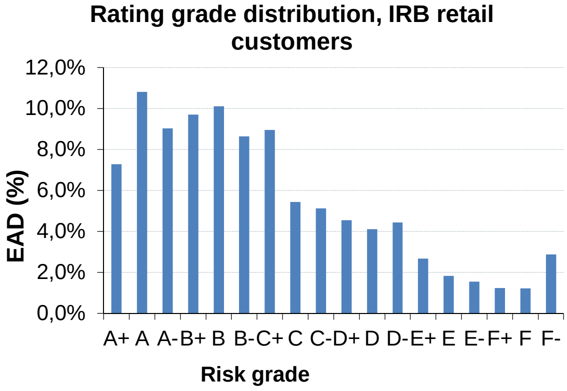
Loans to corporate customers
Loans to corporate customers at the end of 2016 amounted to EUR 48bn (63), down 32%. Real estate remains the largest sector in NBF's lending portfolio at EUR 6.0bn (8.1). The real estate portfolio predominantly consists of relatively large and financially strong companies.

Loans to household customers
In 2016 lending to household customers decreased 57% to EUR 16bn (37). Mortgage loans decreased 75% to EUR 7bn while consumer loans increased slightly to EUR 8.5bn. The proportion of mortgage loans of total household loans decreased to 46% (78).

Geographical distribution
Lending to the public distributed by borrower domicile shows that the Nordic market accounts for 90% (60). USA and Asia-countries represent the main part of the lending outside the Nordic and Baltic countries.

Rating and scoring distribution
One way of assessing credit quality is through an analysis of the distribution across rating grades for rated corporate customers and institutions as well as across risk grades for scored household and small business customers, i.e. retail exposures. About 85% (87) of the corporate exposure is rated 4- or higher and the portion of institutional exposure rated 5- or higher is 91% (93). About 84% (83) of the retail exposures are scored C- or higher.





Loans to the public and to credit institutions, by country and industry

Group

31 Dec 2016, EURm	Finland	Baltic	Total 2016	Total 2015
Energy (oil, gas etc.)	82	4	85	3
Metals and mining materials	187	14	200	192
Paper and forest materials	804	28	832	778
Other materials (building materials etc.)	1,455	174	1,629	1,576
Industrial capital goods	759	15	774	770
Industrial commercial services etc.	1,267	196	1,463	1,527
Construction and engineering	779	73	851	767
Shipping and offshore	2,923	0	2,923	3,265
Transportation	960	342	1,302	1,149
Consumer durables (cars, appliances etc.)	358	17	375	384
Media and leisure	497	23	520	553
Retail trade	1,839	270	2,109	2,011
Consumer staples (food, agriculture, etc.)	1,042	264	1,306	1,332
Health care and pharmaceuticals	312	16	328	358
Financial institutions	1,511	7	1,518	981
Real estate	5,952	21	5,972	8,062
IT software, hardware and services	345	14	359	325
Telecommunication equipment	56	7	63	64
Telecommunication operators	339	3	342	545
Utilities (distribution and productions)	1,315	9	1,324	1,808
Other, public and organisations	1,300	56	1,356	1,851
Total excl. reverse repurchase agreements	**24,083**	**1,552**	**25,635**	**28,301**
Reverse repurchase agreements	22,052	-	22,052	34,878
Total corporate loans	**46,135**	**1,552**	**47,687**	**63,179**
Household mortgage loans	7,333	-	7,333	28,906
Household consumer loans	8,320	191	8,511	8,092
Public sector	1,080	-	1,080	1,270
Total loans to the public	**62,868**	**1,743**	**64,611**	**101,447**
Loans to central banks and credit institutions	26,643	-	26,643	32,417
Total loans	**89,511**	**1,743**	**91,254**	**133,864**

Loans to the public and to credit institutions, by country and industry

Parent company

31 Dec 2016, EURm	Finland	Baltic	Total 2016	Total 2015
Energy (oil, gas etc.)	80		80	1
Metals and mining materials	121		121	132
Paper and forest materials	529		529	511
Other materials (building materials etc.)	1,027		1,027	1,172
Industrial capital goods	609		609	627
Industrial commercial services etc.	956		956	1,030
Construction and engineering	523		523	506
Shipping and offshore	2,921		2,921	3,264
Transportation	345		345	323
Consumer durables (cars, appliances etc.)	305		305	319
Media and leisure	422		422	457
Retail trade	1,544		1,544	1,549
Consumer staples (food, agriculture, etc.)	804		804	874
Health care and pharmaceuticals	240		240	270
Financial institutions	1,498		1,498	962
Real estate	5,931		5,931	8,020
IT software, hardware and services	198		198	197
Telecommunication equipment	54		54	60
Telecommunication operators	337		337	540
Utilities (distribution and productions)	1,265		1,265	1,746
Other, public and organisations	1,151		1,151	1,379
Total excl. reverse repurchase agreements	20,860	-	20,860	**23,940**
Reverse repurchase agreements	22,052		22,052	34,878
Total corporate loans	**42,913**	-	**42,913**	**58,818**
Household mortgage loans	7,333		7,333	28,906
Household consumer loans	5,428		5,428	5,069
Public sector	1,080		1,080	1,270
Total loans to the public	**56,754**	-	**56,754**	**94,063**
Loans to central banks and credit institutions	31,856		31,856	38,636
Total loans	**88,610**	-	**88,610**	**132,699**

Impaired loans

Impaired loans gross decreased 12% to EUR 1,320m from EUR 1,501m, corresponding to 144bp (112) of total loans. 35% (43) of impaired loans gross are servicing and 65% (57) are non-servicing. Impaired loans net, after allowances for individually assessed impaired loans, amounted to EUR 848m (978), corresponding to 79bp (73). Allowances for individually assessed loans increased to EUR 472m from EUR 523m. Allowances for collectively assessed loans increased to EUR 122m from EUR 104m. The provisioning ratio was 45% (42). The industry with the largest increase in impaired loans was Other materials (building materials).

Past due loans (6 days or more) to corporate customers that are not considered impaired increased to EUR 297m (245). The volume of past due loans to household customers decreased to EUR 288m (565) in 2016.

Net loan losses

Net loan losses decreased to EUR 57m (92) in 2016. This corresponded to a loan loss ratio of 9bp (9). EUR 33m (50) relates to corporate customers and EUR 24m (42) relates to household customers. main losses were in the corporate sector Shipping and Offshore.

Counterparty credit risk

Counterparty credit risk is the risk that Nordea's counterpart in a FX, interest, commodity, equity or credit derivative contract defaults prior to maturity of the contract and that Nordea at that time has a claim on the counterpart. Counterparty credit risk can also exist in repurchasing agreements and other securities financing transactions. The exposure at the end of 2016 was EUR 27.6bn (29.6), of which the current exposure net (after close-out and collateral reduction) represents EUR 13.3bn. 48% of the exposure and 34% of the current exposure net was towards financial institutions.

For information about financial instruments subject to master netting agreement, see Note 39.

Market risk

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

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

Impaired loans and ratios[1]

	Group		Parent company	
EURm	2016	2015	2016	2015
Impaired loans gross	1,320	1,501	1,090	1,330
- of which serving	459	646	419	619
- of which non-serving	861	855	671	711
Impaired loans ratio, basis points[2]	144	112	122	100
Total allowance ratio, basis points	65	47	56	40
Provisioning ratio, % [3]	45	42	46	40

[1] Excluding off-balance sheet items

[2] Total allowances in relation to total loans before allowances

[3] Total allowances in relation to impaired loans

Net loan losses and loan loss ratios

	Group		Parent company	
Basis points of loans	2016	2015	2016	2015
Net loan losses, EURm	57	92	41	42
Loan loss ratio[1]	9	9	7	4
- of which individual	3	9	1	7
- of which collective	6	0	6	-3

[1] Net loan losses divided by the closing balance of loans to the public

Impaired loans gross and allowances by country and industry (to the public and to credit institutions)

Group

31 Dec 2016, EURm	Finland	Baltic	Total	Allowances	Provisioning ratio
Energy (oil, gas etc)	1		1	3	
Metals and mining materials	30		30	23	77%
Paper and forest materials	1		1	1	68%
Other materials (building materials etc.)	162		162	80	50%
Industrial capital goods	16		16	16	
Industrial commercial services etc.	98		98	72	73%
Construction and engineering	23		23	20	91%
Shipping and offshore	70		70	48	69%
Transportation	11		11	7	62%
Consumer durables (cars, appliances etc.)	14		14	10	72%
Media and leisure	20		20	14	71%
Retail trade	80		80	57	71%
Consumer staples (food, agriculture etc.)	56		56	26	46%
Health care and pharmaceuticals	6		6	3	50%
Financial institutions	27		27	23	84%
Real estate	56		56	27	49%
IT software, hardware and services	36		36	28	78%
Telecommunication equipment	1		1	1	79%
Telecommunication operators	11		11	4	31%
Utilities (distribution and productions)	1		1	0	51%
Other, public and organisations	2	15	17	30	
Total corporate impaired loans	**722**	**15**	**737**	**493**	**67%**
Household mortgage loans	278		278	13	5%
Household consumer loans	296		296	88	30%
Public sector	0		0	0	
Credit institutions	9		9	0	
Total impaired loans gross	**1,305**	**15**	**1,320**		
Total allowances	**582**	**12**		**594**	
Provisioning ratio	**45%**	**82%**			**45%**

Impaired loans gross and allowances by country and industry (to the public and to credit institutions)

Parent company

31 Dec 2016, EURm	Finland	Baltic	Total	Allowances	Provisioning ratio
Energy (oil, gas etc.)	1		1	3	
Metals and mining materials	28		28	23	82%
Paper and forest materials	1		1	0	41%
Other materials (building materials etc.)	126		126	76	60%
Industrial capital goods	14		14	16	
Industrial commercial services etc.	94		94	71	75%
Construction and engineering	20		20	19	97%
Shipping and offshore	70		70	48	69%
Transportation	6		6	4	56%
Consumer durables (cars, appliances etc.)	12		12	9	74%
Media and leisure	17		17	12	72%
Retail trade	75		75	55	73%
Consumer staples (food, agriculture etc.)	49		49	24	48%
Health care and pharmaceuticals	4		4	2	53%
Financial institutions	27		27	23	84%
Real estate	55		55	27	49%
IT software, hardware and services	36		36	28	78%
Telecommunication equipment	1		1	1	79%
Telecommunication operators	11		11	4	31%
Utilities (distribution and productions)	1		1	0	51%
Other, public and organisations	0		0	10	
Total corporate impaired loans	**649**	**-**	**649**	**454**	**70%**
Household mortgage loans	278		278	13	5%
Household consumer loans	154		154	35	23%
Public sector	-		-	-	
Credit institutions	9		9	0	
Total impaired loans gross	**1,090**	**-**	**1,090**		
Total allowances	**502**			**502**	
Provisioning ratio	**46%**				**46%**

Measurement of market risk

Nordea calculates value-at-risk (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 out 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 cyclicality, 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.

Market risk analysis

Market risk for the trading book as measured by total VaR was EUR 21m (33) at the end of 2016. The main contributor to total VaR were equity risk and interest rate risk which were EUR 13m (7) and EUR 12m (32) respectively.

The fair value of investments in private equity funds reported as fair value option was EUR 0m (2) at the end of 2016.

Foreign exchange rate positions in FX VaR[1]

Group

EURm	2016	2015
DKK	-766	714
SEK	124	-1
USD	58	78
NOK	38	-10
BRL	-29	-28
Other[2]	4	

[1] The disclosed FX positions relate to positions in financial instruments in the banking book and trading book. Financial derivatives are included with their delta equivalent. Structural FX risk e.g. related to investments in subsidiaries and associated companies or related to earnings and cost streams denominated in foreign currencies, are not included.

[2] Aggregate net position for foreign exchange positions with an individual absolute value below EUR 21m

Market risk figures for the trading book, VaR[1]

Group

EURm	Measure	31 Dec 2016	2016 high	2016 low	2016 average	31 Dec 2015
Total Risk	VaR	20.6	57.2	13.6	29.3	33.0
- Interest Rate Risk	VaR	11.7	51.0	9.5	25.5	32.4
- Equity Risk	VaR	13.4	18.1	2.0	5.4	7.0
- Credit Spread Risk	VaR	6.2	12.5	3.2	6.6	5.6
- Foreign Exchange Risk	VaR	5.3	13.3	4.5	7.6	5.2
Diversification effect	VaR	44%	55%	18%	36%	34%

[1] For a description of Nordea's VaR model, see "Measurement of market risk"

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.

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) measuring the effect on Nordea's net interest income for a 12-month period of a one percentage point increase, respectively decrease, in all interest rates. The balance sheet is assumed to be constant over time, however main elements of customer behaviour and Nordea's decision-making process concerning Nordea's own rates are taken into account.

SIIR analysis
At the end of 2016, SIIR for increasing rates was EUR 276m (+48) and SIIR for decreasing market rates was EUR -128m (+105).

Operational risk
Operational risk means the risk of direct or indirect loss, or damaged reputation, resulting from inadequate or failed internal processes, or from people, systems or external events. Regarding own funds requirements for operational risk also covers legal risk and compliance risk. Operational risk is inherent in all activities within the organisation, in outsourced activities and in all interactions with external parties.

The key principle for the management of Operational risks is the three lines of defence. The 1st line of defence is represented by the Business Areas and Group Functions who are responsible for their own daily risk management and for operating their business within limits for risk exposure and in accordance with decided framework for internal control and risk management at 1st line of defence.

The control function Group Operational Risk (GOR), part of Group Risk Management is, in the 2nd line of defence is responsible for developing and maintaining the framework for managing operational risks and for supporting, challenging and controlling the line organisation in their implementation of the framework. GOR establishes and maintains adequate policies and procedures for operational risk. The Nordea Operational Risk Policy forms part of the risk management and internal control framework and sets out the general principles for operational risk management. Management of operational risks is proactive, emphasising training and risk awareness. Group Internal Audit performs audits and provides assurance to stakeholders on internal controls and risk management processes in 3rd line of defence.

The key process for management of operational risks is the annual Operational Risk Assessment process. The process includes the risk and control self-assessment (RCSA), scenario analysis and Group level controls, 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 assessing and ensuring fulfilment of requirements specified in Group directives. The risks are identified both through top-down and through bottom-up analysis of results obtained from control questions as well as existing information from 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 timing of this process is synchronised with the annual planning process to be able to ensure adequate input to the Group's overall prioritisations.

The reporting of the outcomes is done to Group Risk Management (GRM), Group Executive Management (GEM) and the Board of Directors (BOD) or relevant Board committee.

Compliance risk
Nordea defines compliance risk as the risk to fail to comply with laws, regulations, rules and prescribed practises and ethical standards, governing Nordea's activities in any jurisdiction, which could result in material financial or reputational loss to the Group, regulatory remarks or sanctions.

The key principle for the management of Compliance risk is the three lines of defence. The 1st line of defence represented by the Business Areas and Group Functions are risk owners, and are responsible for their own daily risk management and control of compliance risks. Management on all levels are responsible for operating their business within defined limits for risk exposure and in accordance with decided directives, instructions and risk management processes, and for implementing and executing Group level and Business Area level instructions and guidelines.

Group Compliance is a 2nd line of defence risk control function in the Group, coordinating, facilitating and overseeing the effectiveness and integrity of the Group's compliance risk management. Group Compliance provides an independent view on compliance to relevant rules and regulations, through monitoring and other activities. Furthermore, Group Compliance also advises and supports first line on ways to effectively and efficiently handle compliance obligations. Group Internal Audit performs audits and provides assurance to stakeholders on internal controls and risk management processes in the 3rd line of defence.

In April 2016 the CEO initiated an internal investigation to assess whether 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 investigation did not find evidence that employees have initiated the establishment of offshore structures, nor that they have proactively contributed to customers' potential tax evasion. The investigation however found that many of the reviewed KYC files fall clearly below the standards set forth in the Group's policy. This is mainly related to the so-called enhanced due diligence (EDD) required for high-risk customers. A number of initiatives have been initiated to address the deficiencies.

The bank established a Financial Crime Change Programme in 2015 with the goal of ensuring robust group wide frameworks, policies, standards and processes. The Group has invested in a significant increase in resources to improve its financial crime risk management capability since then and is making good progress in progressively embedding the revised approach.

The Business Ethics and Values Committee were established at the end of 2015 to oversee that Nordea runs its business in a responsible manner and in line with our values and ethical standards. In order to strengthen the corporate culture within the Group, a culture transformation programme has been initiated in Q3 2016 involving all the employees of the Group.

The supervisory authorities have during 2016 conducted ongoing investigations with regards to Nordea's compliance in several areas, e.g. investment advice, AML and governance and control. The outcome of some investigations is pending and it cannot be excluded that these investigations could lead to criticism or sanctions.

In addition to the Financial Crime Change programme, the bank is investing more generally in enhanced compliance standards, processes and resources. Nordea has developed a revised compliance operating model, accelerated recruitment and introduced dedicated first line compliance and operational risk support units.

Liquidity management

Management principles and control

Group Treasury & ALM (TALM) is responsible for pursuing Nordea's liquidity strategy, managing the liquidity in Nordea and for compliance with the group-wide limits set by the Board of Directors and the Risk Committee. TALM, as the 1st line of defence, develops the liquidity management and risk frameworks, which consist of policies, instructions and guidelines as well as defines the principles for pricing liquidity risk. GMCCR, as an independent 2nd line of defence, reviews the policies and frameworks and executes control over the liquidity management.

The Board of Directors defines the liquidity risk appetite by setting limits for applied liquidity risk measures. The most central measure is Survival horizon, which defines the risk appetite by setting the minimum survival of three months under institution-specific and market-wide stress scenarios with limited mitigation actions.

Liquidity risk management

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. 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 the Group's 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 the Group's four domestic markets in the form of a strong and stable retail customer base and a variety of funding programmes. Funding programmes are both short-term (US Commercial Papers, European Commercial Papers, Commercial Papers, Certificates of Deposits) and long-term (Covered Bonds, European Medium Term Notes, Medium Term Notes) and cover a range of currencies.

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. Stress testing framework also includes the survival horizon metric, which represents a combined liquidity risk scenario (idiosyncratic and market-wide stress).

Liquidity risk measurement methods

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 total figure for all currencies combined. The total figure for all currencies combined is limited by the Board of Directors.

To ensure funding in situations where Nordea is in urgent need of cash and the 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 held by Group Treasury & ALM that can be readily sold or used as collateral in funding operations.

During 2011, the survival horizon metric was introduced. It is conceptually similar to the Basel and EU Liquidity Coverage Ratio. The metric is composed of a 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 the Group and until March 2016 expressed the excess liquidity after a 30-day period without access to market funding. In April 2016 the period was prolonged to 90 days. The Board of Directors has set a limit for minimum survival without access to market funding during 90 days.

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 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 it as a target that the NBSF should be positive, which means that stable assets must be funded by stable liabilities.

Liquidity risk analysis

The short-term liquidity risk remained at moderate levels throughout 2016. The average funding gap risk, i.e. the average expected need for raising liquidity in the course of the next 30 days, was EUR +5.2bn (+6.5).

NBF's liquidity buffer range was EUR13.0–21.7bn (13.7–18.9) throughout 2016 with an average buffer size of EUR 16.6bn (16.1). NBF's liquidity buffer is highly liquid, consisting of only central bank eligible securities held by Group Treasury & ALM. Survival horizon was in the range EUR +0.2 – 10.7bn (+1.5 – 18.9) throughout 2016 with an average of EUR 5.3bn (11.6). The aim of always maintaining a positive NBSF was comfortably achieved throughout 2016. The yearly average for the NBSF was EUR 41.2bn (32.7). The Liquidity Coverage Ratio (LCR) according to EBA Delegated Act was 155% at the end of the year.

Capital management

Nordea strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to assets, liabilities and risks. The goal is to enhance returns to shareholders while maintaining a prudent capital structure.

Capital governance

The Board of Directors decides ultimately on the targets for capital ratios and the capital policy in Nordea, while the CEO in GEM decides on the overall framework of capital management. The ability to meet targets and to maintain minimum capital requirements is reviewed regularly within the Asset and Liability Committee (ALCO) and the Risk Committee.

The capital requirement and the capital base described in this section follow the CRD rules and not accounting standards, see Note 36 for details.

Summary of items included in own funds

Group

EURm	31 Dec[1] 2016	31 Dec[1] 2015
Calculation of own funds		
Equity in the consolidated situation	11,397	12,296
Proposed/actual dividend	-650	-780
Common Equity Tier 1 capital before regulatory adjustments	10,747	11,516
Deferred tax assets		
Intangible assets	-42	-44
IRB provisions shortfall (-)	-111	-207
Deduction for investments in credit institutions (50%)		
Pension assets in excess of related liabilities[1]	-62	-72
Other items, net	-329	-196
Total regulatory adjustments to Common Equity Tier 1 capital	-544	-518
Common Equity Tier 1 capital (net after deduction)	**10,203**	**10,998**
Additional Tier 1 capital before regulatory adjustments	550	550
Total regulatory adjustments to Additional Tier 1 capital		
Additional Tier 1 capital	550	550
Tier 1 capital (net after deduction)	**10,753**	**11,548**
Tier 2 capital before regulatory adjustments	81	76
IRB provisions excess (+)/shortfall (-)		
Deduction 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	81	76
Own funds (net after deduction)[2]	**10,834**	**11,624**

[1] Including profit of the period

[2] Own funds adjusted for IRB provision, i.e. adjusted own funds equal EUR 10,945m by 31 Dec 2016

Minimum capital requirements
Risk exposure amount (REA) is calculated in accordance with the requirements in the CRD. NBF had 70.7 % of its credit risk REA covered by internal rating based (IRB) approaches by the end of 2016. Nordea uses the advanced IRB approach for corporate exposures in the Nordic region and the retail IRB approach for the majority of the retail exposures in Finland.

NBF is approved to use its own internal Value-at-Risk (VaR) models to calculate capital requirements for the major share of the market risk in the trading book. For operational risk the standardised approach is applied.

Internal capital requirement
Nordea bases its internal capital requirements under the Internal Capital Adequacy Assessment Process (ICAAP) on risks defined by the CRD and risks internally defined under Pillar II. The following major risk types are included in the internal capital requirement: credit risk, market risk and operational risk. Additionally, interest rate risk in the banking book, risk in Nordea's sponsored defined benefit pension plans, real estate risk and concentration risk are explicitly accounted for.

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, along with potential management interventions, in Nordea's internal capital requirements as buffers for economic stress. The internal capital requirement is a key component of Nordea's capital ratio target setting.

The ICAAP also describes Nordea's management, mitigation and measurement of material risks and assesses the adequacy of internal capital by defining internal capital requirements reflecting the risk of the institution. Regulatory buffers were introduced with the implementation of CRD IV.

Economic Profit (EP)
Nordea uses EP as one of its financial performance indicators. EP is calculated as risk-adjusted profit less the cost of equity. The risk-adjusted profit and EP are measures to support performance management and shareholder value creation. In investment decisions and customer relationships, EP drives and supports the operational decision-making process in Nordea. The EP model also captures both growth and return. EC and expected losses (EL) are inputs in the EP framework.

Expected losses (EL)
EL reflects the normalised loss level of an individual credit exposure over a business cycle as well as various portfolios. During 2016 there were no changes to the EL framework apart from the regular update of parameters based on the latest validations.

EL is a more stable measure than actual losses, but it will vary with the business cycle as a consequence of shifts in the repayment capacity (PD dimension) and collateral coverage (LGD dimension) distributions.

Own funds
Own funds is the sum of Tier 1 and Tier 2 capital. Tier 1 capital consists of both Common Equity Tier 1 (CET1) and Additional Tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbance characteristics and consists predominately of paid in capital and retained earnings. Profit may only be included after permission from the financial supervisory authority and after deduction of proposed dividend.

Additional Tier 1 and Tier 2 capital consist mostly of undated and dated subordinated loans, respectively. Holdings of other financial sector entities' subordinated loans are deducted from the corresponding tier.

Further information - Note 36 Capital adequacy and the Capital and Risk Management Report
Further information on capital adequacy is presented in Note 36 Capital adequacy. Additional and more detailed information on risk and capital management is presented in the Pillar III disclosure in line with the requirements of the CRD in the Basel III framework. The Pillar III disclosure is publicly available at www.nordea.com.

Capital adequacy ratios	Group		Parent company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Excl. Basel I floor				
CET1 capital ratio, %	24.8	24.8	26.2	26.3
Tier 1 capital ratio, %	26.1	26.0	27.7	27.6
Total capital ratio, %	26.3	26.2	27.9	27.8
Capital adequacy quotient (own funds / capital requirement)	3.3	3.3	3.5	3.5
Incl. Basel I floor				
CET1 capital ratio, %	22.2	19.3	23.6	20.5
Tier 1 capital ratio, %	23.4	20.2	25.0	21.5
Total capital ratio, %	23.5	20.3	25.2	21.7
Capital adequacy quotient (own funds / capital requirement)	2.9	2.5	3.1	2.7

New regulations
The Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR) entered into force 1 January 2014 followed by the Bank Recovery and Resolution Directive (BRRD) on 15 May 2014. The CRR became applicable in all EU countries from 1 January 2014 while the CRD IV and BRRD was implemented through national law within all EU member states during 2014. In Finland the law implementing CRD IV entered into force on 15 August 2014.

The CRD IV is implemented in the Credit Institution Act where buffer requirements, in addition to the minimum requirements, are defined. The buffer requirements are to be met with Common equity tier 1 capital. The capital conservation buffer (CCoB) requirement is set to 2.5% from 2015. The buffer requirement for so-called other systemically important institutions (O-SIIs), may be set at 0–2% and Nordea Bank Finland Plc has been defined as an O-SII with a requirement of 2% set from 7 January 2016. The Board of the Financial Supervisory Authority (FSA) has the power to impose binding macroprudential policy requirements. The countercyclical capital buffer (CCyB) is currently set to 0 %. Discussions related to implementation of the systemic risk buffer (SRB) in Finnish legislation are ongoing.

The Finnish FSA implemented loan to collateral (LTC) as a macroprudential instrument effective from 1 July 2016. The maximum loan-to-value (LTV) ratio is 95% for first-home purchases and 90% for the other residential mortgages granted by the Finnish credit institutions according to the Consumer Protection Act.

In June 2016 the Finnish FSA decided to introduce a risk weight floor of 10% for the residential mortgage portfolio. The FSA is continuing preparations and the risk weight floor is expected to be implemented by 1 July 2017 at the latest.

Since November 2014, Nordea Bank Finland Plc has been under the direct supervision of the European Central Bank (ECB) within the framework of the Single Supervisory Mechanism (SSM). As of beginning of 2016, also the second pillar of the Banking Union started its operations. The Single Resolution Board (SRB) is responsible for the resolution of the significant banks directly supervised by the ECB. The SRB has, in close cooperation with the national resolution authority, the Financial Stability Authority, outlined the resolution plan for Nordea Bank Finland and also sets the minimum requirement for own funds and eligible liabilities (MREL) to be held by the bank.

On 2 January 2017, the cross-border mergers between Nordea Bank AB (publ) and its subsidiary banks in Denmark, Finland and Norway was executed. The banking business in these countries will, going forward, be carried out in branches of Nordea Bank AB (publ) and the remaining local subsidiaries (e.g. mortgage companies) are now subsidiaries to Nordea Bank AB (publ). As a result, all assets and liabilities of the subsidiary bank is transferred to Nordea Bank AB (publ) and Nordea Bank Finland Plc has been dissolved.

Proposal on amended CRR, CRD IV and BRRD
In November 2016 the European Commission (EC) published a proposal amending the BRRD, the CRD IV and the CRR. The amendments to the CRR, being a regulation, will be directly applicable in all EU countries once implemented whereas the amendments to the CRD IV and BRRD, being directives, needs to be implemented into national legislation before being applicable. The time for implementation is uncertain but it is stated that the amendments will start entering into force in 2019 at the earliest, with some parts being implemented later and subject to phase-in. Some of the main amendments include:

TLAC / MREL
The EC proposes to implement the Total Loss Absorbing Capacity (TLAC) standard, issued by the Financial Stability Board, building on the existing framework of the BRRD which includes the Minimum Requirement for own funds and Eligible Liabilities (MREL). TLAC requires Global Systemically Important Banks (G-SIBs), referred to as G-SIIs in EU legislation, to have a sufficient amount of highly loss absorbing ("bailinable") liabilities to ensure smooth and fast absorption of losses and recapitalisation in resolution. The purpose of MREL is to achieve the same objective as for the TLAC standard, although it is technically different from the TLAC standard and is applied for both G-SIIs and non G-SII institutions in EU.

According to the EC proposal amending the BRRD, both G-SIIs and non G-SII should meet the so-called firm specific MREL requirement decided by the resolution authorities. The requirement should not exceed the sum of loss absorption amount and recapitalisation amount, both of which are determined by the minimum capital requirement of 8% and Pillar II capital requirement. In order to make it possible for banks to issue eligible instruments in a cost efficient and harmonised way, the EC proposes to introduce a new insolvency hierarchy for non-preferred senior debt.

Pillar II
The proposal introduces a split of Pillar II add-ons into Pillar II Requirements (P2R) and Pillar II Guidance (P2G), where the P2R will increase the Maximum Distributable Amount (MDA) level while the P2G is a soft measure that does not affect the MDA level.

NSFR
The EC proposes to introduce a binding Net Stable Funding Ratio (NSFR) that requires institutions to finance their long-term activities (assets and off-balance sheet items) with stable funding. The NSFR proposal aligns NSFR governance, compliance and supervisory actions with the EU Liquidity Coverage Ratio (LCR) requirement.

Leverage ratio
The proposal introduces a binding leverage ratio requirement of 3 % of tier 1, harmonised with the international Basel Committee on Banking Supervision (BCBS) standard. A possible higher requirement for G-SII is postponed until a decision is taken by the BCBS.

Market risk
In January 2016, the BCBS concluded its work on the Fundamental Review of the Trading Book (FRTB) and published a new standard on the treatment of market risk. The amendments to the CRR incorporates the FRTB rules into EU regulation with some adjustments, such as postponing the implementation to 2021 and including a three year phase-in period. The key features of the framework includes a revised boundary for trading book and non-trading book (banking book) exposures, a revised internal model approach and a revised standardised approach.

SME supporting factor
The EC proposal includes an extended Small and medium-sized enterprices (SME) supporting factor. The current SME supporting factor provides a capital reduction of 23.81% for exposures up to EUR 1.5 million towards SMEs. The proposal extends this discount with an additional 15% reduction for the part above the EUR 1.5 million threshold, intended to further stimulate the lending to SMEs.

Revisions to the Basel III capital framework (“Basel IV”)
Basel III is a global, regulatory framework on bank capital adequacy, stress testing, and liquidity risk. It was agreed upon by the members of the BCBS in 2010 and 2011, however some parts are currently under revision.

The revisions include proposals on the IRB approach imposing restrictions to the use of IRB approach for certain exposures, such as exposures towards institutions and large corporates, as well as introducing model-parameter floors. The revisions also include a revised standardised approach (SA) which base the risk weights on risk drivers and external ratings. The BCBS also proposes a revised operational risk framework that will be based on a single non-model-based method. Moreover, the BCBS proposal is to introduce a capital floor that should be based on the revised standardised approaches for credit-, market- and operational risks. There are also ongoing discussions in the BCBS regarding a potential leverage ratio buffer for G-SIBs.

In January 2017, the BCBS announced that they are working to finalise its reforms and expect to complete its work in the near future.

Regulatory treatment of IFRS 9
In October 2016, the BCBS published a discussion paper and a consultative document on the policy considerations associated to the regulatory treatment of accounting provisions related to IFRS 9 under the Basel III regulatory capital framework. The discussion paper presents proposals on a revised long-term regulatory treatment of provisions to be applied once the revisions to the SA and IRB approach become applicable. IFRS 9 enters into force in 2018 and the proposal is, during an interim period, to retain the current regulatory treatment of provisions as applied under both the SA and IRB approach to allow thorough consideration of the longer-term options for the regulatory treatment of provisions.

Human resources

Our people have an opportunity to transform the industry
Our industry is undergoing a significant transformation. We are working proactively to ensure that we meet our customers' changing demands in the digital era as well as the increasing regulatory demands affecting our industry.

As the leading bank in the Nordics, we have a huge opportunity to shape the industry and our people can all be leaders of the transformation. Supporting our people to focus on performing whilst transforming is HR's main priority and we are embarking on a major cultural change to enable this opportunity.

Organisations do not change – people do
For us to change and meet the demands of the transformation, we first need to look at who we are and what we are good at. We are proud of our peoples' expertise and professional skills as well as being able to deliver. Our ability to build future-fit-competencies fast will determine our ability to keep us ahead of the curve.

Embracing risk management and compliance
The complex risk-management landscape of today requires future-fit competencies with a deep understanding of long-term risk factors. Through collaboration with Group Compliance, Group Risk Management and Business Risk Implementation Support we have developed training for all employees, addressing the responsibility of being a risk manager. We have a compliance awareness programme for senior management to keep accountability and competencies at the necessary level.

Diversity and inclusion – a factor for success
We are confident that an inclusive workplace culture benefits everyone. For us, diversity concerns gender, age, ethnicity, religion, social status, background, experience, perspectives, approaches and all the other factors shaping one's identity. During 2016 we recruited people from 27 different countries with differing backgrounds including for example compliance and IT.

Our Cultural Journey
We want our people to come to work every day united by a strong culture, with strong desire and the freedom to perform at their best. We call this our Cultural Journey. Our "People Agenda" plays a significant role in this journey, aiming at strengthening capacity and creating a positive, inclusive work culture across our entire organisation.

We will make sure we build a fit for purpose organisation where there is clarity between the roles throughout the organisation and that our business gets the full support from HR to achieve their business goals. We will drive a strategic workforce to ensure that we have the right competencies place in the right roles and with high capacity in the high impact areas where resources are demanded.

Sustainability

Towards a proactive approach
In our 2016 sustainability report, we present our embankment on a new journey towards enhanced compliance and sharper focus on sustainability. The development of this new, proactive sustainability framework, is in process. Our aim with the integrated sustainability framework is to consolidate and embed sustainability processes in all our business areas to enhance compliance, resilience and transparency in all areas.

Integrating sustainability in our core business
In the development of the new Nordea sustainability framework, Nordea has carried out a number of concrete actions in the past year. They include the establishment of a Financial Crime Change Programme, the appointment of a new Head of Compliance and the Business Ethics and Values Committee chaired by our CEO. In addition to this the Tax Board has been established on Group Level.

Communicating with our stakeholders
Banking and financial transactions are built on trusting relationships. We believe that trust is something that must be earned through ethical business practices, responsible partnerships and compliance with rules and regulations.

Creating and managing wealth responsibly
As a financial institution, our entire business model is built on creating value. For a sustainable business model to succeed, value cannot only include monetary means, but must naturally include environmental, ethical and social aspects. Our efforts are recognised and appreciated on the international agenda through our strong position on sustainability.

Meeting tomorrows demands in lending
We know and appreciate that sustainability is not only a key issue for us as an investor, but equally important in the engagement we have with our credit customers. Therefore we have during the year addressed how we can embed and calibrate a fair and valuable Environmental, Social and Governance (ESG) process in the credit approval process that entails development, awareness and monitoring on our credits.

Climate change and sustainable finance at Nordea

Nordea has signed the Paris Pledge launched at the COP21, with the objective to keep global temperature rise well below 2°C. We acknowledge the importance of internalising environmental and climate aspects in our business and it must be considered in everything from investments to lending and supply chain management.

For more information on sustainability, please see Nordea's Sustainability Report 2016, available on www.nordea.com/responsibility.

Legal proceedings

Within the framework of the normal business operations, NBF faces a number of claims in civil lawsuits and disputes, most of which involve relatively limited amounts. Presently, none of these disputes is considered likely to have any significant adverse effect on the Group or its financial position.

Nordea shares

Nordea Bank Finland Plc does not possess its own shares. The information regarding bought and sold shares in the parent company Nordea Bank AB (publ) is presented in Note 46.

Subsequent events

Nordea Bank Finland Plc was merged to its parent company Nordea Bank AB (publ) on 2 January 2017. As a result, all assets and liabilities of Nordea Bank Finland Plc were transferred to Nordea Bank AB (publ) and Nordea Bank Finland Plc was dissolved. The banking business in Finland is now carried out in the Finnish branch of Nordea Bank AB (publ).

Outlook 2017

For 2017 NBF expects another challenging year. We will operate in an economic environment with great insecurity, with low growth and low interest rates.

However, we have good progress in building the bank our customers want us to be. We are continuing doing large investments in transforming the bank. Our number one priority the coming years will be on improving customer satisfaction. Generating value for our customers is the key to creating value for Nordea and its shareholders. To continue to deliver stable results to our shareholders we will be committed to build more resilience and stronger ability to continuously renew the way we are operating the bank.

Nordea Bank Finland Group and Nordea Bank Finland Plc

Income statement

EURm	Note	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Operating income					
Interest income	3	1,320	1,532	1,042	1,268
Interest expense	3	-455	-480	-444	-478
Net interest income	3	**865**	**1,052**	**598**	**790**
Fee and commission income	4	741	759	707	726
Fee and commission expense	4	-610	-654	-598	-648
Net fee and commission income	4	**131**	**105**	**109**	**78**
Net result from items at fair value	5	1,142	1,257	1,141	1,254
Profit from associated undertakings accounted for under the equity method	19	13	5	-	-
Dividends	6	-	-	72	101
Other operating income	7	94	66	94	65
Total operating income		**2,245**	**2,485**	**2,014**	**2,288**
Operating expenses					
General administrative expenses:					
Staff costs	8	-515	-547	-484	-516
Other expenses	9	-451	-413	-423	-389
Depreciation, amortisation and impairment charges of tangible and intangible assets	10, 20	-28	-31	-26	-28
Total operating expenses		**-994**	**-991**	**-933**	**-933**
Profit before loan losses		**1,251**	**1,494**	**1,081**	**1,355**
Net loan losses	11	-57	-92	-41	-42
Operating profit		**1,194**	**1,402**	**1,040**	**1,313**
Income tax expense	12	-232	-347	-189	-311
Net profit for the year		**962**	**1,055**	**851**	**1,002**
Attributable to:					
Shareholders of Nordea Bank Finland Plc		962	1,055	851	1,002
Non-controlling interests		-	-	-	-
Total		**962**	**1,055**	**851**	**1,002**
Net profit for the period from Baltic operations to be transferred	47	**22**	**22**	**-**	**-**

Statement of comprehensive income

	Group		Parent company	
EURm	2016	2015	2016	2015
Net profit for the year	**962**	**1,055**	**851**	**1,002**
Items that may be reclassified subsequently to the income statement				
Currency translation differences during the year	-1	0	-	-
Available-for-sale investments[1]:				
- Valuation gains/losses during the year	38	12	38	11
- Tax on valuation gains/losses during the year	-8	-2	-8	-2
- Transferred to the income statement during the year	-38	-30	-38	-30
- Tax on transfers to the income statement during the year	8	6	8	6
Cash flow hedges:				
- Valuation gains/losses during the year	-24	210	-25	210
- Tax on valuation gains/losses during the year	5	-42	5	-42
- Transferred to the income statement during the year	15	-190	15	-190
- Tax on transfers to the income statement during the year	-3	38	-3	38
Items that may be reclassified subsequently to the income statement				
Defined benefit plans:				
- Remeasurement of defined benefit plans during the year	-13	89	-11	87
- Tax on remeasurement of defined benefit plans during the year	3	-18	2	-17
Other comprehensive income, net of tax	**-18**	**73**	**-17**	**71**
Total comprehensive income	**944**	**1,128**	**834**	**1,073**
Attributable to:				
Shareholders of Nordea Bank Finland Plc	944	1,128	834	1,073
Non-controlling interests	-	-	-	-
Total	**944**	**1,128**	**834**	**1,073**

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

Balance sheet

EURm	Note	Group 31 Dec 2016	Group 31 Dec 2015	Parent company 31 Dec 2016	Parent company 31 Dec 2015
Assets					
Cash and balances with central banks		29,367	32,613	29,367	32,613
Loans to central banks	13	299	5,328	100	5,129
Loans to credit institutions	13	26,344	27,089	31,756	33,507
Loans to the public	13	64,611	101,447	56,754	94,063
Interest-bearing securities	14	27,368	30,143	27,368	30,143
Financial instruments pledged as collateral	15	4,139	4,627	4,139	4,627
Shares	16	1,262	2,020	1,262	2,019
Derivatives	17	68,563	80,557	68,563	80,557
Fair value changes of the hedged items in portfolio hedge of interest rate risk		21	51	21	51
Investments in group undertakings	18	-	-	306	309
Investments in associated undertakings	19	34	42	8	28
Intangible assets	20	42	44	26	31
Properties and equipment		84	76	80	69
Investment properties		1	1	1	1
Deferred tax assets	12	3	14	0	12
Current tax assets	12	5	1	-	-
Retirement benefit assets	30	78	90	78	90
Other assets	22	16,238	17,015	16,205	16,970
Prepaid expenses and accrued income	23	316	432	222	263
Total assets		**238,775**	**301,590**	**236,256**	**300,482**
Liabilities					
Deposits by credit institutions	24	63,918	78,162	62,545	78,172
Deposits and borrowings from the public	25	55,352	62,153	55,351	62,150
Debt securities in issue	26	18,507	43,407	18,507	43,407
Derivatives	17	70,864	83,538	70,864	83,538
Fair value changes of the hedged items in portfolio hedge of interest rate risk		25	557	25	557
Current tax liabilities	12	65	77	65	77
Other liabilities	27	17,487	20,066	17,296	19,856
Accrued expenses and prepaid income	28	386	567	268	382
Deferred tax liabilities	12	60	54	-	-
Provisions	29	63	81	62	78
Retirement benefit liabilities	30	6	4	4	4
Subordinated liabilities	31	632	628	632	628
Total liabilities		**227,365**	**289,294**	**225,619**	**288,849**
Equity					
Share capital		2,319	2,319	2,319	2,319
Share premium reserve		599	599	599	599
Other reserves		4,880	4,897	4,880	4,897
Retained earnings		3,612	4,481	2,839	3,818
Total equity		**11,410**	**12,296**	**10,637**	**11,633**
Total liabilities and equity		**238,775**	**301,590**	**236,256**	**300,482**
Assets pledged as security for own liabilities	32	19,172	40,932	19,172	40,931
Other assets pledged	33	4,105	4,811	4,105	4,811
Contingent liabilities	34	27,436	12,432	27,586	12,599
Credit commitments	35	15,043	13,613	11,992	10,765
Other commitments	35	142	359	2	2

Other notes

Note 1 Accounting policies
Note 2 Segment reporting
Note 36 Capital adequacy
Note 37 Classification of financial instruments
Note 38 Assets and liabilities at fair value
Note 39 Financial instruments set off on balance or subject to netting agreements
Note 40 Transferred assets and obtained collaterals
Note 41 Maturity analysis for assets and liabilities
Note 42 Related-party transactions
Note 43 Credit risk disclosures
Note 44 Interests in structured entities
Note 45 Country by country reporting
Note 46 Nordea shares
Note 47 Operations to be transferred

Statement of changes in equity

Group

	Attributable to the shareholders of Nordea Bank Finland Plc							
			Other reserves					
EURm	Share capital[1]	Share premium reserve	Cash flow hedges	Available-for-sale investments	Other reserves	Defined benefit plans	Retained earnings	**Total equity**
Balance at 1 Jan 2016	**2,319**	**599**	**14**	**29**	**4,848**	**6**	**4,481**	**12,296**
Net profit for the year	-	-	-	-	-	-	962	962
Items that may be reclassified subsequently to the income statement								
Currency translation differences during the year	-	-	-	-	0	-	-1	-1
Available-for-sale investments:								
- Valuation gains/losses during the year	-	-	-	38	-	-	-	38
- Tax on valuation gains/losses during the year	-	-	-	-8	-	-	-	-8
- Transferred to the income statement during the year	-	-	-	-38	-	-	-	-38
- Tax on transfers to the income statement during the year	-	-	-	8	-	-	-	8
Cash flow hedges:								
- Valuation gains/losses during the year	-	-	-24	-	-	-	-	-24
- Tax on valuation gains/losses during the year	-	-	5	-	-	-	-	5
- Transferred to the income statement during the year	-	-	15	-	-	-	-	15
- Tax on transfers to the income statement during the year	-	-	-3	-	-	-	-	-3
Items that may not be reclassified subsequently to the income statement								
Defined benefit plans:								
- Remeasurement of defined benefit plans during the year	-	-	-	-	-	-13	-	-13
- Tax on remeasurement of defined benefit plans during the year	-	-	-	-	-	3	-	3
Other comprehensive income, net of tax	-	-	-7	0	0	-10	-1	-18
Total comprehensive income	-	-	-7	0	0	-10	961	944
Partial demerger	-	-	-	-	-	-	-1,050	-1,050
Dividend for 2015	-	-	-	-	-	-	-780	-780
Other changes	-	-	-	-	-	-	0	0
Balance at 31 Dec 2016	**2,319**	**599**	**7**	**29**	**4,848**	**-4**	**3,612**	**11,410**

[1] Total shares registered were 1,030.8 million (31 Dec 2015: 1,030.8 million). All the shares in Nordea Bank Finland Plc are held by Nordea Bank AB (publ). The carrying amount of the shares corresponds to EUR 2.25 per share. Pursuant to the Articles of Association the Bank's minimum share capital is EUR 850m and maximum share capital EUR 3,400m.

Statement of changes in equity, cont.

Group

	Attributable to the shareholders of Nordea Bank Finland Plc							
			Other reserves					
EURm	Share capital[1]	Share premium reserve	Cash flow hedges	Available-for-sale investments	Other reserves	Defined benefit plans	Retained earnings	**Total equity**
Balance at 1 Jan 2015	**2,319**	**599**	**-2**	**43**	**2,848**	**-65**	**3,876**	**9,618**
Net profit for the year	-	-	-	-	-	-	1,055	1,055
Items that may be reclassified subsequently to the income statement								
Currency translation differences during the year	-	-	-	-	0	-	0	0
Available-for-sale investments:								
- Valuation gains/losses during the year	-	-	-	12	-	-	-	12
- Tax on valuation gains/losses during the year	-	-	-	-2	-	-	-	-2
- Transferred to the income statement during the year	-	-	-	-30	-	-	-	-30
- Tax on transfers to the income statement during the year	-	-	-	6	-	-	-	6
Cash flow hedges:								
- Valuation gains/losses during the year	-	-	210	-	-	-	-	210
- Tax on valuation gains/losses during the year	-	-	-42	-	-	-	-	-42
- Transferred to the income statement during the year	-	-	-190	-	-	-	-	-190
- Tax on transfers to the income statement during the year	-	-	38	-	-	-	-	38
Items that may not be reclassified subsequently to the income statement								
Defined benefit plans:								
- Remeasurement of defined benefit plans during the year	-	-	-	-	-	89	-	89
- Tax on remeasurement of defined benefit plans during the year	-	-	-	-	-	-18	-	-18
Other comprehensive income, net of tax	-	-	16	-14	0	71	0	73
Total comprehensive income	-	-	16	-14	0	71	1,055	1,128
Share-based payments	-	-	-	-	-	-	0	0
Dividend for 2014	-	-	-	-	-	-	-450	-450
Other changes	-	-	-	-	2,000[2]	-	0	2,000
Balance at 31 Dec 2015	**2,319**	**599**	**14**	**29**	**4,848**	**6**	**4,481**	**12,296**

[1] Total shares registered were 1,030.8 million (31 Dec 2014: 1,030.8 million). All the shares in Nordea Bank Finland Plc are held by Nordea Bank AB (publ). The carrying amount of the shares corresponds to EUR 2.25 per share. Pursuant to the Articles of Association the Bank's minimum share capital is EUR 850m and maximum share capital EUR 3,400m.

[2] Capital injection paid by Nordea Bank AB (publ)

Statement of changes in equity, cont.

Parent company

	Attributable to the shareholders of Nordea Bank Finland Plc							
			Other reserves					
EURm	Share capital[1]	Share premium reserve	Cash flow hedges	Available-for-sale investments	Other reserves	Defined benefit plans	Retained earnings	**Total equity**
Balance at 1 Jan 2016	**2,319**	**599**	**14**	**29**	**4,848**	**6**	**3,818**	**11,633**
Net profit for the year	-	-	-	-	-	-	851	851
Items that may be reclassified subsequently to the income statement								
Available-for-sale investments:								
- Valuation gains/losses during the year	-	-	-	38	-	-	-	38
- Tax on valuation gains/losses during the year	-	-	-	-8	-	-	-	-8
- Transferred to the income statement during the year	-	-	-	-38	-	-	-	-38
- Tax on transfers to the income statement during the year	-	-	-	8	-	-	-	8
Cash flow hedges:								
- Valuation gains/losses during the year	-	-	-25	-	-	-	-	-25
- Tax on valuation gains/losses during the year	-	-	5	-	-	-	-	5
- Transferred to the income statement during the year	-	-	15	-	-	-	-	15
- Tax on transfers to the income statement during the year	-	-	-3	-	-	-	-	-3
Items that may not be reclassified subsequently to the income statement								
Defined benefit plans:								
- Remeasurement of defined benefit plans during the year	-	-	-	-	-	-11	-	-11
- Tax on remeasurement of defined benefit plans during the year	-	-	-	-	-	2	-	2
Other comprehensive income, net of tax	-	0	-8	0	-	-9	-	-17
Total comprehensive income	0	0	-8	0	-	-9	851	834
Share-based payments	-	-	-	-	-	-	-1,050	-1,050
Dividend for 2015	-	-	-	-	-	-	-780	-780
Other changes	-	-	-	-	-	-	-	-
Balance at 31 Dec 2016	**2,319**	**599**	**6**	**29**	**4,848**	**-3**	**2,839**	**10,637**

[1] Total shares registered were 1,030.8 million (31 Dec 2015: 1,030.8 million). All the shares in Nordea Bank Finland Plc are held by Nordea Bank AB (publ). The carrying amount of the shares corresponds to EUR 2.25 per share. Pursuant to the Articles of Association the Bank's minimum share capital is EUR 850m and maximum share capital EUR 3,400m.

Statement of changes in equity, cont.

Parent company

EURm	Share capital[1]	Share premium reserve	Cash flow hedges	Available-for-sale investments	Other reserves	Defined benefit plans	Retained earnings	Total equity
	Attributable to the shareholders of Nordea Bank Finland Plc							
			Other reserves					
Balance at 1 Jan 2015	**2,319**	**599**	**-2**	**44**	**2,848**	**-64**	**3,266**	**9,010**
Net profit for the year	-	-	-	-	-	-	1,002	1,002
Items that may be reclassified subsequently to the income statement								
Available-for-sale investments:								
- Valuation gains/losses during the year	-	-	-	11	-	-	-	11
- Tax on valuation gains/losses during the year	-	-	-	-2	-	-	-	-2
- Transferred to the income statement during the year	-	-	-	-30	-	-	-	-30
- Tax on transfers to the income statement during the year	-	-	-	6	-	-	-	6
Cash flow hedges:								
- Valuation gains/losses during the year	-	-	210	-	-	-	-	210
- Tax on valuation gains/losses during the year	-	-	-42	-	-	-	-	-42
- Transferred to the income statement during the year	-	-	-190	-	-	-	-	-190
- Tax on transfers to the income statement during the year	-	-	38	-	-	-	-	38
Items that may not be reclassified subsequently to the income statement								
Defined benefit plans:								
- Remeasurement of defined benefit plans during the year	-	-	-	-	-	87	-	87
- Tax on remeasurement of defined benefit plans during the year	-	-	-	-	-	-17	-	-17
Other comprehensive income, net of tax	-	-	16	-15	-	70	-	71
Total comprehensive income	-	-	16	-15	-	70	1,002	1,073
Share-based payments	-	-	-	-	-	-	0	0
Dividend for 2014	-	-	-	-	-	-	-450	-450
Other changes	-	-	-	-	2,000[2]	-	0	2,000
Balance at 31 Dec 2015	**2,319**	**599**	**14**	**29**	**4,848**	**6**	**3,818**	**11,633**

[1] Total shares registered were 1,030.8 million (31 Dec 2014: 1,030.8 million). All the shares in Nordea Bank Finland Plc are held by Nordea Bank AB (publ). The carrying amount of the shares corresponds to EUR 2.25 per share. Pursuant to the Articles of Association the Bank's minimum share capital is EUR 850m and maximum share capital EUR 3,400m.

[2] Capital injection paid by Nordea Bank AB (publ)

No decision was made during the financial year to issue equity warrants or convertible bonds entitling to subscription of shares in the NBF. At the end of 2016, NBF held no authorisations given by the General Meeting for issuance or buybacks of shares, equity warrants or convertible bonds.

Cash flow statement

	Group		Parent company	
EURm	2016	2015	2016	2015
Operating activities				
Operating profit	1,194	1,402	1,040	1,313
Adjustments for items not included in cash flow	504	738	480	675
Income taxes paid	-241	-304	-200	-261
Cash flow from operating activities before changes in operating assets and liabilities	**1,457**	**1,836**	**1,320**	**1,727**
Changes in operating assets				
Change in loans to central banks	6,365	-5,046	6,364	-4,844
Change in loans to credit institutions	-1,598	14,368	-584	13,679
Change in loans to the public	12,400	12,196	12,898	12,530
Change in interest-bearing securities	1,470	5,170	1,471	5,171
Change in financial assets pledged as collateral	488	6,431	488	6,431
Change in shares	560	-102	561	-102
Change in derivatives, net	-1,561	3,583	-1,561	3,583
Change in investment properties	0	1	0	1
Change in other assets	776	-2,392	766	-2,386
Changes in operating liabilities				
Change in deposits by credit institutions	-6,122	-9,209	-7,504	-8,957
Change in deposits and borrowings from the public	-7,021	-14,726	-7,020	-14,723
Change in debt securities in issue	-9,877	-5,065	-9,877	-5,065
Change in other liabilities	-2,466	1,491	-2,447	1,487
Cash flow from operating activities	**-5,129**	**8,536**	**-5,125**	**8,532**
Investing activities				
Acquisition of business operations	-	0	-	-
Sale of business operations	0	-	2	0
Dividends from associated companies	2	1	0	-
Acquisition of associated undertakings	-	0	-	-
Sale of associated undertakings	13	-	13	-
Acquisition of property and equipment	-64	-38	-65	-40
Sale of properties and equipment	3	8	3	4
Acquisition of intangible assets	-5	-9	-1	-5
Sale of intangible assets	-	2	-	2
Purchase/sale of other financial fixed assets	-11	25	-11	25
Cash flow from investing activities	**-62**	**-11**	**-59**	**-14**
Financing activities				
Issued subordinated liabilities	5	8	5	8
Amortised subordinated liabilities	-	-	-	-
Dividend paid	-780	-450	-780	-450
Other changes	-14	2,073	-14	2,070
Cash flow from financing activities	**-789**	**1,631**	**-790**	**1,628**
Cash flow for the year	**-5,980**	**10,156**	**-5,973**	**10,146**
Cash and cash equivalents at the beginning of year	39,870	29,714	39,857	29,711
Translation difference	-783	-	-783	-
Cash and cash equivalents transferred in demerger	391	-	391	-
Cash and cash equivalents at the end of year	34,282	39,870	34,276	39,857
Change	**-5,980**	**10,156**	**-5,973**	**10,146**

Cash flow statement, cont.

Comments on the cash flow statement

The cash flow statement shows inflows and outflows of cash and cash equivalents during the year for total operations. Nordea Bank Finland's cash flow has been prepared in accordance with the indirect method, whereby operating profit is adjusted for effects of non-cash transactions such as depreciation and loan losses. The cash flows are classified by operating, investing and financing activities.

Operating activities

Operating activities are the principal revenue-producing activities and cash flows are mainly derived from the operating profit for the year with adjustment for items not included in cash flow and income taxes paid. Adjustment for items not included in the cash flow includes:

	Group		Parent company	
EURm	2016	2015	2016	2015
Depreciation	28	28	25	25
Impairment charges	0	3	0	3
Loan losses	68	106	43	46
Unrealised gains/losses	124	1,079	125	1,080
Capital gains/losses (net)	6	-4	6	-3
Change in accruals and provisions	-37	-200	-44	-219
Translation differences	-3	-1	-	-
Other	318	-273	325	-257
Total	**504**	**738**	**480**	**675**

Changes in operating assets and liabilities consist of assets and liabilities that are part of normal business activities, such as loans, deposits and debt securities in issue. Changes in derivatives are reported net.

Cash flow from operating activities includes interest payments received and interest expenses paid with the following amounts:

	Group		Parent company	
EURm	2016	2015	2016	2015
Interest payments received	1,330	1,558	1,056	1,295
Interest expenses paid	-452	-488	-442	-488

Investing activities
Investing activities include acquisitions and disposals of non-current assets, like property and equipment, intangible and financial assets.

Financing activities
Financing activities are activities that result in changes in equity and subordinated liabilities, such as new issues of shares, dividends and issued/amortised subordinated liabilities.

Cash and cash equivalents

The following items are included in Cash and cash equivalents assets:

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Cash and balances with central banks	29,367	32,613	29,367	32,613
Loans to credit institutions, payable on demand	4,915	7,257	4,909	7,244
	34,282	**39,870**	**34,276**	**39,857**

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. Loans to central banks, payable on demand includes instruments where Nordea has the right to resell immediately.

Notes to the financial statements

Note 1 Accounting policies

Content for Note 1

1. Basis for presentation

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

The disclosures, required in the standards, recommendations and legislation above, have been included in the notes, the Risk, Liquidity and Capital management section or in other parts of the "Financial statements".

On 28 February 2017 the Board of Directors approved the financial statements, subject to final approval of the Final Shareholders' Meeting on 28 February 2017.

2. Changed accounting policies and presentation

The accounting policies, basis for calculations and presentation are, in all material aspects, unchanged in comparison with the 2015 Annual Report. The new accounting requirements implemented during 2016 and their effects on Nordea's financial statements are described below.

The following new and amended standards and interpretations were implemented by Nordea 1 January 2016 but have not had any significant impact on the financial statements of Nordea:

- Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment entities – Applying the Consolidation Exception"
- Amendments to IFRS 11: "Accounting for Acquisitions of Interests in Joint Operations"
- Amendments to IAS 1"Disclosures 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 below table. The change in presentation has not had any impact on the balance sheet or equity.

Restatements resolution fees

Income statement	Group				Parent company			
	Full year 2016		Full year 2015		Full year 2016		Full year 2015	
EURm	New policy	Old policy	New policy	Old policy	New policy	Old policy	New policy	Old policy
Net interest income	865	931	1,052	1,053	598	663	790	790
- of which resolution fees	-66		-1		-65			
Net fee and commission income	131	65	105	104	109	44	78	45
- of which resolution fees		-66		-1		-65		

Changed presentation of ”Net fee and commission income”

The presentation within Note 4 “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. The gross impact on income and expense is also provided in Note 4.

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.

3. Changes in IFRSs 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 hedge accounting 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. The standard is endorsed by the EU-commission. Earlier application is permitted, but Nordea does not intend to early adopt the standard. Nordea does not either intend to restate the comparative figures for 2017 in the Annual Report 2018 due to IFRS 9.

Classification and measurement

The classification and measurement requirements in IFRS 9 states that financial assets should be classified as and measured at amortised cost, fair value through profit and loss or fair value through other comprehensive income. The classification of a financial instrument is dependent on the business model for the portfolio where the instrument is included and on whether the cash flows are solely payments of principal and interest (SPPI).

In order to assess the business model, Nordea has divided its financial assets into portfolios and/or sub-portfolios based on how groups of financial assets are managed together to achieve a particular business objective. To derive the right level on which portfolios are determined, Nordea has taken the current business area structure into account. When determining the business model for each portfolio Nordea has analysed the objective with the financial assets as well as for instance past sales behaviour and management compensation.

Nordea has analysed whether the cash flows from the financial assets held as of 31 December 2015 are SPPI compliant. This has been performed by grouping contracts which are homogenous from a cash flow perspective and conclusions have been drawn for all contracts within that group.

The analysis of the business model and the SPPI review described above have not resulted in any significant changes compared to how the financial instruments are measured under IAS 39. No significant impact is thus expected on Nordea’s financial position, financial performance or equity in the period of initial application. No significant impact on the capital adequacy, large exposures, risk management or alternative performance measures are expected in the period of initial application. These tentative conclusions are naturally dependent on the financial instruments on Nordea’s balance sheet at transition.

Impairment

The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the current incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than IAS 39. IFRS 9 requires all assets measured at amortised cost and fair value through other comprehensive income, as well as off-balance commitments including 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 financial instruments classified into the measurement category AFS.

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 increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. 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.

One important driver for size of provisions under IFRS 9 is the trigger for transferring an asset from stage 1 to stage 2. Nordea has to decide what parameters to use for identifying the increase in credit risk and how much these parameters need to change in order to constitute a “significant increase”. For assets held at transition, Nordea has tentatively decided to use the change in internal rating and scoring data to determine whether there has been a significant increase in credit risk or not. For assets to be recognised going forward, changes to the lifetime Probability of Default (PD) will be used as the trigger. Nordea has concluded it is not possible to calculate the lifetime PDs without undue cost or effort and without the use of hindsight for assets already recognised on the balance sheet at transition. For assets evaluated based on lifetime PDs, Nordea has tentatively decided to use a mix of absolute and relative changes in PD as the transfer criterion. In addition, customers with forbearance measures and customers with payments more than thirty days past due will also be transferred to stage 2. Nordea has not yet determined the threshold for the change in rating, scoring and PDs when assessing whether it is significant or not.

Nordea's current model for calculating collective provisions is based on a deterioration in rating/scoring, but it is not expected that the loss trigger in the current model will equal the triggering event for moving items from stage 1 to stage 2 under IFRS 9.

The provisions under IFRS 9 will be calculated as the exposure at default times the probability of default times the loss given default. For assets in stage 1 this calculation will only be based on the coming 12 months, while it for assets in stage 2 will be based on the expected lifetime of the asset.

For assets where there has been a significant increase in credit risk, Nordea currently holds provisions based on a 12 month expected loss, while IFRS 9 will require provisions equal to the lifetime expected loss.

When calculating lifetime losses under IFRS 9, including the staging assessment, the calculation should be based on probability weighted forward looking information. Nordea has tentatively decided to apply three macro-economic scenarios to address the non-linearity in expected credit losses. The different scenarios will be used to adjust the relevant parameters for calculating expected losses and a probability weighted average of the expected losses under each scenario will be recognised as provisions.

It is expected the new requirements will increase loan loss provisions and decrease equity in the period of initial application. It is not expected to have any material impact on large exposures. The impact on capital adequacy is not possible to determine as it is expected the Basel committee will issue new rules for the transition to IFRS 9, but these are not yet final. It is furthermore expected that the long term effects, once the transitional rules become obsolete, will be negative on capital adequacy, as the reduction in equity is expected to reduce CET 1 capital. It is however not expected the full increase in provisions will decrease CET 1 capital as there are mitigating effects, for instance the current shortfall deduction that are expected to be reduced when provisions are calculated under IFRS 9.

Impairment calculations under IFRS 9 will require more experienced credit judgements by the reporting entities than is required by IAS 39 today and a higher subjectivity is thus introduced. The inclusion of forward looking information adds complexity and makes provisions more dependent on management's view of the future economic outlook. It is expected that the impairment calculations under IFRS 9 will be more volatile and pro-cyclical than under IAS 39, mainly due to the significant subjectivity applied in the forward looking scenarios.

Hedge accounting

The main change to the general hedge accounting 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, large exposures, risk management or alternative performance measures in the period of initial application.

Nordea's tentative conclusion is to continue using the IAS 39 hedge accounting requirements also after IFRS 9 has been implemented, but that remains to be confirmed.

IFRS 15 "Revenue from Contracts with Customers"

The IASB published the new standard, IFRS 15 "Revenue from Contracts with Customers" in 2014. Clarifications to the standard were published in April 2016. 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 standard was endorsed by the EU-commission in 2016 and the clarifications are expected to be endorsed in 2017. 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.

Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The IASB has amended the requirements in IFRS 10 and IAS 28 regarding sales and contribution of assets between an investor and its associated undertaking or joint venture due to inconsistent treatment of gains and losses of such transactions in those standards. The IASB has thereafter proposed to defer indefinitely the effective date and permit earlier application. The amendments are not yet endorsed by the EU commission. Nordea does not currently intend to early adopt the amendments. The new requirements are not expected to have any effect on Nordea's financial statements, capital adequacy, or large exposures in the period of initial application as the new requirements are in line with Nordea's current accounting policies.

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 amendments are expected to be endorsed by the EU-commission in 2017. Nordea does not currently intend to early adopt the amendments. Nordea's current assessment is that the new standard will change the accounting of property leases which mainly affects Nordea's balance sheet.

Other changes in IFRS

The IASB has published the following new or amended standards that are assessed to have no significant impact on Nordea's financial statement, capital adequacy or large exposures in the period of initial application:

- Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts",
- Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses",
- Amendments to IAS 7: "Disclosure Initiative",
- Amendments to IFRS 2: "Classification and Measurement of Share based Payment Transactions.

4. Critical judgements and estimation uncertainty

The preparation of financial statements in accordance with generally accepted accounting principles requires, in some cases, the use of judgements and estimates by management. Actual outcome can later, to some extent, differ from the estimates and the assumptions made. In this section a description is made of:

- the sources of estimation uncertainty at the end of the reporting period, that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year, and
- the judgements made when applying accounting policies (apart from those involving estimations) that have the most significant effect on the amounts recognised in the financial statements.

Critical judgements and estimates are in particular associated with:

- the fair value measurement of certain financial instruments
- the impairment testing of loans to the public/credit institutions
- the effectiveness testing of cash flow hedges
- the actuarial calculations of pension liabilities and plan assets related to employees
- the classification of leases
- the classification of additional tier 1 instruments
- assessing control for consolidation purposes
- the translations of assets and liabilities denominated in foreign currencies
- the valuation of deferred tax assets
- claims in civil lawsuits.

Fair value measurement of certain financial instruments

Nordea's accounting policy for determining the fair value of financial instruments is described in section 10 "Determination of fair value of financial instruments" and Note 38 "Assets and liabilities at fair value". Critical judgements that have a significant impact on the recognised amounts for financial instruments are exercised when determining fair value of OTC derivatives and other financial instruments that lack quoted prices or recently observed market prices.

Those judgements relate to the following areas:

- The choice of valuation techniques
- The determination of when quoted prices fail to represent fair value (including the judgement of whether markets are active)
- The construction of fair value adjustments in order to incorporate relevant risk factors such as credit risk, model risk and liquidity risk
- The judgement of which market parameters are observable.

The critical judgements required when determining fair value of financial instruments that lack quoted prices or recently observed market prices also introduce a high degree of estimation uncertainty.

In all of these instances, decisions are based upon professional judgement in accordance with Nordea's accounting and valuation policies The valuation policy is governed by the Group Valuation Committee, which is chaired by the Group CFO.

Sensitivity analysis disclosures covering fair values of financial instruments with significant unobservable inputs can be found in Note 38 "Assets and liabilities at fair value".

Estimation uncertainty also arises at initial recognition of financial instruments that are part of larger structural transactions. Although subsequently not necessarily held at fair value such instruments are initially recognised at fair value and as there is normally no separate transaction price or active market for such individual instruments the fair value has to be estimated.

Impairment testing of loans to the public/credit institutions
Nordea's accounting policy for impairment testing of loans is described in section 13 "Loans to the public/credit institutions".

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances on both individually assessed and collectively assessed loans. For more information, see Note 13 "Loans and impairment".

The most judgemental area is the calculation of collective impairment allowances. When testing a group of loans collectively for impairment, judgement has to be exercised when identifying the events and/or the observable data that indicate that losses have been incurred in the group of loans. Nordea monitors its portfolio through rating migrations and a loss event is an event resulting in a negative rating migration. Assessing the net present value of the cash flows generated by the customers in the group of loans also includes estimation uncertainty. This includes the use of historical data on probability of default and loss given default supplemented by acquired experience when adjusting the assumptions based on historical data to reflect the current situation.

Effectiveness testing of cash flow hedges
Nordea's accounting policies for cash flow hedges are described in section 9 "Hedge accounting".

One important judgement in connection to cash flow hedge accounting is the choice of method used for effectiveness testing.

Where Nordea applies cash flow hedge accounting the hedging instruments used are predominantly cross currency interest rate swaps, which are always held at fair value. The currency component is designated as a cash flow hedge of currency risk and the interest component as a fair value hedge of interest rate risk. The hypothetical derivative method is used when measuring the effectiveness of these cash flow hedges, meaning that the change in a perfect hypothetical swap is used as proxy for the present value of the cumulative change in expected future cash flows on the hedged transaction (the currency component). Critical judgement has to be exercised when defining the characteristics of the perfect hypothetical swap.

Actuarial calculations of pension liabilities and plan assets related to employees
Nordea's accounting policy for post-employment benefits is described in section 18 "Employee benefits".

The defined benefit obligation for major pension plans is calculated by external actuaries using demographic assumptions based on the current population. As a basis for these calculations a number of actuarial and financial parameters are used.

The estimation of the discount rate is subject to uncertainty around whether corporate bond markets are deep enough, of high quality and also in connection to the extrapolation of yield curves to relevant maturities. In Finland the discount rate is determined with reference to high-quality corporate bonds. Other parameters, like assumptions about salary increases and inflation, are based on the expected long-term development of these parameters and also subject to estimation uncertainty. The main parameters used at year-end are disclosed in Note 30 "Retirement benefit obligations" together with a description of the sensitivity to changes in assumptions.

Classification of leases
Nordea's accounting policies for leases are described in section 14 "Leasing".

Critical judgement has to be exercised when classifying lease contracts. A lease is classified as a finance lease if it transfers substantially all the risks and rewards related to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards related to ownership.

The central district properties in Finland that Nordea has divested are leased back. The duration of the lease agreements was initially 3-25 years with renewal options. The lease agreements include no transfers of ownerships of the assets by the end of the lease term, nor any economic benefit from appreciation in value of the leased properties. In addition, the lease term is not for the major part of the assets' economic life. As a result, Nordea has classified these leases as operating leases. This judgement is a critical judgement that has a significant impact on the carrying amounts in the financial statement.

More information on lease contracts can be found in Note 21 "Leasing".

Classification of additional tier 1 instruments
NBF has issued perpetual subordinated instruments where the interest payments to the holders are at the discretion of NBF and non-accumulating. These instruments also include a requirement for NBF to pay interest if the instruments are no longer allowed to be included in tier 1 capital. If there is a requirement to pay interest based on the occurrence or non-occurrence of an uncertain future event that is beyond the control of both the issuer and the holder of the instrument, the instrument shall be classified as a financial liability. The inclusion of the subordinated loan in tier 1 capital is decided by the regulators and is thus beyond the control of NBF and the holders of the instrument. NBF classifies the instruments as financial liabilities.

Assessing control for consolidation purposes
One decisive variable when assessing if Nordea controls another entity is whether Nordea is exposed to variability in returns from the investment. For structured entities where voting rights are not the dominant factor when determining control, critical judgement has to be exercised when defining when Nordea is exposed to significant variability in returns. Nordea's critical judgement is that Nordea is normally exposed to variability in returns when Nordea receives more than 30% of the return produced by the structured entity. This is only relevant for structured entities where Nordea also is the investment manager and thus have influence over the return produced by the structured entity.

Another judgement relating to control is whether Nordea acts as an agent or as a principal. For unit linked and other contracts where the policyholder/depositor decides both the amount and which assets to invest in, Nordea is considered to act as an agent and thus does not have control.

Judgement also has to be exercised when assessing if a holding of a significant, but less than majority, share of voting rights constitute a so called de facto control and to what extent potential voting rights need to be considered in the control assessment. Nordea's assessment is that Nordea does currently not control any entities where the share of voting rights is below 50%.

Translation of assets and liabilities denominated in foreign currencies
Nordea's accounting policies covering the translation of assets and liabilities denominated in foreign currencies is described in section 8 "Translation of assets and liabilities denominated in foreign currencies".

Claims in civil lawsuits
Within the framework of the normal business operations, Nordea faces a number of claims in civil lawsuits and disputes, most of which involve relatively limited amounts. Presently, none of the current disputes are considered likely to have any significant adverse effect on Nordea or its financial position. See also Note 29 "Provisions" and Note 34 "Contingent liabilities".

5. Principles of consolidation

Consolidated entities
The consolidated financial statements include the accounts of the parent company Nordea Bank Finland Plc, and those entities that the parent company controls. Control exists when NBF is exposed to variability in returns from its investments in another entity and has the ability to affect those returns through its power over the other entity. Control is generally achieved when the parent company owns, directly or indirectly through group undertakings, more than 50 per cent of the voting rights. For entities where voting rights does not decide control, see section "Structured entities" below.

All group undertakings are consolidated using the acquisition method. Under the acquisition method, the acquisition is regarded as a transaction whereby the parent company indirectly acquires the group undertaking's assets and assumes its liabilities and contingent liabilities. The group's acquisition cost is established in a purchase price allocation analysis. In such analysis, the cost of the business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer, in exchange for the identifiable net assets acquired. Costs directly attributable to the business combination are expensed.

As at the acquisition date NBF recognises the identifiable assets acquired and the liabilities assumed at their acquisition date fair values.

For each business combination NBF measures the non-controlling interest in the acquired business either at fair value or at their proportionate share of the acquired identifiable net assets.

When the aggregate of the consideration transferred in a business combination and the amount recognised for non-controlling interest exceeds the net fair value of the identifiable assets, liabilities and contingent liabilities, the excess is reported as goodwill. If the difference is negative, such difference is recognised immediately in the income statement.

Equity and net income attributable to non-controlling interests are separately disclosed on the balance sheet, income statement and statement of comprehensive income.

Intra-group transactions and balances between the consolidated group undertakings are eliminated.

The group undertakings are included in the consolidated accounts as from the date on which control is transferred to NBF and are no longer consolidated as from the date on which control ceases.

In the consolidation process the reporting from the group undertakings is adjusted to ensure consistency with the IFRS principles applied by Nordea.

Note 18 “Investments in group undertakings” lists the major group undertakings in the NBF Group.

Investments in associated undertakings
The equity method of accounting is used for associated undertakings where the share of voting rights is between 20 and 50 per cent and/or where NBF has significant influence. Significant influence is the power to participate in the financial and operating decisions of the investee but is not control over those policies. Investments within Nordea’s investment activities, which are classified as a venture capital organisation within Nordea, are measured at fair value in accordance with the rules set out in IAS 28 and IAS 39. Further information on the equity method is disclosed in section 6 “Recognition of operating income and impairment”.

Profits from companies accounted for under the equity method are reported post-taxes in the income statement. Consequently, the tax expense related to these profits is not included in the income tax expense for NBF.

Nordea does generally not have any sales or contribution of assets to or from associated undertakings. Other transactions between Nordea and its associated undertakings are not eliminated.

Note 19 “Investments in associated undertakings” lists the major associated undertakings in the NBF Group.

Structured entities
A structured entity is an entity created to accomplish a narrow and well defined objective where voting rights are not the dominant factor in determining control. Often legal arrangements impose strict limits on the decision making powers of the management over the on-going activities of a structured entity. The same consolidation requirements apply to these entities, but as voting rights do not decide whether control exists, other factors are used to determine control.

Power can exist due to agreements or other types of influence over a structured entity. Nordea normally has power over entities sponsored or established by Nordea. Nordea has created a number of structured entities to allow clients to invest in assets invested in by the structured entity. Some structured entities invest in tradable financial instruments, such as shares and bonds (mutual funds). Structured entities can also invest in structured credit products or acquire assets from customers of Nordea, although only one such structured entity currently exists. Nordea is generally the investment manager and has sole discretion about investments and other administrative decisions and thus has power over these entities.

Typically, Nordea will receive service and commission fees in connection with the creation of the structured entity, or because it acts as investment manager, custodian or in some other function. Such income is normally not significant enough to expose Nordea to variability in returns and will thus not trigger consolidation. In some structured entities Nordea has also supplied substantial parts of the funding in the form of fund units, loans or credit commitments. In these structured entities Nordea is exposed to variability in returns and as the power over these entities affects the return, these structured entities are consolidated. Nordea normally considers a share of more than 30% of the return produced by a structured entity to give rise to variability and thus give control. Variability is measured as the sum of fees received and revaluation of assets held. For unit linked and other contracts where the policyholder/depositor decide both the amount and which assets to invest in, Nordea is considered to act as an agent and does thus not have control.

Further information about consolidated and unconsolidated structured entities is disclosed in note 44 “Interests in structured entities”.

Currency translation of foreign entities
The consolidated financial statements are prepared in euro (EUR), the presentation currency of the parent company Nordea Bank Finland Plc. The current method is used when translating the financial statements of foreign entities into EUR from their functional currency. The assets and liabilities of foreign entities have been translated at the closing rates, while items in the income statement and statement of comprehensive income are translated at the average exchange rate for the year. The average exchange rates are calculated based on daily exchange rates divided by the number of banking days in the period. Translation differences are accounted for in other comprehensive income and are accumulated in the translation reserve in equity.

Fair value adjustments arising from the acquisition of group undertakings are treated as items in the same functional currency as the cash generating unit to which they belong and are also translated at the closing rate.

6. Recognition of operating income and impairment

Net interest income
Interest income and expense are calculated and recognised based on the effective interest rate method or, if considered appropriate, based on a method that results in an interest income or interest expense that is a reasonable approximation of using the effective interest rate method as basis for the calculation. The effective interest includes fees considered to be an integral part of the effective interest rate of a financial instrument (generally fees received as compensation for risk). The effective interest rate equals the rate that discounts the contractual future cash flows to the carrying amount of the financial asset or financial liability.

Interest income and expenses from financial instruments are, with the exceptions described below, classified as “Net interest income”.

Interest income and interest expense related to all balance sheet items held at fair value in Markets are classified as “Net result from items at fair value” in the income statement. Also the interest on the net funding of the operations in Markets is recognised on this line.

The interest component in FX swaps, and the interest paid and received in interest rate swaps plus changes in accrued interest, is classified as “Net result from items at fair value”, apart for derivatives used for hedging, including economical hedges of Nordea’s funding, where such components are classified as “Net interest income”.

Net fee and commission income
Nordea earns commission income from different services provided to its customers. The recognition of commission income depends on the purpose for which the fees are received. Fees are either recognised as revenue when services are provided or in connection to the execution of a significant act. Fees received in connection to performed services are recognised as income in the period these services are provided. A loan syndication fee received as payment for arranging a loan, as well as other fees received as payments for certain acts, are recognised as revenue when the act has been completed, i.e. when the syndication has been finalised.

Commission expenses are normally transaction based and recognised in the period when the services are received.

Income from issued financial guarantees and expenses from bought financial guarantees, are amortised over the duration of the instruments and classified as “Fee and commission income” and “Fee and commission expense” respectively.

Net result from items at fair value
Realised and unrealised gains and losses on financial instruments measured at fair value through profit or loss are recognised in the item “Net result from items at fair value”.

Realised and unrealised gains and losses derive from:

- Shares/participations and other share-related instruments
- Interest-bearing securities and other interest-related instruments
- Other financial instruments, including credit derivatives as well as commodity instruments/derivatives
- Foreign exchange gains/losses
- Investment properties, which include realised and unrealised income, for instance revaluation gains and losses. This line also includes realised results from disposals as well as the running property yield stemming from the holding of investment properties.

Interest income and interest expense related to all balance sheet items held at fair value in Markets are classified as “Net result from items at fair value” in the income statement. Also the interest on the net funding of the operations in Markets is recognised on this line.

Also the ineffective portion of cash flow hedges as well as recycled gains and losses on financial instruments classified into the category Available for sale are recognised in “Net result from items at fair value”.

This item also includes realised gains and losses from financial instruments measured at amortised cost, such as interest compensation received and realised gains/losses on buy-backs of issued own debt.

"Net result from items at fair value" includes also losses from counterparty risk on instruments classified into the category Financial assets at fair value through profit or loss as well as impairment on instruments classified into the category Available for sale. Impairment losses from instruments within other categories are recognised in the items "Net loan losses" or "Impairment of securities held as financial non-current assets" (see also the sub-sections "Net loan losses" and "Impairment of securities held as financial non-current assets" below).

Dividends received are recognised in the income statement as "Net result from items at fair value" and classified as "Shares/participations and other share-related instruments" in the note. Income is recognised in the period in which the right to receive payment is established.

Profit from companies accounted for under the equity method

The profit from companies accounted for under the equity method is defined as the post-acquisition change in NBF's share of net assets in the associated undertakings. NBF's share of items accounted for in other comprehensive income in the associated undertakings is accounted for in other comprehensive income in NBF. Profits from companies accounted for under the equity method are, as stated in section 5 "Principles of consolidation", reported in the income statement post-taxes. Consequently the tax expense related to these profits is excluded from the income tax expense for NBF.

Fair values are, at acquisition, allocated to the associated undertaking's identifiable assets, liabilities and contingent liabilities. Any difference between NBF's share of the fair values of the acquired identifiable net assets and the purchase price is goodwill or negative goodwill. Goodwill is included in the carrying amount of the associated undertaking. Subsequently the investment in the associated undertaking increases/decreases with NBF's share of the post-acquisition change in net assets in the associated undertaking and decreases through received dividends and impairment. An impairment charge can be reversed in a subsequent period.

Other operating income

Net gains from divestments of shares in group undertakings and associated undertakings and net gains on sale of tangible assets as well as other operating income, not related to any other income line, are generally recognised when it is probable that the benefits associated with the transaction will flow to Nordea and if the significant risks and rewards have been transferred to the buyer (generally when the transactions are finalised).

Net loan losses

Impairment losses from financial assets classified into the category Loans and receivables (see section 12 "Financial instruments"), in the items "Loans to central banks", "Loans to credit institutions" and "Loans to the public" on the balance sheet, are reported as "Net loan losses" together with losses from financial guarantees. Losses are reported net of any collateral and other credit enhancements. Nordea's accounting policies for the calculation of impairment losses on loans can be found in section 13 "Loans to the public/credit institutions".

Counterparty losses on instruments classified into the category Financial assets at fair value through profit or loss, including credit derivatives but excluding loans held at fair value as described above, as well as impairment on financial assets classified into the category Available for sale are reported under "Net result from items at fair value".

Impairment of securities held as financial non-current assets

Impairment on investments in interest-bearings securities, classified into the categories Loans and receivables or Held to maturity, and on investments in associated undertakings are classified as "Impairment of securities held as financial non-current assets" in the income statement. The policies covering impairment of financial assets classified into the categories Loans and receivables and Held to maturity are disclosed in section 12 "Financial instruments" and section 13 "Loans to the public/credit institutions".

If observable indicators (loss events) indicate that an associated undertaking is impaired, an impairment test is performed to assess whether there is objective evidence of impairment. The carrying amount of the investment in the associated undertaking is compared with the recoverable amount (higher of value in use and fair value less cost to sell) and the carrying amount is written down to the recoverable amount if required.

Impairment losses are reversed if the recoverable amount increases. The carrying amount is then increased to the recoverable amount, but cannot exceed the carrying amount that would have been determined had no impairment loss been recognised.

7. Recognition and derecognition of financial instruments on the balance sheet

Derivative instruments, quoted securities and foreign exchange spot transactions are recognised on and derecognised (reclassified to the items "Other assets" or "Other liabilities" on the balance sheet between trade date and settlement date) from the balance sheet on the trade date. Other financial instruments are recognised on the balance sheet on settlement date.

Financial assets, other than those for which trade date accounting is applied, are derecognised from the balance sheet when the contractual rights to the cash flows from the financial asset expire or are transferred to another party. The rights to the cash flows normally expire or are transferred when the counterpart has performed by e.g. repaying a loan to Nordea, i.e. on settlement date.

In some cases, Nordea enters into transactions where it transfers assets that are recognised on the balance sheet, but retains either all or a portion of risks and rewards from the transferred assets. If all or substantially all risks and rewards are retained, the transferred assets are not derecognised from the balance sheet. If Nordea's counterpart can sell or repledge the transferred assets, the assets are reclassified to the item "Financial instruments pledged as collateral" on the balance sheet. Transfers of assets with retention of all or substantially all risks and rewards include e.g. securities lending agreements and repurchase agreements.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished. Normally this occurs when Nordea performs, for example when Nordea repays a deposit to the counterpart, i.e. on settlement date. Financial liabilities under trade date accounting are generally reclassified to "Other liabilities" on the balance sheet on trade date.

For further information, see sections "Securities borrowing and lending agreements" and "Repurchase and reverse repurchase agreements" within section 12 "Financial instruments", as well as Note 40 "Transferred assets and obtained collaterals".

8. Translation of assets and liabilities denominated in foreign currencies

The functional currency of each entity (subsidiary or branch) is decided based upon the primary economic environment in which the entity operates. The functional currency of NBF is euro (EUR).

Foreign currency is defined as any currency other than the functional currency of the entity. Foreign currency transactions are recorded at the exchange rate on the date of the transaction. Monetary assets and liabilities including foreign exchange trades, currency denominated cash balances and derivatives are translated at the exchange rate on the balance sheet date.

Exchange differences arising on the settlement of transactions at rates different from those at the date of the transaction, and unrealised translation differences on unsettled foreign currency monetary assets and liabilities, are recognised in the income statement in the item "Net result from items at fair value".

9. Hedge accounting

Nordea applies the EU carve out version of IAS 39 for portfolio hedges of both assets and liabilities. The EU carve out macro hedging enables a group of derivatives (or proportions thereof) to be viewed in combination and be designated as the hedging instrument. It also removes some of the limitations in fair value hedge accounting relating to hedging core deposits and under-hedging strategies.

Nordea uses hedge accounting in order to have a symmetrical accounting treatment of the changes in fair value of the hedged item and changes in fair value of the hedging instruments as well as to hedge the exposure to variability in future cash flows and the exposure to net investments in foreign operations.

There are three forms of hedge accounting:

- Fair value hedge accounting
- Cash flow hedge accounting
- Hedges of net investments

NBF currently applies fair value hedge accounting and cash flow hedge accounting.

Fair value hedge accounting

Fair value hedge accounting is used when derivatives are hedging changes in fair value of a recognised asset or liability attributable to a specific risk. The risk of changes in fair value of assets and liabilities in Nordea's financial statements originates mainly from loans, securities and deposits with a fixed interest rate, causing interest rate risk. Changes in fair value from derivatives as well as changes in fair value of the hedged item attributable to the risks being hedged are recognised separately in the income statement in the item "Net result from items at fair value". Given an effective hedge, the two changes in fair value will more or less balance, meaning the net result is close to zero. The changes in fair value of the hedged item attributable to the risks hedged with the derivative instrument are reflected in an adjustment to the carrying amount of the hedged item, which is also recognised in the income statement. The fair value change of the hedged items held at amortised cost in a portfolio hedge of interest rate risks is reported separately from the portfolio in the item "Fair value changes of the hedged items in portfolio hedge of interest rate risk" on the balance sheet.

Fair value hedge accounting in Nordea is performed mainly on a portfolio basis. Any ineffectiveness is recognised in the income statement under the item "Net result from items at fair value".

Hedged items
A hedged item in a fair value hedge can be a recognised single asset or liability, an unrecognised firm commitment, or a portion thereof. The hedged item can also be a group of assets, liabilities or firm commitments with similar risk characteristics. Hedged items in Nordea consist of both individual assets or liabilities and portfolios of assets and/or liabilities.

Hedging instruments
The hedging instruments used in Nordea are predominantly interest rate swaps and cross currency interest rate swaps, which are always held at fair value. Cash instruments are only used as hedging instruments when hedging currency risk.

Cash flow hedge accounting
Cash flow hedge accounting can be used for the hedging of exposure to variations in future interest payments on instruments with variable interest rates and for the hedging of currency exposures. The portion of the gain or loss on the hedging instrument, that is determined to be an effective hedge, is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The ineffective portion of the gain or loss on the hedging instrument is recycled to the item "Net result from items at fair value" in the income statement.

Gains or losses on hedging instruments recognised in the cash flow hedge reserve in equity through other comprehensive income are recycled and recognised in the income statement in the same period as the hedged item affects profit or loss, normally in the period that interest income or interest expense is recognised.

Hedged items
A hedged item in a cash flow hedge can be highly probable floating interest rate cash flows from recognised assets or liabilities or from future assets or liabilities. Nordea uses cash flow hedges when hedging currency risk in future payments of interest and principal in foreign currency.

Hedging instruments
The hedging instruments used in Nordea are predominantly cross currency interest rate swaps, which are always held at fair value, where the currency component is designated as a cash flow hedge of currency risk and the interest component as a fair value hedge of interest rate risk.

Hedge effectiveness
The application of hedge accounting requires the hedge to be highly effective. A hedge is regarded as highly effective if at inception and throughout its life it can be expected that changes in fair value of the hedged item as regards the hedged risk can be essentially offset by changes in fair value of the hedging instrument. The result should be within a range of 80–125 per cent. When assessing hedge effectiveness retrospectively Nordea measures the fair value of the hedging instruments and compares the change in fair value of the hedging instrument to the change in fair value of the hedged item. The effectiveness measurement is made on a cumulative basis. The hypothetical derivative method is used when measuring the effectiveness of cash flow hedges, meaning that the change in a perfect hypothetical swap is used as proxy for the present value of the cumulative change in expected future cash flows from the hedged transaction (the currency component).

If the hedge relationship does not fulfil the requirements, hedge accounting is terminated. For fair value hedges the hedging instrument is reclassified to a trading derivative and the change in the fair value of the hedged item, up to the point when the hedge relationship is terminated, is amortised to the income statement on a straight-line basis over the remaining maturity of the hedged item.

In cash flow hedges, changes in the unrealised value of the hedging instrument will prospectively from the last time it was proven effective be accounted for in the income statement. The cumulative gain or loss on the hedging instrument that has been recognised in the cash flow hedge reserve in equity through other comprehensive income from the period when the hedge was effective is reclassified from equity to "Net result from items at fair value" in the income statement if the expected transaction no longer is expected to occur. If the expected transaction no longer is highly probable, but is still expected to occur, the cumulative gain or loss on the hedging instrument that has been recognised in other comprehensive income from the period when the hedge was effective remains in other comprehensive income until the transaction occurs or is no longer expected to occur.

10. Determination of fair value of financial instruments

Financial assets and liabilities classified into the categories Financial assets/liabilities at fair value through profit or loss (including derivative instruments) are recorded at fair value on the balance sheet with changes in fair value recognised in the income statement in the item "Net result from items at fair value".

Fair value is defined as the price that at the measurement date would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions in the principal market for the asset or liability or, in the absence of a principal market, in the most advantageous market for the asset or liability.

The existence of published price quotations in an active market is the best evidence of fair value and when they exist they are used to measure financial assets and financial liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an on-going basis. The absolute level for liquidity and volume required for a market to be considered active vary with the instrument classes. For some classes low price volatility is seen, also for those instruments within the class where the trade frequency is high. For instruments in such a class the liquidity requirements are lower and, correspondingly, the age limit for the prices used for establishing fair value is higher.

The trade frequency and volume are monitored regularly in order to assess if markets are active or non-active.

Nordea is predominantly using published price quotations to establish fair value for items disclosed under the following balance sheet items:

- Interest-bearing securities
- Shares (listed)
- Derivatives (listed).

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. The adequacy of the valuation technique, including an assessment of whether to use quoted prices or theoretical prices, is monitored on a regular basis.

Valuation techniques can range from simple discounted cash flow analysis to complex option pricing models. Valuation models are designed to apply observable market prices and rates as input whenever possible, but can also make use of unobservable model parameters. The adequacy of the valuation model is assessed by measuring its capability to hit market prices. This is done by comparison of calculated prices to relevant benchmark data, e.g. quoted prices from exchanges, the counterparty´s valuations, price data from consensus services etc.

Nordea is predominantly using valuation techniques to establish fair value for items disclosed under the following balance sheet items:

- Interest-bearing securities (when quoted prices in an active market are not available)
- Shares (when quoted prices in an active market are not available)
- Derivatives (OTC-derivatives).

For financial instruments, where fair value is estimated by a valuation technique, it is investigated whether the variables used in the valuation model are predominantly based on data from observable markets. By data from observable markets, Nordea considers data that can be collected from generally available external sources and where this data is judged to represent realistic market prices. If non-observable data has a significant impact on the valuation, the instrument cannot be recognised initially at the fair value estimated by the valuation technique and any upfront gains are thereby deferred and amortised through the income statement over the contractual life of the instrument. The deferred upfront gains are subsequently released to income if the non-observable data becomes observable.

Note 38 “Assets and liabilities at fair value” provides a breakdown of fair values of financial instruments measured on the basis of:

- quoted prices in active markets for the same instrument (level 1),
- valuation technique using observable data (level 2) and
- valuation technique using non-observable data (level 3).

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 by the Model Risk Committee and all models are reviewed on a regular basis.

For further information, see Note 38 “Assets and liabilities at fair value”.

11. Cash and balances with central banks

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 institutions is established
- The balance is readily available at any time.

12. Financial instruments

Classification of financial instruments

Each financial instrument has been classified into one of the following categories:

Financial assets:

- Financial assets at fair value through profit or loss:
  – Held for trading
  – Designated at fair value through profit or loss (fair value option)
- Loans and receivables
- Held to maturity
- Available for sale

Financial liabilities:

- Financial liabilities at fair value through profit or loss:
  – Held for trading
  – Designated at fair value through profit or loss (fair value option)
- Other financial liabilities

All financial assets and liabilities are initially measured at fair value. The classification of financial instruments into different categories forms the basis for how each instrument is subsequently measured on the balance sheet and how changes in its value are recognised. The classification of the financial instruments on Nordea's balance sheet into different categories is presented in note 37 "Classification of financial instruments".

Financial assets and financial liabilities at fair value through profit or loss

Financial assets and financial liabilities at fair value through profit or loss are measured at fair value, excluding transaction costs. All changes in fair values are recognised directly in the income statement in the item "Net result from items at fair value".

The category consists of two sub-categories; Held for trading and Designated at fair value through profit or loss (fair value option).

The sub-category Held for trading mainly contains derivative instruments that are held for trading purposes, interest-bearing securities and shares within Markets and Treasury. It also contains trading liabilities such as short-selling positions and lending in reverse repurchase agreements.

The major parts of the financial assets/liabilities classified into the category Designated at fair value through profit or loss are credit support annexes. Nordea also applies the fair value option on certain financial assets and financial liabilities related to Markets. The classification stems from that Markets is managing and measuring its financial assets and liabilities at fair value. Consequently, the majority of financial assets and financial liabilities in Markets are classified into the categories Financial assets/Financial liabilities at fair value through profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets, with fixed or determinable payments, that are not quoted in an active market. These assets and their impairment are further described in the separate section 13 "Loans to the public/credit institutions".

Held to maturity

Financial assets that Nordea has chosen to classify into the category Held to maturity are non-derivative financial assets with fixed or determinable payments and fixed maturity that Nordea has the positive intent and ability to hold to maturity. Financial assets classified into the category Held to maturity are initially recognised on the balance sheet at the acquisition price, including transaction costs. Subsequent to initial recognition, the instruments within this category are measured at amortised cost. In an amortised cost measurement, the difference between acquisition cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method.

If more than an insignificant amount of the Held to maturity portfolio is sold or transferred the Held to maturity category is tainted, except for if the sale or transfer either occur close to maturity, after substantially all of the original principal is already collected, or due to an isolated non-recurring event beyond the control of Nordea.

Nordea assesses at each reporting date whether there is any objective evidence that the asset is impaired. If there is such evidence, an impairment loss is recorded. The loss is calculated as the difference between the carrying amount and the present value of estimated future cash flows and is recognised as "Impairment of securities held as financial non-current assets" in the income statement. See section 13 "Loans to the public/credit institutions" for more information on the identification and measurement of objective evidence of impairment, which is applicable also for interest-bearings securities classified into the category Held to maturity.

Available for sale

Financial instruments classified into the category Available for sale are measured at fair value. Changes in fair values, except for interest, foreign exchange effects and impairment losses, are recognised in the fair value reserve in equity through other comprehensive income. Interest is recognised in the item "Interest income" and foreign exchange effects and impairment losses in the item “Net result from items at fair value” in the income statement.

When an instrument classified into the category Available for sale is disposed of, the fair value changes that previously have been accumulated in the fair value reserve (related to Available for sale investments) in other comprehensive income are removed from equity and recognised in the income statement in the item “Net result from items at fair value”.

Financial assets classified into the category Available for sale are assessed in order to determine any need for impairment losses. If there is objective evidence of impairment, the accumulated loss that has been recognised in other comprehensive income is removed from equity and recognised as “Net result from items at fair value” in the income statement. The amount of the accumulated loss that is recycled from equity is the difference between the asset’s acquisition cost and current fair value. For equity investments a prolonged or significant decline in the fair value, compared to the acquisition cost, is considered to be objective evidence of impairment. Objective evidence of impairment for a debt instrument is rather connected to a loss event, such as an issuer’s financial difficulty.

Other financial liabilities
Financial liabilities, other than those classified into the category Financial liabilities at fair value through profit or loss, are measured at amortised cost. Interest on Other financial liabilities is recognised in the item “Interest expense” in the income statement.

Hybrid (combined) financial instruments
Hybrid (combined) financial instruments are contracts containing a host contract and an embedded derivative instrument. Such combinations arise predominantly from the issuance of structured debt instruments, such as issued index-linked bonds.

Index-linked bonds issued by Group Treasury are considered to be part of the funding activities. The zero coupon bond, is measured at amortised cost. The embedded derivatives in those instruments are separated from the host contract and accounted for as stand-alone derivatives at fair value, if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract, and the embedded derivative meets the definition of a derivative instrument. Changes in fair values, of the embedded derivatives, are recognised in the income statement in the item “Net result from items at fair value”.

Index-linked bonds issued by Markets as part of the trading portfolio are classified into the category Held for trading, and the entire combined instrument, host contract together with the embedded derivative, is measured at fair value through profit or loss. Changes in fair values are recognised in the income statement in the item “Net result from items at fair value”. From a presentation perspective the host contract is on the balance sheet presented as “Debt securities in issue” and the embedded derivative as “Derivatives”.

Securities borrowing and lending agreements
Generally, securities borrowing and securities lending transactions are entered into on a collateralised basis. Unless the risks and rewards of ownership are transferred, the securities are not recognised on or derecognised from the balance sheet. In the cases where the counterpart is entitled to resell or repledge the securities, the securities are reclassified to the balance sheet item “Financial instruments pledged as collateral”.

Securities in securities lending transactions are also disclosed in the item “Assets pledged as security for own liabilities”.

Cash collateral advanced (securities borrowing) to the counterparts is recognised on the balance sheet as “Loans to central banks”, “Loans to credit institutions” or as “Loans to the public”. Cash collateral received (securities lending) from the counterparts is recognised on the balance sheet as “Deposits by credit institutions” or as “Deposits and borrowings from the public”.

Repurchase and reverse repurchase agreements
Securities delivered under repurchase agreements and securities received under reverse repurchase agreements are not derecognised from or recognised on the balance sheet. In the cases where the counterpart has the right to resell or repledge the securities, the securities are reclassified to the balance sheet line “Financial instruments pledged as collateral”.

Securities delivered under repurchase agreements are also disclosed in the item “Assets pledged as security for own liabilities”.

Cash received under repurchase agreements is recognised on the balance sheet as “Deposits by credit institutions” or as “Deposits and borrowings from the public”. Cash delivered under reverse repurchase agreements is recognised on the balance sheet as “Loans to central banks”, “Loans to credit institutions” or as “Loans to the public”.

Additionally, the sale of securities received in reverse repurchase agreements trigger the recognition of a trading liability (short sale).

Derivatives
All derivatives are recognised on the balance sheet and measured at fair value. Derivatives with total positive fair values, including any accrued interest, are recognised as assets in the item “Derivatives” on the asset side. Derivatives with total negative fair values, including any accrued interest, are recognised as liabilities in the item “Derivatives” on the liability side.

Realised and unrealised gains and losses from derivatives are recognised in the income statement in the item “Net result from items at fair value”.

Offsetting of financial assets and liabilities
Nordea offsets financial assets and liabilities on the balance sheet if there is a legal right to offset, in the ordinary course of business and in case of bankruptcy, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously. This is generally achieved through the central counterparty clearing houses that Nordea has agreements with.

Exchanged traded derivatives are generally accounted for as settled on a daily basis when cash is paid or received and the instrument is reset to market terms. Derivative assets and liabilities against central counterparty clearing houses are, as mentioned above, generally set off on the balance sheet, but net cash collateral received or paid is generally accounted for separately as cash collateral paid (asset) or received (liability), which is also the case for cash collateral paid or received in bilateral OTC derivative transactions. Cash collateral paid or received in bilateral OTC derivative transactions are consequently not offset against the fair value of the derivatives.

Issued debt and equity instruments
A financial instrument issued by Nordea is either classified as a financial liability or equity. Issued financial instruments are classified as a financial liability if the contractual arrangement results in Nordea having a present obligation to either deliver cash or another financial asset, or a variable number of equity instruments to the holder of the instrument. If this is not the case, the instrument is generally an equity instrument and classified as equity, net of transaction costs. Where issued financial instruments contain both liability and equity components, these are accounted for separately.

13. Loans to the public/credit institutions

Financial instruments classified as “Loans to the public/credit institutions” (including loans to central banks) on the balance sheet and into the category Loans and receivables are measured at amortised cost (see also the separate section 7 “Recognition and derecognition of financial instruments on the balance sheet” as well as Note 37”Classification of financial instruments”).

Nordea monitors loans as described in the separate section on Risk, Liquidity and Capital management. Loans attached to individual customers or groups of customers are identified as impaired if the impairment tests indicate an objective evidence of impairment.

Also interest-bearings securities classified into the categories Loans and receivables and Held to maturity are held at amortised cost and the description below is valid also for the identification and measurement of impairment on these assets. Possible impairment losses on interest-bearing securities classified into the categories Loans and receivables and Held to maturity are recognised as “Impairment of securities held as non-current financial assets” in the income statement.

Impairment test of individually assessed loans
Nordea tests all loans for impairment on an individual basis. The purpose of the impairment tests is to find out if the loans have become impaired. As a first step in the identification process for impaired loans, Nordea monitors whether there are indicators of impairment (loss event) and whether these loss events represent objective evidence of impairment. More information on the identification of loss events can be found in the Risk, Liquidity and Capital management section.

Loans that are not individually impaired will be transferred to a group of loans with similar risk characteristics for a collective impairment test.

Impairment test of collectively assessed loans
Loans not impaired on an individual basis are collectively tested for impairment.

These loans are grouped on the basis of similar credit risk characteristics that are indicative of the debtors´ ability to pay all amounts due according to the contractual terms. Nordea monitors its portfolio through rating migrations, the credit decision and annual review process supplemented by quarterly risk reviews. Through these processes Nordea identifies loss events indicating incurred losses in a group. A loss event is an event resulting in a deterioration of the expected future cash flows. Only loss events incurred up to the reporting date are included when performing the assessment of the group.

The objective for the group assessment process is to evaluate if there is a need to make a provision due to the fact that a loss event has occurred, which has not yet been identified on an individual basis. This period between the date when the loss event occurred and the date when it is identified on an individual basis is called “Emergence period”. The impairment remains related to the group of loans until the losses have been identified on an individual basis. The identification of the loss is made through a default of the engagement or by other indicators.

For corporate customers and bank counterparts, Nordea uses the existing rating system as a basis when assessing the credit risk. Nordea uses historical data on probability of default to estimate the risk for a default in a rating class. These loans are rated and grouped mostly based on type of industry and/or sensitivity to certain macro parameters, e.g. dependency to oil prices etc.

Personal customers and small corporate customers are monitored through scoring models. These are based mostly on historical data, as default rates and loss rates given a default, and experienced judgement performed by management. Rating and scoring models are described in more detail in the separate section on Risk, Liquidity and Capital management.

Impairment loss
If the carrying amount of the loans is higher than the sum of the net present value of estimated cash flows (discounted with the original effective interest rate), including the fair value of the collaterals and other credit enhancements, the difference is the impairment loss.

For significant loans that have been individually identified as impaired the measurement of the impairment loss is made on an individual basis.

For insignificant loans that have been individually identified as impaired and for loans not identified as impaired on an individual basis the measurement of the impairment loss is measured using a portfolio based expectation of the future cash flows.

If the impairment loss is not regarded as final, the impairment loss is accounted for on an allowance account representing the accumulated impairment losses. Changes in the credit risk and accumulated impairment losses are accounted for as changes in the allowance account and as ”Net loan losses” in the income statement (see also section 6 “Recognition of operating income and impairment”).

If the impairment loss is regarded as final, it is reported as a realised loss and the value of the loan and the related allowance for impairment loss are derecognised. An impairment loss is regarded as final when the obligor is filed for bankruptcy and the administrator has declared the economic outcome of the bankruptcy procedure, or when Nordea forgives its claims either through a legal based or voluntary reconstruction or when Nordea, for other reasons, deem it unlikely that the claim will be recovered.

Discount rate
The discount rate used to measure impairment is the original effective interest rate for loans attached to an individual customer or, if applicable, to a group of loans. If considered appropriate, the discount rate can be based on a method that results in an impairment that is a reasonable approximation of using the effective interest rate method as basis for the calculation.

Restructured loans
In this context a restructured loan is defined as a loan where Nordea has granted concessions to the obligor due to its deteriorated financial situation and where this concession has resulted in an impairment loss for Nordea. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. Concessions made in reconstructions are regarded as loan losses unless Nordea retains the possibility to regain the loan losses incurred. In the event of a recovery the payment is reported as a recovery of loan losses.

Assets taken over for protection of claims
In a financial reconstruction the creditor may concede loans to the obligor and in exchange for this concession acquire an asset pledged for the conceded loans, shares issued by the obligor or other assets. Assets taken over for protection of claims are reported on the same balance sheet line as similar assets already held by Nordea. For example a property taken over, not held for Nordea’s own use, is reported together with other investment properties.

At initial recognition, all assets taken over for protection of claims are recognised at fair value and the possible difference between the carrying amount of the loan and the fair value of the assets taken over is recognised as “Net loan losses”. The fair value of the asset on the date of recognition becomes its cost or amortised cost value, as applicable. In subsequent periods, assets taken over for protection of claims are valued in accordance with the valuation principles for the appropriate type of asset. Investment properties are then measured at fair value. Financial assets that are foreclosed are generally classified into the categories Available for sale or Designated at fair value through profit or loss (fair value option) (see section 12 “Financial instruments”) and measured at fair value. Changes in fair values are recognised in other comprehensive income for assets classified into the category Available for sale. For assets classified into the category Designated at fair value through profit or loss, changes in fair value are recognised in the income statement under the line “Net result from items at fair value”.

Any change in value, after the initial recognition of the asset taken over, is presented in the income statement in line with the Group’s presentation policies for the appropriate asset. ”Net loan losses” in the income statement is, after the initial recognition of the asset taken over, consequently not affected by any subsequent remeasurement of the asset.

14. Leasing

NBF as lessor

Finance leases

Nordea's leasing operations mainly comprise finance leases. A finance lease is reported as a receivable from the lessee in the balance sheet item "Loans to the public" at an amount equal to the net investment in the lease. The lease payment, excluding cost of services, is recorded as repayment of principal and interest income. The income allocation is based on a pattern reflecting a constant periodic return on the net investment outstanding in respect of the finance lease.

Operating leases

Assets subject to operating leases on the balance sheet are reported in accordance with the nature of the assets, in general as properties and equipment. Leasing income is recognised as income on a straight-line basis over the lease term and classified as "Net interest income". The depreciation of the leased assets is calculated on the basis of Nordea's depreciation policy for similar assets and reported as "Depreciation, amortisation and impairment charges of tangible and intangible assets" in the income statement.

NBF as lessee

Finance leases

No leases in NBF have been classified as finance leases.

Operating leases

Operating leases are not recognised on Nordea's balance sheet. For operating leases the lease payments are recognised as expenses in the income statement on a straight-line basis over the lease term unless another systematic way better reflects the time pattern of Nordea's benefit. The original lease terms normally range between 3 to 25 years.

Operating leasing is mainly related to office premises contracts and office equipment contracts normal to the business.

The central district properties in Finland that Nordea has divested are leased back. The duration of the lease agreements was initially 3-25 years with renewal options. The lease agreements include no transfers of ownerships of the asset by the end of the lease term, nor any economic benefits from appreciation in value of the leased properties. In addition, the lease term is not for the major part of the assets' economic life. These leases are thus classified as operating leases. The rental expense for these premises is recognised on the basis of the time-pattern of Nordea's economic benefit which differs from the straight-line basis and better resembles an ordinary rental arrangement.

Embedded leases

Agreements can contain a right to use an asset in return for a payment, or a series of payments, although the agreement is not in the legal form of a leasing contract. If applicable, these assets are separated from the contract and accounted for as leased assets.

15. Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance. The assets are under Nordea's control, which means that Nordea has the power and rights to obtain the future economic benefits flowing from the underlying resource. The intangible assets in NBF mainly consist of IT-development/computer software and customer related intangible assets.

IT-development/Computer software

Costs associated with maintaining computer software programs are expensed as incurred. Costs directly associated with major software development investments, with the ability to generate future economic benefits, are recognised as intangible assets. These costs include software development staff costs and overhead expenditures directly attributable to preparing the asset for use. Computer software includes also acquired software licenses not related to the function of a tangible asset.

Amortisation is calculated on a straight-line basis over the useful life of the software, generally a period of 3 to 10 years.

Impairment

At each balance sheet date, all intangible assets with definite useful lives, including IT-development taken into use, are reviewed for indications of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of the intangible asset is fully recoverable.

The recoverable amount is the higher of fair value less costs to disposal and the value in use of the asset or the cash-generating unit, which is defined as the smallest identifiable group of assets that generates largely independent cash flows in relation to other assets. The value in use is the present value of the cash flows expected to be realised from the asset or the cash-generating unit. The cash flows are assessed based on the asset or cash-generating unit in its current condition and discounted at a rate based on the long-term risk free interest rate plus a risk premium (post tax). If the recoverable amount is less than the carrying amount, an impairment loss is recognised. See Note 20 "Intangible assets" for more information on the impairment testing.

16. Properties and equipment

Properties and equipment includes own-used properties, leasehold improvements, IT equipment, furniture and other equipment. Items of properties and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of properties and equipment comprise its purchase price, as well as any directly attributable costs of bringing the asset to the working condition for its intended use. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items.

Properties and equipment is depreciated on a straight-line basis over the estimated useful life of the assets. The estimates of the useful life of different assets are reassessed on a yearly basis. Below follows the current estimates:

- Buildings: 30–75 years
- Equipment: 3–5 years
- Leasehold improvements: Changes within buildings the shorter of 10 years and the remaining leasing term. Fixtures installed in leased properties are depreciated over the shorter of 10–20 years and the remaining leasing term.

At each balance sheet date, Nordea assesses whether there is any indication that an item of property and equipment may be impaired. If any such indication exists, the recoverable amount of the asset is estimated and any impairment loss is recognised.

Impairment losses are reversed if the recoverable amount increases. The carrying amount is then increased to the recoverable amount, but cannot exceed the carrying amount that would have been determined had no impairment loss been recognised.

17. Taxes

The item "Income tax expense" in the income statement comprises current- and deferred income tax. The income tax expense is recognised in the income statement, except to the extent the tax effect relates to items recognised in other comprehensive income or directly in equity, in which case the tax effect is recognised in other comprehensive income or in equity respectively.

Current tax is the tax expense on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognised, using the balance sheet method, for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for the carry forward of unused tax losses and unused tax credits. Deferred tax is not recognised for temporary differences arising on initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, nor for differences relating to investments in group undertakings and associated undertakings to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date. Deferred tax assets and liabilities are not discounted. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary differences, tax losses carry forward and unused tax credits can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Current tax assets and current tax liabilities are offset when the legal right to offset exists and Nordea intends to either settle the tax asset and the tax liability net or to recover the asset and settle the liability simultaneously.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets and current tax liabilities

18. Employee benefits

All forms of consideration given by Nordea to its employees as compensation for services performed are employee benefits. Short-term benefits are to be settled within twelve months after the reporting period when the services have been performed. Post-employment benefits are benefits payable after the termination of the employment. Post-employment benefits in Nordea consist only of pensions. Termination benefits normally arise if an employment is terminated before the normal retirement date, or if an employee accepts an offer of voluntary redundancy.

Short-term benefits

Short term benefits consist mainly of fixed and variable salary. Both fixed and variable salaries are expensed in the period when the employees have performed services to Nordea. Nordea has also issued share-based payment programmes, which are further described in section 21 "Share-based payment".

More information can be found in Note 8"Staff costs".

Post-employment benefits

Pension plans

The companies within Nordea have various pension plans, consisting of both defined benefit pension plans and defined contribution pension plans, reflecting national practices and conditions in the countries where Nordea operates. The major defined benefit pension plans are funded schemes covered by assets in pension funds/foundations. If the fair value of plan assets, associated with a specific pension plan, is lower than the gross present value of the defined benefit obligation determined using the projected unit credit method, the net amount is recognised as a liability ("Retirement benefit liabilities"). If not, the net amount is recognised as an asset ("Retirement benefit assets"). Non-funded pension plans are recognised as "Retirement benefit liabilities".

Most pensions are based on defined contribution arrangements that hold no pension liability for Nordea. All defined benefit pension plans are closed for new employees. Nordea also contributes to public pension systems.

Pension costs
Obligations for defined contribution pension plans are recognised as an expense as the employee renders services to the entity and the contribution payable in exchange for that service becomes due. Nordea's net obligation for defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in the current and prior periods. That benefit is discounted to determine its present value. Actuarial calculations including the projected unit credit method are applied to assess the present value of defined benefit obligations and related costs, based on several actuarial and financial assumptions (as disclosed in Note 30"Retirement benefit obligations").

When establishing the present value of the obligation and the fair value of any plan assets, remeasurement effects may arise as a result of changes in actuarial assumptions and experience effects (actual outcome compared to assumptions). The remeasurement effects are recognised immediately in equity through other comprehensive income.

When the calculation results in a benefit the recognised asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Discount rate in defined benefit pension plans
The discount rate is determined by reference to high quality corporate bonds, where a deep enough market for such bonds exists. In countries where no such market exists the discount rate is determined by reference to government bond yields. In Finland the discount rate is determined with reference to corporate bonds.

Termination benefits
As mentioned above termination benefits normally arise if an employment is terminated before the normal retirement date, or if an employee accepts an offer of voluntary redundancy. Termination benefits do not arise if the employees have to continue performing services and the termination benefits can be considered to be normal compensation for those services.

Termination benefits are expensed when Nordea has an obligation to make the payment. An obligation arises when there is a formal plan committed to on the appropriate organisational level and when Nordea is without realistic possibility of withdrawal, which normally occurs when the plan has been communicated to the group affected or to their representatives.

Termination benefits can include both short-term benefits, for instance a number of months' salary, and post-employment benefits, normally in the form of early retirement. Short-term benefits are classified as "Salaries and remuneration" and post-employment benefits as "Pension costs" in Note 8 "Staff costs".

19. Equity

Non-controlling interests
Non-controlling interests comprise the portion of net assets of group undertakings not owned directly or indirectly by Nordea Bank Finland Plc.

For each business combination, NBF measures the non-controlling interests in the acquiree either at fair value or at their proportionate share of the acquiree's identifiable net assets.

Share premium reserve
The share premium reserve consists of the difference between the subscription price and the quota value of the shares in NBF's rights issue. Transaction costs in connection to the rights issue have been deducted.

Other reserves
In addition to non-restricted reserves, other reserves comprise income and expenses, net after tax effects, which are reported in equity through other comprehensive income. These reserves include fair value reserves for cash flow hedges, financial assets classified into the category Available for sale and accumulated remeasurements of defined benefit pension plans, as well as a reserve for translation differences.

Retained earnings
Apart from undistributed profits from previous years, retained earnings include the equity portion of untaxed reserves. Untaxed reserves according to national rules are accounted for as equity net of deferred tax at prevailing tax rates in the respective country.

In addition, NBF's share of the earnings in associated undertakings, after the acquisition date, that have not been distributed is included in retained earnings.

20. Financial guarantee contracts and credit commitments

Upon initial recognition, premiums received in issued financial guarantee contracts and credit commitments are recognised as prepaid income on the balance sheet. The guarantees and irrevocable credit commitments are subsequently measured, and recognised as a provision on the balance sheet, at the higher of either the received fee less amortisation, or an amount calculated as the discounted best estimate of the expenditure required to settle the present obligation. Changes in provisions are recognised in the income statement in the item "Net loan losses".

Premiums received for financial guarantees are, as stated in section 6 "Recognition of operating income and impairment", amortised over the guarantee period and recognised as "Fee and commission income" in the income statement. Premiums received on credit commitments are generally amortised over the loan commitment period. The contractual amounts are recognised off-balance sheet, financial guarantees in the item "Contingent liabilities" and irrevocable credit commitments in the item "Commitments".

21. Share-based payment

Equity-settled programmes
Nordea has annually issued Long Term Incentive Programmes from 2007 through 2012. Employees participating in these programmes are granted share-based equity-settled rights, i.e. rights to receive shares for free or to acquire shares in Nordea at a significant discount compared to the share price at grant date. The value of such rights is expensed. The expense is based on the estimated fair value of each right at grant date. The total fair value of these rights is determined based on the group's estimate of the number of rights that will eventually vest, which is reassessed at each reporting date. The fair value is expensed on a straight-line basis over the vesting period. The vesting period is the period that the employees have to remain in service in Nordea in order for their rights to vest. Market performance conditions in Performance Share II are reflected as a probability adjustment to the initial estimate of fair value at grant date. There is no adjustment (true-up) for differences between estimated and actual vesting due to market conditions.

Social security costs are also allocated over the vesting period. The provision for social security costs is reassessed on each reporting date to ensure that the provision is based on the rights' fair value at the reporting date.

For more information see Note 8 "Staff costs".

Cash-settled programmes
Nordea has to defer payment of variable salaries under Nordic FSA's regulations and general guidelines, as is also the case with the Executive Incentive Programme (EIP). The deferred amounts are to some extent indexed using Nordea's TSR (Total Shareholders' Return) and these "programmes" are cash-settled share-based programmes. These programmes are fully vested when the payments of variable salaries are initially deferred and the fair value of the obligation is remeasured on a continuous basis. The remeasurements are, together with the related social charges, recognised in the income statement in the item "Net result from items at fair value".

For more information see Note 8 "Staff costs".

22. Related party transactions

NBF defines related parties as:

- Shareholders with significant influence
- Group undertakings
- Associated undertakings
- Key management personnel
- Other related parties.

All transactions with related parties are made on an arm's length basis,apart from loans granted to employees, see Note 8"Staff costs".

Shareholders with significant influence
Shareholder with significant influence is the sole shareholder of NBF that has the power to participate in the financial and operating decisions of NBF but do not control those policies. Nordea Bank AB (publ) is considered having such a power.

Group undertakings
For the definition of group undertakings see section 5 "Principles of consolidation". Further information on the undertakings included in the NBF Group is found in Note 18 "Investments in group undertakings".

Group internal transactions between legal entities are performed according to arm's length principles in conformity with OECD requirements on transfer pricing. These transactions are eliminated in the consolidated accounts.

Associated undertakings
For the definition of Associated undertakings see section 5 “Principles of consolidation”.

Further information on the associated undertakings included in the NBF Group is found in Note 19 “Investments in associated undertakings”.

Key management personnel
Key management personnel include the following positions:

- The Board of Directors of Nordea Bank Finland Plc and Nordea Bank AB (publ)
- The President of Nordea Bank Finland Plc and the deputy to the President
- The Group Executive Management (GEM).

For information about compensation, pensions and other transactions with key management personnel, see Note 8 “Staff costs”.

Other related parties
Other related parties comprise close family members to individuals in key management personnel. Other related parties also include companies significantly influenced by key management personnel in the NBF Group as well as companies significantly influenced by close family members to these key management personnel. Other related parties also include Nordea Pension Foundation.

Information concerning transactions between NBF and other related parties is found in Note 42 “Related-party transactions”.

Note 2 Segment reporting

Operating segments

Group

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.

Changes in the basis of segmentation
Changes were made to the basis of segmentation during the latter part of the year following the decision to divide Retail Banking into two business areas: Personal Banking and Commercial & Business Banking. The business area Personal Banking includes the household customers formerly included in Retail Banking and the business area Commercial & Business Banking includes the corporate customers formerly included in Retail Banking. As from the fourth quarter the new business areas are included in the reporting to the Chief Operating Decision Maker (CODM) and are consequently part of the segment reporting in Note 2. The new business areas are further broken down on operating segments. Comparative figures have been restated accordingly.

Basis of segmentation
Financial results are presented for the three main business areas Personal Banking, Commercial & Business Banking and Wholesale Banking, with further breakdown on operating segments, and for 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) as well as the result that is not fully allocated to any of the operating segments, are shown separately as reconciling items.

Reportable Operating segments
Personal Banking conducts a full service banking operation and offers a wide range of products. It is Nordea's largest customer area and serves household customers in the Nordic markets (Personal Banking Nordic) as well as the Baltic countries (Personal Banking Baltic). Wholesale Banking provides banking and other financial solutions to large Nordic and international corporate, institutional and public companies. The division Corporate & Institutional Banking is a customer oriented organisation serving the largest globally operating corporates. This division is also responsible for Nordea's customers within the financial sector, and offers single products such as funds and equity products as well as consulting services within asset allocation and fund sales. The division Shipping, & Oil Services is responsible for Nordea's customers within the shipping, offshore and oil services industries and provides tailormade solutions and syndicated loan transactions. Capital Markets unallocated includes the result in Capital Markets which is not allocated to the main business areas. Group Corporate Centre's main objective is to manage the Group's funding and to support the management and control of the NBF Group. The main income in Group Corporate Centre originates from Group Treasury.

	Personal Banking		Commercial & Business Banking		Wholesale Banking		Group Corporate Centre	
Income statement, EURm	2016	2015	2016	2015	2016	2015	2016	2015
Net interest income	382	454	308	358	117	219	55	32
Net fee and commission income	532	525	205	206	-278	-277	-7	-8
Net result from items at fair value	30	38	96	104	981	1,005	36	18
Profit from associated undertakings accounted for under the equity method	2	2	2	2	-	-	9	-
Other income	14	4	9	9	0	0	63	12
Total operating income	**960**	**1,023**	**620**	**679**	**820**	**947**	**156**	**54**
Staff costs	-205	-202	-122	-128	-113	-118	-71	-60
Other expenses	-321	-316	-109	-99	-93	-98	31	69
Depreciation, amortisation and impairment charges of tangible and intangible assets	-10	-11	-5	-6	-3	-2	-8	-9
Total operating expenses	**-536**	**-529**	**-236**	**-233**	**-209**	**-218**	**-48**	**0**
Profit before loan losses	**424**	**494**	**384**	**446**	**611**	**729**	**108**	**54**
Net loan losses	-19	-52	-38	-50	-24	-11	-	-
Operating profit	**405**	**442**	**346**	**396**	**587**	**718**	**108**	**54**
Income tax expense	-	-	-	-	-	-	-	-
Net profit for the year	**405**	**442**	**346**	**396**	**587**	**718**	**108**	**54**
Balance sheet, EURm								
Loans to the public	10,905	31,053	20,934	23,853	32,653	46,465	21	20
Deposits and borrowings from the public	23,558	23,291	11,081	10,955	14,782	22,874	5,518	4,462

Note 2 Segment reporting, cont.

Operating segments

Group

Income statement, EURm	Total operating segments 2016	Total operating segments 2015	Reconciliation 2016	Reconciliation 2015	Total Group 2016	Total Group 2015
Net interest income	862	1,063	3	-10	865	1,053
Net fee and commission income	452	446	-321	-342	131	104
Net result from items at fair value	1,143	1,165	-1	92	1,142	1,257
Profit from associated undertakings accounted for under the equity method	13	4	0	1	13	5
Other income	86	25	8	41	94	66
Total operating income	**2,556**	**2,703**	**-311**	**-218**	**2,245**	**2,485**
Staff costs	-511	-508	-4	-39	-515	-547
Other expenses	-492	-444	41	31	-451	-413
Depreciation, amortisation and impairment charges of tangible and intangible assets	-26	-28	-2	-3	-28	-31
Total operating expenses	**-1,029**	**-980**	**35**	**-11**	**-994**	**-991**
Profit before loan losses	**1,527**	**1,723**	**-276**	**-229**	**1,251**	**1,494**
Net loan losses	-81	-113	24	21	-57	-92
Operating profit	**1,446**	**1,610**	**-252**	**-208**	**1,194**	**1,402**
Income tax expense	-	-	-232	-347	-232	-347
Net profit for the year	**1,446**	**1,610**	**-484**	**-555**	**962**	**1,055**
Balance sheet, EURm						
Loans to the public	64,513	101,391	98	55	64,611	101,447
Deposits and borrowings from the public	54,939	61,582	414	571	55,352	62,153

Break-down of Personal Banking

Income statement, EURm	Personal Banking Nordic 2016	Personal Banking Nordic 2015	Personal Banking Baltic 2016	Personal Banking Baltic 2015	Personal Banking Other[1] 2016	Personal Banking Other[1] 2015	Total Personal Banking 2016	Total Personal Banking 2015
Net interest income	364	445	0	2	17	7	382	454
Net fee and commission income	532	524	0	0	0	2	532	525
Net result from items at fair value	32	39	-	-	-2	-1	30	38
Profit from associated undertakings accounted for under the equity method	-	-	-	-	2	1	2	2
Other income	2	2	-2	-	14	2	14	4
Total operating income	**930**	**1,010**	**-2**	**2**	**31**	**11**	**960**	**1,023**
Staff costs	-171	-176	0	0	-34	-26	-205	-202
Other expenses	-356	-344	0	-1	36	29	-321	-316
Depreciation, amortisation and impairment charges of tangible and intangible assets	-9	-9	-	-	-1	-3	-10	-11
Total operating expenses	**-536**	**-529**	**0**	**-1**	**1**	**0**	**-536**	**-529**
Profit before loan losses	**394**	**481**	**-2**	**1**	**32**	**11**	**424**	**494**
Net loan losses	-13	-22	1	0	-7	-30	-19	-52
Operating profit	**381**	**459**	**-1**	**1**	**25**	**-19**	**405**	**442**
Income tax expense	-	-	-	-	-	-	-	-
Net profit for the year	**381**	**459**	**-1**	**1**	**25**	**-19**	**405**	**442**
Balance sheet, EURm								
Loans to the public	10,898	31,117	6	11	0	-76	10,905	31,053
Deposits and borrowings from the public	23,557	23,291	-	-	0	0	23,558	23,291

[1] Personal Banking Other includes the areas COO, Products and HR.

Note 2 Segment reporting, cont.

Break-down of Commercial & Business Banking

	Commercial Banking		Business Banking		Commercial & Business Banking Other[1]		Total Commercial & Business Banking	
Income statement, EURm	2016	2015	2016	2015	2016	2015	2016	2015
Net interest income	113	130	152	178	43	50	308	358
Net fee and commission income	58	59	133	128	14	20	205	206
Net result from items at fair value	64	66	32	38	1	0	96	104
Profit from associated undertakings accounted for under the equity method	-	-	-	-	2	1	2	2
Other income	2	1	0	0	7	8	9	9
Total operating income	**237**	**256**	**317**	**344**	**67**	**79**	**620**	**679**
Staff costs	-16	-16	-49	-53	-57	-59	-122	-128
Other expenses	-47	-54	-101	-102	39	57	-109	-99
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	0	-2	-2	-3	-5	-5	-6
Total operating expenses	**-63**	**-70**	**-152**	**-157**	**-21**	**-7**	**-236**	**-233**
Profit before loan losses	**174**	**186**	**165**	**187**	**46**	**72**	**384**	**446**
Net loan losses	-23	-27	-12	-14	-2	-10	-38	-50
Operating profit	**151**	**159**	**153**	**173**	**44**	**62**	**346**	**396**
Income tax expense	-	-	-	-	-	-	-	-
Net profit for the year	**151**	**159**	**153**	**173**	**44**	**62**	**346**	**396**
Balance sheet, EURm								
Loans to the public	7,222	7,385	5,715	8,925	7,998	7,544	20,934	23,853
Deposits and borrowings from the public	3,501	3,665	7,577	7,287	2	3	11,081	10,955

[1] Commercial & Business Banking Other includes the areas COO, Transaction Banking, Digital Banking and HR.

Note 2 Segment reporting, cont.

Break-down of Wholesale Banking

Income statement, EURm	Corporate & Institutional Banking 2016	Corporate & Institutional Banking 2015	Shipping, Offshore & Oil Services 2016	Shipping, Offshore & Oil Services 2015
Net interest income	102	140	65	82
Net fee and commission income	120	112	12	14
Net result from items at fair value	52	62	14	9
Profit from associated undertakings accounted for under the equity method	-	-	-	-
Other income	0	0	-	-
Total operating income	**274**	**314**	**91**	**105**
Staff costs	-6	-7	-4	-4
Other expenses	-107	-105	-17	-17
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	0	0	0
Total operating expenses	**-113**	**-112**	**-21**	**-21**
Profit before loan losses	**161**	**202**	**70**	**84**
Net loan losses	4	-21	-27	1
Operating profit	**165**	**181**	**43**	**85**
Income tax expense	-	-	-	-
Net profit for the year	**165**	**181**	**43**	**85**

Balance sheet, EURm	Corporate & Institutional Banking 2016	Corporate & Institutional Banking 2015	Shipping, Offshore & Oil Services 2016	Shipping, Offshore & Oil Services 2015
Loans to the public	7,639	8,315	2,870	3,180
Deposits and borrowings from the public	9,708	12,590	796	822

Income statement, EURm	Capital Markets unallocated[1] 2016	Capital Markets unallocated[1] 2015	Wholesale Banking Other[2] 2016	Wholesale Banking Other[2] 2015	Total Wholesale Banking 2016	Total Wholesale Banking 2015
Net interest income	-48	-5	-3	2	117	219
Net fee and commission income	-424	-420	14	16	-278	-277
Net result from items at fair value	890	898	25	36	981	1,005
Profit from associated undertakings accounted for under the equity method	-	-	-	-	-	-
Other income	0	0	0	0	0	0
Total operating income	**418**	**473**	**36**	**54**	**820**	**947**
Staff costs	-48	-50	-55	-56	-113	-118
Other expenses	7	6	23	19	-93	-98
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	0	-3	-2	-3	-2
Total operating expenses	**-41**	**-44**	**-35**	**-39**	**-209**	**-218**
Profit before loan losses	**377**	**429**	**1**	**15**	**611**	**729**
Net loan losses	-	-	0	8	-24	-11
Operating profit	**377**	**429**	**1**	**23**	**587**	**718**
Income tax expense	-	-	-	-	-	-
Net profit for the year	**377**	**429**	**1**	**23**	**587**	**718**

Balance sheet, EURm	Capital Markets unallocated[1] 2016	Capital Markets unallocated[1] 2015	Wholesale Banking Other[2] 2016	Wholesale Banking Other[2] 2015	Total Wholesale Banking 2016	Total Wholesale Banking 2015
Loans to the public	22,052	34,878	91	93	32,653	46,465
Deposits and borrowings from the public	3,998	9,462	280	0	14,782	22,874

[1] Allocation on Nordea Group level

[2] Wholesale Banking Other includes the areas International Divisions, COO and HR.

Note 2 Segment reporting, cont.

Reconciliation between total operating segments and financial statements

EURm	Total operating income		Operating profit		Loans to the public		Deposits and borrowings from the public	
	2016	2015	2016	2015	2016	2015	2016	2015
Total Operating segments	2,556	2,703	1,446	1,610	64,513	101,391	54,939	61,582
Group functions[1]	-311	-218	-252	-208	103	63	415	573
Eliminations	-	-	-	-	-5	-7	-2	-2
Total	**2,245**	**2,485**	**1,194**	**1,402**	**64,611**	**101,447**	**55,352**	**62,153**

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

Total operating income split on product groups

Group

EURm	2016	2015
Banking products	1,535	1,605
Capital Markets products	652	829
Savings Products & Asset Management	51	1
Life & Pensions	7	50
Other	0	0
Total	**2,245**	**2,485**

Banking products consists of three different product types. Account products include account-based products, such as lending, deposits, cards and Netbank services. Transaction products consists of cash management as well as trade and project finance services. Financing products include asset-based financing through leasing, hire purchase and factoring as well as sales to finance partners such as dealers, vendors and retailers. Capital Markets products contains financial instruments, or arrangements for financial instruments, that are available in the financial market place, including currencies, commodities, stocks and bonds. Savings products & Asset Management includes Investment funds, Discretionary Management, Portfolio Advice, Equity Trading and Pension Accounts. Investment Funds is a bundled product where the fund company invests in stocks, bonds, derivatives or other standardised products on behalf of the fund's shareholders. Discretionary Management is a service providing the management of an investment portfolio on behalf of the customer and Portfolio Advice is a service provided to support the customers' investment decisions. Life & Pensions includes life insurance and pension products and services.

Geographical information

Group

EURm	Total operating income		Assets	
	2016	2015	2016	2015
Sweden	120	152	18,460	21,139
Finland	1,540	1,700	77,864	100,414
Norway	82	108	6,529	7,322
Denmark	246	281	87,381	118,254
Baltic countries	54	54	1,783	1,608
Singapore	45	50	2,498	2,649
United States	142	140	44,260	50,204
Other	16	-	-	-
Total	**2,245**	**2,485**	**238,775**	**301,590**

NBF's main geographical market comprises the Nordic countries. Revenues and assets are distributed to geographical areas based on the location of customer operations.

Note 3 Net interest income

	Group		Parent company	
EURm	2016	2015	2016	2015
Interest income				
Loans to credit institutions	46	81	54	96
Loans to the public	1,117	1,268	829	984
Interest-bearing securities	108	125	108	125
Other interest income	49	58	51	63
Interest income[1]	**1,320**	**1,532**	**1,042**	**1,268**

[1] Of which contingent leasing income amounts to EUR 25m (26). Contingent leasing income in Nordea consists of variable interest rates, excluding the fixed margin. If the contingent leasing income decreases, there will be an offsetting impact from lower funding expenses.

Interest expense				
Deposits by credit institutions	-194	-233	-186	-232
Deposits and borrowings from the public	-74	-82	-74	-82
Debt securities in issue	-331	-381	-331	-381
Subordinated liabilities	-27	-28	-27	-28
Other interest expense[2]	171	244	174	245
Interest expense	**-455**	**-480**	**-444**	**-478**
Net interest income	**865**	**1,052**	**598**	**790**

[2]The net interest income from derivatives, measured at fair value, related to Nordea Bank Finland's funding. This can have both a positive and negative impact on other interest expense, for further information see Note 1.

Interest income from financial instruments not measured at fair value through profit and loss amounts to EUR 1,212m (1,407) for the Group and EUR 934m (1,142) for the parent company. Interest expenses from financial instruments not measured at fair value through profit and loss amounts to EUR -704m (-725) for the Group and EUR -694m (-724) for the parent company.

Interest on impaired loans amounted to an insignificant portion of interest income.

Note 4 Net fee and commission income

	Group		Parent company	
EURm	2016	2015	2016	2015
Asset Management commissions	83	85	83	85
- of which income	83	85	83	85
- of which expense	-	-	-	-
Life & Pension	7	10	7	10
- of which income	7	10	7	10
- of which expense	-	-	-	-
Deposit Products	1	1	1	1
- of which income	1	1	1	1
- of which expense	-	-	-	-
Brokerage, securities issues and corporate finance	-309	-301	-309	-301
- of which income	82	81	82	81
- of which expense	-391	-382	-391	-382
Custody and issuer services	19	20	19	20
- of which income	20	20	20	20
- of which expense	-1	0	-1	0
Payments	187	185	193	190
- of which income	204	199	207	200
- of which expense	-17	-14	-14	-10
Cards	64	69	35	36
- of which income	103	128	70	94
- of which expense	-39	-59	-35	-58
Lending Products	104	96	103	95
- of which income	107	96	103	95
- of which expense	-3	0	0	0
Guarantees	-16	-53	-13	-51
- of which income	99	105	100	106
- of which expense[1]	-115	-158	-113	-157
Other	-9	-7	-10	-7
- of which income	35	34	34	34
- of which expense	-44	-41	-44	-41
Total	**131**	**105**	**109**	**78**

[1] Mainly consists of guarantee commission fee paid to Nordea Bank AB (publ)

Fee income, not included in determining the effective interest rate, from financial assets and liabilities not measured at fair value through profit or loss amounts to EUR 108m (97) for the Group and EUR 105m (97) for the parent company.

Fee income, not included in determining the effective interest rate, from fiduciary activities that result in the holding or investing of assets on behalf of customers amounted to EUR 172m (176) for the Group and EUR 172m (176) for the parent company.

Note 5 Net result from items at fair value

	Group		Parent company	
EURm	2016	2015	2016	2015
Equity-related instruments	142	163	142	163
Interest-related instruments and foreign exchange gains/losses	1,245	1,039	1,244	1,036
Other financial instruments (including credit and commodities)	-243	57	-243	57
Investment properties	-2	-2	-2	-2
Total	**1,142**	**1,257**	**1,141**	**1,254**

Net result from categories of financial instruments

	Group		Parent company	
EURm	2016	2015	2016	2015
Available for sale assets, realised	39	29	39	29
Financial instruments designated at fair value through profit or loss	98	85	97	85
Financial instruments held for trading[1]	391	336	391	336
Financial instruments under fair value hedge accounting	3	-6	3	-6
- of which net result on hedging instruments	267	-142	267	-142
- of which net result on hedged items	-264	136	-264	136
Financial assets measured at amortised cost[2]	3	2	3	2
Financial liabilities measured at amortised cost	0	-	0	-
Foreign exchange gains/losses excl. currency hedges	610	815	610	812
Other	-2	-4	-2	-4
Total	**1,142**	**1,257**	**1,141**	**1,254**

[1] Of which amortised deferred day one profits amounted to EUR 11m for 2016 (0) both for the Group and the parent company.

[2] Of which EUR 3m (2) related to instruments classified into the category "Loans and receivables". There was no result related to instruments classified into the category "Held to maturity" (0).

Note 6 Dividends

	Group		Parent company	
EURm	2016	2015	2016	2015
Investments in group undertakings	-	-	70	100
Investments in associated undertakings	-	-	2	1
Total	**-**	**-**	**72**	**101**

Note 7 Other operating income

	Group		Parent company	
EURm	2016	2015	2016	2015
Divestment of shares	0	-	0	-
Income from real estate	1	1	1	1
Sale of tangible and intangible assets	2	4	2	3
Other[1]	91	61	91	61
Total	**94**	**66**	**94**	**65**

[1] Gain related to Visa Inc.'s acquisition of Visa Europe amounting to EUR 48m in 2016 in the parent company. Additionally EUR 9m is presented on the row "Profit from associated undertakings accounted for under equity method" in the Group, see note 19.

Note 8 Staff costs

EURm	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Salaries and remuneration	-397	-413	-372	-391
Pension costs (specification below)	-63	-67	-60	-64
Social security contributions	-25	-25	-23	-23
Allocation to profit-sharing foundation[1]	-6	-20	-6	-18
Other staff costs	-24	-22	-22	-20
Total	**-515**	**-547**	**-483**	**-516**

[1] Allocation to profit-sharing 2016 EUR 6m (20) in the Group and EUR 6m (18) in the parent company consisting of a new allocation of EUR 6m (19) in the Group and EUR 6m (18) in the parent company and an adjustment related to prior years of EUR 0m (1) in the Group and EUR 0m (0) in the parent company.

	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Pension costs:				
Defined benefit plans (Note 30)	1	-2	1	-1
Defined contribution plans	-64	-65	-61	-63
Total	**-63**	**-67**	**-60**	**-64**

Additional disclosures on remuneration under Nordic FSAs' regulation and general guidelines
The qualitative disclosures under these regulations can be found in the separate section on remuneration in the Board of Director's Report of Nordea, while the quantitative disclosures will be published in a separate report on Nordea's homepage (www.nordea.com) no later than one week before the Annual General Meeting of Nordea on 16 March 2017.

Compensation etc. to the Board of Directors and President
As at 31 December 2016, one member of the Board of Directors was employed by Nordea Bank AB (publ) Finnish Branch, one member by Nordea Bank Danmark A/S, one member by Nordea Bank AB (publ) and one was external. The monthly fee for the external Board member, Carl-Johan Granvik, was 1,250 euros, totalling 15,000 euros in 2016 (15,000). The monthly fee for committee work for Carl-Johan Granvik was 1,000 euros, totalling 12,000 euros in 2016 (12,000). Salaries, fees, pensions and other staff related expenses paid to the President in 2016 are presented below.

Remuneration to the President of Nordea Bank Finland Plc

EUR	Fixed salary 2016	GEM Executive Incentive Programme 2016	Long Term Incentive Programme 2016	Benefits 2016	**Total 2016**
President of NBF:					
Topi Manner	520,016	106,587	56,736	13,740	**697,079**

There was no pension obligation for the President of Nordea Bank Finland Plc at the yearend. The pension obligation for Carl-Johan Granvik amounted to EUR 4,030,440. The pension obligation for Carl-Johan Granvik is included in the pension obligations of Nordea Bank AB (publ).

Pension obligation for the former Presidents amounted to EUR 9,094,449. The whole amount is included in the pension obligations of Nordea Bank AB (publ).

Loans granted to the President of Nordea Bank Finland Plc and members of the Board of Directors of Nordea Bank Finland Plc

EUR	Loans granted by NBF 2016	Paid interest 2016	Loans granted by NBF 2015	Paid interest 2015
President of NBF:				
Topi Manner[1]	267,830	2,089	284,883	2,208
To members of the Board of Directors of NBF[2]	357,762	8,376	372,876	8,524
Total	**657,952**	**10,465**	**657,759**	**10,732**

[1] Loans in the balance sheet of Nordea Mortgage Bank Plc

[2] Loans in the balance sheet of Nordea Mortgage Bank Plc amounted to EUR 347,868 and interest paid Nordea Mortgage Bank Plc EUR 8,376.

Note 8 Staff costs, cont.

Loans granted to the President of Nordea Bank Finland Plc and members of the Board of Directors of Nordea Bank Finland Plc

EUR	Loans granted by NBF Group 2016	Paid interest 2016	Loans granted by NBF Group 2015	Paid interest 2015
President of NBF:				
Topi Manner[1]	267,830	2,089	285,390	2,208
To members of the Board of Directors of NBF[2]	357,762	8,376	375,969	8,524
Total	**657,952**	**10,465**	**661,359**	**10,732**

[1] Loans in the balance sheet of Nordea Mortgage Bank Plc

[2] Loans in the balance sheet of Nordea Mortgage Bank Plc amounted to EUR 347,868 and interest paid Nordea Mortgage Bank Plc EUR 8,376.

Loans to key management personnel as defined in Note 1 section 22 amounted to EUR 1,745,930 (2,028,974) in the Group and EUR 1,745,930 (2,010,080) in the parent company of which 1,717,493 in the balance sheet of Nordea Mortgage Bank Plc at year-end 2016. Interest income on these loans amounted to EUR 18,083 (20,974) in the Group and EUR 18,083 (20,974) in the parent company of which EUR 17,973 was interest paid to Nordea Mortgage Bank Plc.

Loans to other related parties amounted to EUR 1,401,942 (1,473,647) of which EUR 1,398,507 in the balance sheet of Nordea Mortgage Bank Plc at year-end 2016. Interest on these loans was EUR 10,333 (10,000). Whole amount was paid to Nordea Mortgage Bank Plc.

Terms and conditions regarding loans for key management personnel employed by Nordea are decided in accordance with instructions issued by the Board of Directors of NBF. In Finland the employee interest rate for loans granted before 1 September 2014 corresponds to Nordea's funding cost with a margin of 10 basis points up to EUR 400,000, and 30 basis points on the part that exceeds EUR 400,000. Interest rate for loans granted as from 1 September 2014 corresponds to Nordea's funding cost with a margin of 40 basis points up to EUR 400,000, and 60 basis points on the part that exceeds EUR 400,000.

Loans to family members of key management personnel are granted on normal market terms, as well as loans to key management personnel who are not employed by Nordea.

Guarantees and other off-balance-sheet commitments

The Group has not pledged any assets or other collateral or committed to contingent liabilities on behalf of any key management personnel or auditors.

The members of the administrative and controlling boards have no holdings of shares, equity warrants or convertible bonds issued by Nordea Bank Finland Plc.

Long Term Incentive Programmes

Group

	2016			2015		
Conditional Rights LTIP 2012	Matching Share	Performance Share I	Performance Share II	Matching Share	Performance Share I	Performance Share II
Outstanding at the beginning of year	37,374	112,122	37,374	205,120	492,358	205,120
Granted[1]	2,712	8,136	2,712	10,527	25,305	10,527
Transfer during the year	-	-	-	-5,854	-11,708	-5,854
Forfeited	-	-	-	-12,181	-36,012	-12,181
Allotted	-10,834	-32,502	-10,834	-160,239	-357,821	-160,239
Outstanding at end of year[2]	**29,252**	**87,756**	**29,252**	**37,374**	**112,122**	**37,374**
- of which currently exercisable	-	-	-	-	-	-

[1] Granted rights are compensation for dividend on the underlying Nordea share during the year.

[2] Allotment of rights have been deferred following retention requirements by the Nordic FSAs. There is no exercise price for the deferred rights.

Parent company

	2016			2015		
Conditional Rights LTIP 2012	Matching Share	Performance Share I	Performance Share II	Matching Share	Performance Share I	Performance Share II
Outstanding at the beginning of year	35,446	106,339	35,446	199,606	477,925	199,606
Granted[1]	2,572	7,716	2,572	10,231	24,531	10,231
Transfer during the year	-	-	-	-5,854	-11,708	-5,854
Forfeited	-	-	-	-11,799	-34,873	-11,799
Allotted	-10,420	-31,260	-10,420	-156,739	-349,536	-156,739
Outstanding at end of year[2]	**27,598**	**82,795**	**27,598**	**35,446**	**106,339**	**35,446**
- of which currently exercisable	-	-	-	-	-	-

[1] Granted rights are compensation for dividend on the underlying Nordea share during the year.

[2] Allotment of rights have been deferred following retention requirements by the Nordic FSAs. There is no exercise price for the deferred rights.

Note 8 Staff costs, cont.

Long Term Incentive Programmes

Group

Rights LTIP 2011	2016 Matching Share	2016 Performance Share I	2016 Performance Share II	2015 Matching Share	2015 Performance Share I	2015 Performance Share II
Outstanding at the beginning of year	20,629	34,470	9,282	26,823	44,818	12,070
Granted[1]	1,497	2,501	673	1,443	2,412	649
Allotted	-8,191	-13,686	-3,686	-7,637	-12,760	-3,437
Outstanding at end of year[2]	**13,935**	**23,285**	**6,269**	**20,629**	**34,470**	**9,282**
- of which currently exercisable	-	-	-	-	-	-

Parent company

Rights LTIP 2011	2016 Matching Share	2016 Performance Share I	2016 Performance Share II	2015 Matching Share	2015 Performance Share I	2015 Performance Share II
Outstanding at the beginning of year	19,404	32,421	8,731	25,370	42,388	11,416
Granted[1]	1,408	2,352	633	1,365	2,281	614
Allotted	-7,862	-13,137	-3,538	-7,331	-12,248	-3,299
Outstanding at end of year[2]	**12,950**	**21,636**	**5,826**	**19,404**	**32,421**	**8,731**
- of which currently exercisable	-	-	-	-	-	-

1 Granted rights are compensation for dividend on the underlying Nordea share during the year.

2 Allotment of rights have been deferred following retention requirements by the Nordic FSAs. There is no exercise price for the deferred rights.

Group

Rights LTIP 2010	2016 Matching Share	2016 Performance Share I	2016 Performance Share II	2015 Matching Share	2015 Performance Share I	2015 Performance Share II
Outstanding at the beginning of year	9,865	10,424	4,440	15,345	16,213	6,905
Allotted	-5,481	-5,790	-2,465	-5,480	-5,789	-2,465
Outstanding at end of year[1]	**4,384**	**4,634**	**1,975**	**9,865**	**10,424**	**4,440**
- of which currently exercisable	-	-	-	-	-	-

Parent company

Rights LTIP 2010	2016 Matching Share	2016 Performance Share I	2016 Performance Share II	2015 Matching Share	2015 Performance Share I	2015 Performance Share II
Outstanding at the beginning of year	9,865	10,424	4,440	15,345	16,213	6,905
Allotted	-5,481	-5,790	-2,465	-5,480	-5,789	-2,465
Outstanding at end of year[1]	**4,384**	**4,634**	**1,975**	**9,865**	**10,424**	**4,440**
- of which currently exercisable	-	-	-	-	-	-

1 Allotment of rights have been deferred following retention requirements by the Nordic FSAs. There is no exercise price for the deferred rights.

Participation in the Long-Term Incentive Programmes (LTIPs) requires that the participants take direct ownership by investing in Nordea shares.

	LTIP 2012 Matching Share	LTIP 2012 Performance Share I	LTIP 2012 Performance Share II
Ordinary share per right	1.00	1.00	1.00
Exercise price, EUR	-	-	-
Grant date	13 May 2012	13 May 2012	13 May 2012
Vesting period, months	36	36	36
Contractual life, months	36	36	36
Allotment	April/May 2015	April/May 2015	April/May 2015
Fair value at grant date, EUR[1]	5,44	5,43	1,97

1 The fair value has been recalculated due to dividend during the vesting period which the participants are compensated for through additional Matching and Performance Shares.

Note 8 Staff costs, cont.

Conditions and requirements
For each ordinary share the participants lock in to the LTIPs, they are granted a conditional Matching Share to receive ordinary shares based on continued employment, with certain exemptions, and the conditional Performance Share I and II to receive additional ordinary shares also based on fulfilment of certain performance conditions. The performance conditions for Performance Share I comprise a target growth in risk adjusted profit per share (RAPPS) or a target in risk-adjusted return on capital at risk (RAROCAR). Should the reported earnings per share (EPS) be lower than a predetermined level, the participants are not entitled to exercise any Performance Share I. The performance conditions for Performance Share II are market related and comprise growth in total shareholder return (TSR) in comparison with a peer group's TSR or a target in RAROCAR and in P/B-ranking compared to a peer group. Furthermore the profit for each right is capped.

When the performance conditions are not fulfilled in full, the rights that are no longer exercisable are shown as forfeited in the previous tables, together with shares forfeited due to participants leaving the Nordea Group. LTIP 2012/2011/2010 are not allotted in full due to deferral and retention requirements by the Nordic FSAs.

	LTIP 2012
Service condition, Matching Share / Performance Share I and II	Employed, with certain exemptions, within the Nordea Group during the three year vesting period.
Performance condition, Performance Share I	Average RAROCAR during the period 2012 up to and including 2014. Full allotment will be obtained if the RAROCAR amounts to 17%.
EPS knock out, Performance Share I	-
Performance condition, Performance Share II	RAROCAR during the period 2012 up to and including 2014 and P/B-ranking year-end 2014 compared to a peer group. Full allotment will be obtained if the RAROCAR amounts to 14% and if Nordea's P/B-ranking is 1-5.
Cap	The market value of the allotted shares is capped to the participants' annual salary for year-end 2011.
Dividend compensation	The number of Matching Shares and Performance Shares will be adjusted for dividends on the underlying Nordea share during the vesting period, as if assuming that each dividend was used to immediately invest in additional Nordea shares.

Fair value calculations
The fair value is measured through the use of generally accepted valuation models with the following input factors:

	LTIP 2012
Weighted average share price, EUR	6.70
Right life, years	3.0
Deduction of expected dividends	No
Risk free rate, %	Not applicable
Expected volatility, %	Not applicable

As the exercise price is zero for LTIP 2012, the value has a limited sensitivity to expected volatility and risk-free interest.

The value of the Performance Share II is based on market related conditions and fulfilment of the TSR, RAROCAR and P/B targets have been taken into consideration when calculating the right's fair value at grant. When calculating the impact from the market conditions it has been assumed that all possible outcomes have equal possibilities. Also the caps in each programme have been taken into consideration when calculating the rights’ fair value at grant. The adjustment to fair value is approximately 2-3% of the weighted average share price.

Note 8 Staff costs, cont.

Expenses for equity-settled share-based payment programmes[1]

	Group	Parent company
EURm	LTIP 2012	LTIP 2012
Total expense during 2016	0.0	0.0
Total expense during 2015	-0.5	-0.4

[1] All amounts excluding social security contribution.

Cash-settled share-based payment transactions

Nordea operates share-linked deferrals on parts of variable compensation for certain employee categories, indexed with Nordea Total Shareholder Returns (TSR) and either transferred after three years or transferred in equal instalments over a three to five year period. Since 2011 Nordea also operates TSR-linked retention on part of variable compensation for certain employee categories. Due to that the allocation of variable compensation is not finally decided during the current year, the deferred amount during the year in the table below relates to variable compensation earned the previous year.

In addition Nordea introduced in 2013 the Executive Incentive Programme ("EIP") which aims to strengthen Nordea's capability to retain and recruit the best talents. The aim is further to stimulate the managers and key employees whose efforts have a direct impact on Nordea's result, profitability and long term value growth. EIP rewards performance meeting agreed predetermined targets on Group, business unit and individual level. The effect on the long term result is to be considered when determining the targets. The EIP shall not exceed the fixed salary. EIP shall be paid in the form of cash and be subject to TSR-indexation, deferral, forfeiture clauses and retention as per relevant remuneration regulations. The main part of EIP 2016 is paid no earlier than autumn 2020. Participation in the programme is offered to up to 400 managers and key employees, except GEM who are instead offered a GEM EIP (further information about the GEM EIP can be found in the Annual Report of Nordea Bank AB (publ)), within the Nordea Group. EIP is offered instead of Nordea's LTIP and VSP for the invited employees. The allocation of the EIP 2016 is decided during spring 2017, and a reservation of EUR 7m excl. social costs was made in 2016 both in the Group and parent company. 80% of the allocated amount will be subject to TSR-indexation.

The table below only includes deferred amounts indexed with Nordea TSR. EIP has been included as from 2014, when deferred. Further information regarding all deferred amounts can be found in the separate report on remuneration published on Nordea's homepage (www.nordea.com).

	Share linked deferrals			
	Group		Parent company	
EURm	2016	2015	2016	2015
Opening balance	11	4	11	4
Reclassifications[1]	7	3	7	3
Deferred/earned during the year	3	9	3	8
TSR indexation during the year	-4	0	-4	0
Payments during the year[2]	0	-4	0	-4
Translation differences	0	0	0	0
Closing balance	**17**	**11**	**17**	**11**

[1] Relates to a reclassification from deferred amounts that are indexed with a fixed rate.

[2] There have been no adjustments due to forfeitures.

Average number of employees

	Group		Parent company	
	2016	2015	2016	2015
Full-time employees	6,813	6,760	6,265	6,227
Part-time employees	513	525	475	487
Total	**7,326**	**7,285**	**6,740**	**6,714**
Total number of employees (FTEs), end of period	**6,575**	**6,595**	**6,025**	**6,088**

Note 9 Other expenses

EURm	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Information technology	-194	-183	-185	-179
Marketing and representation	-17	-17	-15	-15
Postage, transportation, telephone and office expenses	-33	-33	-28	-27
Rents, premises and real estate	-68	-74	-68	-74
Other	-139	-106	-127	-94
Total	**-451**	**-413**	**-423**	**-389**

Auditors' fees

EURm	Group 2016	Group 2015	Parent company 2016	Parent company 2015
PricewaterhouseCoopers				
Auditing assignments	-1	-1	-1	0
Audit-related services	0	0	0	0
Tax advisory services	0	0	0	0
Other assignments	0	0	0	0
Total	**-1**	**-1**	**-1**	**-1**

Note 10 Depreciation, amortisation and impairment charges of tangible and intangible assets

EURm	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Depreciation/amortisation				
Properties and equipment	-21	-22	-20	-21
Intangible assets	-6	-6	-5	-4
Total	**-27**	**-28**	**-25**	**-25**
Impairment charges				
Intangible assets	-1	-3	-1	-3
Total	**-1**	**-3**	**-1**	**-3**
Total	**-28**	**-31**	**-26**	**-28**

Note 11 Net loan losses

EURm	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Loan losses divided by class				
Recoveries on previous realised loan losses	-	0	-	0
Provisions	0	-	0	-
Reversals of previous provisions	-	0	-	0
Loans to credit institutions[1]	**0**	**0**	**0**	**0**
Realised loan losses	-109	-129	-82	-96
Allowances to cover realised loan losses	78	96	75	90
Recoveries on previous realised loan losses	11	14	1	4
Provisions	-164	-184	-148	-141
Reversals of previous provisions	128	95	114	85
Loans to the public[1]	**-56**	**-108**	**-40**	**-58**
Provisions	-3	3	-3	3
Reversals of previous provisions	2	13	2	13
Off-balance sheet items[2]	**-1**	**16**	**-1**	**16**
Net loan losses	**-57**	**-92**	**-41**	**-42**

[1] See Note 13 Loans and impairment

[2] Included in Note 29 Provisions in "Guarantees/ commitments".

Key ratios

	Group 2016	Group 2015	Parent company 2016	Parent company 2015
Loan loss ratio, basis points[3]	9	9	7	4
- of which individual	3	9	1	7
- of which collective	6	0	6	-3

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

Nordea Bank AB (publ) has guaranteed part of NBF’s corporate exposures and based on the agreement NBF’s loan losses decreased EUR 24m in 2016 and EUR 22m in 2015.

Note 12 Taxes

Income tax expense

	Group		Parent company	
EURm	2016	2015	2016	2015
Current tax	-225	-339	-188	-300
Deferred tax	-7	-8	-1	-11
Total	**-232**	**-347**	**-189**	**-311**

For current and deferred tax recognised in Other comprehensive income, see Statement of comprehensive income.

The tax on the Group's operating profit differs from the theoretical amount that would arise using the tax rate of Finland as follows:

	Group		Parent company	
EURm	2016	2015	2016	2015
Profit before tax	1 194	1 402	1 038	1 313
Tax calculated at a tax rate of 20%	-239	-281	-208	-262
Other direct taxes	0	0	-	-
Tax-exempt income	3	2	14	19
Non-deductible expenses	-3	-1	-2	-1
Adjustments relating to prior years	12	-24	12	-24
Not creditable foreign taxes in foreign operations	-5	-43	-5	-43
Tax charge	**-232**	**-347**	**-189**	**-311**
Average effective tax rate	19 %	25 %	18 %	24 %

Group

	Deferred tax assets		Deferred tax liabilities	
EURm	2016	2015	2016	2015
Deferred tax related to:				
Loans to the public	10	22	60	54
Financial instruments	-	-	9	11
Properties and equipment	1	2	-	-
Retirement benefit assets/obligations	-	-	12	12
Liabilities/provisions	13	13	-	-
Netting between deferred tax assets and liabilities	-21	-23	-21	-23
Total	**3**	**14**	**60**	**54**

Parent company	Deferred tax assets		Deferred tax liabilities	
EURm	2016	2015	2016	2015
Deferred tax related to:				
Loans to the public	7	19	-	-
Financial instruments	-	-	9	11
Properties and equipment	1	2	-	-
Retirement benefit assets/obligations	-	-	12	11
Liabilities/provisions	13	13	-	-
Netting between deferred tax assets and liabilities	-21	-22	-21	-22
Total	**0**	**12**	**-**	**-**

There were no unrecognised deferred tax assets in the Group or in the parent company in 2016 or 2015.

There was no deferred tax relating to temporary differences associated with investments in group undertakings, associated undertakings and joint ventures.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when the deferred tax income relates to the same fiscal authority.

Note 13 Loans and impairment

	Total			
	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Loans, not impaired	90,528	132,990	88,022	131,902
Impaired loans	1,320	1,501	1,090	1,330
- servicing	459	646	419	619
- non-servicing	861	855	671	711
Loans before allowances	**91,848**	**134,491**	**89,112**	**133,232**
Allowances for individually assessed impaired loans	-473	-523	-424	-471
- servicing	-225	-277	-224	-275
- non-servicing	-248	-246	-200	-196
Allowances for collectively assessed impaired loans	-122	-104	-78	-62
Allowances	-594	**-627**	-502	**-533**
Loans, carrying amount	**91,254**	**133,864**	**88,610**	**132,699**

	Central banks and credit institutions			
	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Loans, not impaired	26,634	32,417	31,847	38,636
Impaired loans	9	-	9	-
- servicing	9	-	9	-
- non-servicing	-	-	-	-
Loans before allowances	**26,643**	**32,417**	**31,856**	**38,636**
Allowances for individually assessed impaired loans	0	-	0	-
- servicing	0	-	0	-
- non-servicing	-	-	-	-
Allowances for collectively assessed impaired loans	-	-	-	-
Allowances	-	-	-	-
Loans, carrying amount	**26,643**	**32,417**	**31,856**	**38,636**

	The public[1]			
	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Loans, not impaired	63,894	100,573	56,175	93,266
Impaired loans	1,311	1,501	1,081	1,330
- servicing	450	646	410	619
- non-servicing	861	855	671	711
Loans before allowances	**65,205**	**102,074**	**57,256**	**94,596**
Allowances for individually assessed impaired loans	-472	-523	-424	-471
- servicing	-225	-277	-224	-275
- non-servicing	-248	-246	-201	-196
Allowances for collectively assessed impaired loans	-122	-104	-78	-62
Allowances	**-594**	**-627**	**-502**	**-533**
Loans, carrying amount	**64,611**	**101,447**	**56,754**	**94,063**

[1] Finance leases, where the Nordea Group is a lessor, are included in Loans to the public, see Note 21 Leasing.

Note 13 Loans and impairment, cont.

Movements of allowance accounts for impaired loans[2]

	Total					
	Group			Parent company		
EURm	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
Opening balance at 1 Jan 2016	**-523**	**-104**	**-627**	**-471**	**-62**	**-533**
Provisions	-83	-81	-164	-75	-73	-148
Reversals of previous provisions	85	43	128	77	37	114
Changes through the income statement	**2**	**-38**	**-36**	**2**	**-36**	**-34**
Allowances used to cover realised loan losses	78	-	78	75	-	75
Translation differences	-29	20	-9	-30	20	-10
Closing balance at 31 Dec 2016	**-472**	**-122**	**-594**	**-424**	**-78**	**-502**
Opening balance at 1 Jan 2015	**-516**	**-119**	**-635**	**-464**	**-101**	**-565**
Provisions	-116	-68	-184	-102	-39	-141
Reversals of previous provisions	33	62	95	28	57	85
Changes through the income statement	**-83**	**-6**	**-89**	**-74**	**18**	**-56**
Allowances used to cover realised loan losses	96	-	96	89	-	89
Translation differences	-20	21	1	-22	21	-1
Closing balance at 31 Dec 2015	**-523**	**-104**	**-627**	**-471**	**-62**	**-533**

	Central banks and credit institutions					
	Group			Parent company		
EURm	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
Opening balance at 1 Jan 2016	**-**	**-**	**-**	**-**	**-**	**-**
Provisions	0	-	0	0	-	0
Reversals of previous provisions	-	-	-	-	-	-
Changes through the income statement	**0**	-	**0**	**0**	-	**0**
Allowances used to cover realised loan losses	-	-	-	-	-	-
Translation differences	-	-	-	-	-	-
Closing balance at 31 Dec 2016	**0**	-	**0**	**0**	**-**	**0**
Opening balance at 1 Jan 2015	-	**0**	**0**	-	**0**	**0**
Provisions	-	-	-	-	-	-
Reversals of previous provisions	-	0	0	-	0	0
Changes through the income statement	-	**0**	**0**	-	**0**	**0**
Allowances used to cover realised loan losses	-	-	-	-	-	-
Translation differences	-	-	-	-	-	-
Closing balance at 31 Dec 2015	-	**-**	**-**	-	**-**	**-**

	The public					
	Group			Parent company		
EURm	Individually assessed	Collectively assessed	Total	Individually assessed	Collectively assessed	Total
Opening balance at 1 Jan 2016	**-523**	**-104**	**-627**	**-471**	**-62**	**-533**
Provisions	-83	-81	-164	-75	-73	-148
Reversals of previous provisions	85	43	128	77	37	114
Changes through the income statement	**2**	**-38**	**-36**	**2**	**-36**	**-34**
Allowances used to cover realised loan losses	78	-	78	75	-	75
Translation differences	-29	20	-9	-30	20	-10
Closing balance at 31 Dec 2016	**-472**	**-122**	**-594**	**-424**	**-78**	**-502**
Opening balance at 1 Jan 2015	**-516**	**-119**	**-635**	**-464**	**-101**	**-565**
Provisions	-116	-68	-184	-102	-39	-141
Reversals of previous provisions	33	62	95	28	57	85
Changes through the income statement	**-83**	**-6**	**-89**	**-74**	**18**	**-56**
Allowances used to cover realised loan losses	96	-	96	89	-	89
Translation differences	-20	21	1	-22	21	-1
Closing balance at 31 Dec 2015	**-523**	**-104**	**-627**	**-471**	**-62**	**-533**

[2] See Note 11 Net loan losses

Note 13 Loans and impairment, cont.

Allowances and provisions

	Total			
	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Allowances for items in the balance sheet	-594	-627	-502	-533
Provisions for off balance sheet items[1]	-16	-15	-16	-15
Total allowances and provisions	**-610**	**-642**	**-518**	**-548**

	Central banks and credit institutions			
	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Allowances for items in the balance sheet	0	-	0	-
Provisions for off balance sheet items[1]	-	-	-	-
Total allowances and provisions	**0**	**-**	**0**	**-**

	The public			
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Allowances for items in the balance sheet	-594	-627	-502	-533
Provisions for off balance sheet items[1]	-16	-15	-16	-15
Total allowances and provisions	**-610**	**-642**	**-518**	**-548**

[1] Included in Note 29 "Provisions" as “Guarantees/commitments”.

Key ratios

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
	2016	2015	2016	2015
Impairment rate, gross[2], basis points	144	112	122	100
Impairment rate, net[3], basis points	92	73	75	64
Total allowance rate[4], basis points	65	47	56	40
Allowances in relation to impaired loans[5], %	36	35	39	35
Total allowances in relation to impaired loans[6], %	45	42	46	40
Non-servicing loans, not impaired[7], EURm	83	95	58	57

[2] Individually assessed impaired loans before allowances divided by total loans before allowances.
[3] Individually assessed impaired loans after allowances divided by total loans before allowances.
[4] Total allowances divided by total loans before allowances.
[5] Allowances for individually assessed impaired loans divided by individually assessed impaired loans before allowances.
[6] Total allowances divided by total impaired loans before allowances.
[7] Past due loans, not impaired due to future cash flows (included in Loans, not impaired).

Note 14 Interest-bearing securities

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
State and sovereigns	9,780	9,237	9,780	9,237
Municipalities and other public bodies	262	188	262	188
Mortgage institutions	5,407	8,939	5,407	8,939
Other credit institutions	10,580	10,054	10,580	10,054
Corporates	778	1,111	778	1,111
Corporates, sub-investment grade	561	614	561	614
Other	0	0	0	0
Total	**27,368**	**30,143**	**27,368**	**30,143**

Note 15 Financial instuments pledged as collateral

Financial instruments pledged as collateral

In repurchase transactions and in securities lending transactions, non-cash assets are transferred as collateral. When the counterpart receiving the collateral has the right to sell or repledge the assets, the assets are reclassified on the balance sheet to the item Financial instruments pledged as collateral.

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Interest-bearing securities	4,139	4,627	4,139	4,627
Total	**4,139**	**4,627**	**4,139**	**4,627**

For information on transferred assets and reverse repos, see Note 40.

Note 16 Shares

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Shares	1,017	1,426	1,017	1,425
Shares taken over for protection of claims	0	0	0	0
Fund units, equity related	243	591	243	591
Fund units, interest related	2	3	2	3
Total	**1,262**	**2,020**	**1,262**	**2,019**
- of which Financial instruments pledged as collateral (Note 15)	-	-	-	-
Total	**1,262**	**2,020**	**1,262**	**2,019**

Note 17 Derivatives and hedge accounting

31 Dec 2016, EURm	Group Fair value[1] Positive	Group Fair value[1] Negative	Group Total nominal amount	Parent company Fair value[1] Positive	Parent company Fair value[1] Negative	Parent company Total nominal amount
Derivatives held for trading						
Interest rate derivatives						
Interest rate swaps	38,230	35,359	4,904,761	38,230	35,359	4,904,761
FRAs	69	90	761,487	69	90	761,487
Futures and forwards	20	11	117,386	20	11	117,386
Options	10,479	10,351	458,819	10,479	10,351	458,819
Total	**48,798**	**45,811**	**6,242,453**	**48,798**	**45,811**	**6,242,453**
Equity derivatives						
Equity swaps	67	68	10,208	67	68	10,208
Futures and forwards	5	2	937	5	2	937
Options	300	609	17,244	300	609	17,244
Total	**372**	**679**	**28,389**	**372**	**679**	**28,389**
Foreign exchange derivatives						
Currency and interest rate swaps	16,322	21,586	968,001	16,322	21,586	968,001
Currency forwards	951	659	68,855	951	659	68,855
Options	419	316	41,225	419	316	41,225
Other	10	9	4,281	10	9	4,281
Total	**17,702**	**22,570**	**1,082,362**	**17,702**	**22,570**	**1,082,362**
Credit derivatives						
Credit default swaps (CDS)	1,593	1,640	74,476	1,593	1,640	74,476
Total	**1,593**	**1,640**	**74,476**	**1,593**	**1,640**	**74,476**
Commodity derivatives						
Swaps	5	5	47	5	5	47
Futures and forwards	0	-	30	0	-	30
Options	2	0	236	2	0	236
Other	-	-	-	-	-	0
Total	**7**	**5**	**313**	**7**	**5**	**313**
Other derivatives						
Swaps	-	1	63	0	1	63
Options	19	15	605	19	15	605
Other	4	9	13	4	9	13
Total	**23**	**25**	**681**	**23**	**25**	**681**
Total derivatives held for trading	**68,495**	**70,730**	**7,428,674**	**68,495**	**70,730**	**7,428,674**
Derivatives used for hedge accounting						
Interest rate derivatives	37	132	19,043	37	132	19,043
Foreign exchange derivatives	31	2	230	31	2	230
Total derivatives used for hedge accounting	**68**	**134**	**19,273**	**68**	**134**	**19,273**
- of which cash flow hedges	31	2	230	31	2	230
- of which fair value hedges	37	132	19,043	37	132	19,043
Total derivatives	**68,563**	**70,864**	**7,447,947**	**68,563**	**70,864**	**7,447,947**

[1] As at 31 Dec 2016 the netting effect to positive and negative market values of derivatives was EUR 151,796m.

Periods when hedged cash flows are expected to occur and when they are expected to affect the income statement

Group

31 Dec 2016, EURm	<1 year	1-3 years	3-5 years	5-10 years	Over 10 years
Cash inflows (assets)	-	-	-	-	-
Cash outflows (liabilities)	4	8	8	23	12,439
Net cash outflows	**4**	**8**	**8**	**23**	**12,439**

Note 17 Derivatives and hedge accounting, cont.

31 Dec 2015, EURm	Group Fair value[1] Positive	Group Fair value[1] Negative	Group Total nominal amount	Parent company Fair value[1] Positive	Parent company Fair value[1] Negative	Parent company Total nominal amount
Derivatives held for trading						
Interest rate derivatives						
Interest rate swaps	48,585	46,118	4,456,279	48,585	46,118	4,456,279
Futures and forwards	226	291	1,541,648	226	291	1,541,648
Options	10,937	10,333	433,045	10,937	10,333	433,045
Other	12	52	5,349	12	52	5,349
Total	**59,760**	**56,794**	**6,436,321**	**59,760**	**56,794**	**6,436,321**
Equity derivatives						
Equity swaps	238	255	13,063	238	255	13,063
Futures and forwards	11	9	865	11	9	865
Options	461	739	23,804	461	739	23,804
Total	**710**	**1,003**	**37,732**	**710**	**1,003**	**37,732**
Foreign exchange derivatives						
Currency and interest rate swaps	15,233	22,134	909,849	15,233	22,134	909,849
Currency forwards	1,434	813	83,379	1,434	813	83,379
Options	266	208	28,000	266	208	28,000
Total	**16,933**	**23,155**	**1,021,228**	**16,933**	**23,155**	**1,021,228**
Credit derivatives						
Credit default swaps (CDS)	2,305	2,293	92,726	2,305	2,293	92,726
Total	**2,305**	**2,293**	**92,726**	**2,305**	**2,293**	**92,726**
Commodity derivatives						
Swaps	16	13	159	16	13	159
Futures and forwards	0	-	25	0	-	25
Options	1	0	303	1	0	303
Total	**17**	**13**	**487**	**17**	**13**	**487**
Other derivatives						
Options	15	14	1,379	15	14	1,379
Other	5	10	15	5	10	15
Total	**20**	**24**	**1,394**	**20**	**24**	**1,394**
Total derivatives held for trading	**79,745**	**83,282**	**7,589,888**	**79,745**	**83,282**	**7,589,888**
Derivatives used for hedge accounting						
Interest rate derivatives	733	250	29,920	733	250	29,920
Foreign exchange derivatives	79	6	400	79	6	400
Total derivatives used for hedge accounting	**812**	**256**	**30,320**	**812**	**256**	**30,320**
- of which cash flow hedges	30	6	400	30	6	400
- of which fair value hedges	782	250	29,920	782	250	29,920
Total derivatives	**80,557**	**83,538**	**7,620,208**	**80,557**	**83,538**	**7,620,208**

[1] As at 31 Dec 2015 the netting effect to positive and negative market values of derivatives was EUR 127,466m.

Periods when hedged cash flows are expected to occur and when they are expected to affect the income statement

Group

31 Dec 2015, EURm	<1 year	1-3 years	3-5 years	5-10 years	Over 10 years
Cash inflows (assets)	-	-	-	-	-
Cash outflows (liabilities)	-	8	-	116	276
Net cash outflows	**-**	**8**	**-**	**116**	**276**

Note 18 Investments in group undertakings

Parent company

EURm	31 Dec 2016	31 Dec 2015
Acquisition value at beginning of year	325	324
Sales during the year	-2	-
Translation differences	-1	1
Acquisition value at end of year	**322**	**325**
Accumulated impairment charges at beginning of year	-16	-16
Accumulated impairment charges at end of year	**-16**	**-16**
Total	**306**	**309**

Specification
This specification includes all directly owned group undertakings and major group undertakings to the directly owned companies.

Group

31 Dec 2016	Number of shares	Carrying amount 2016 EURm	Carrying amount 2015 EURm	Voting power of holding, %	Domicile	Business ID
Domestic						
Credit institutions						
- Nordea Finance Finland Ltd	1,000,000	306	306	100.0	Helsinki	0112305-3
Financial institutions						
- Tukirahoitus Oy[1]	672	7	7	100.0	Helsinki	0677131-6
Real estate companies						
- Kiinteistö Oy Tampereen Kirkkokatu 7[1]	280	50	50	100.0	Tampere	0819781-3
- Kiinteistö Oy Levytie 6[1]	67	4	4	100.0	Helsinki	2557073-9
- Kiinteistö Oy Tulppatie 7[1]	80	6	6	100.0	Helsinki	2557075-5
International						
Financial institutions						
- Nordea Finance Estonia Ltd[1]	60,000	6	6	100.0	Tallinn	EE10237140
- Nordea Finance Latvia Ltd[1]	1,100	4	4	100.0	Riga	LV40003348054
- Nordea Finance Lithuania Ltd[1]	6,540	4	4	100.0	Vilnius	LT111667277
- Nordea Securities Holding (U.K.) Ltd[2]	-	-	2	-	London	01803666

Other subsidiaries included in the consolidated financial statements; total assets of less than EUR 10m	Number of companies	Carrying amount of shares, EURm	Total assets EURm
Real estate companies	4	8	13
Other companies	4	0	65

[1] Indirect holding through Nordea Finance Finland Ltd, a subsidiary of Nordea Bank Finland Plc.
[2] Dissolved in 2016.

The parent company of Nordea Bank Finland Plc is Nordea Bank AB (publ) domiciled in Stockholm, registration number 516406-0120. The Annual Report 2016 of Nordea Bank AB (publ) may be down-loaded on the Internet at www.nordea.com and is available from Nordea Group Investor Relations, SE 105 71 Stockholm, Sweden. The Annual Report 2016 of the Nordea Group is also available at branches of Nordea Bank Finland Plc.

No subsidiaries were acquired or merged in 2016. Three subsidiaries were sold in 2016.

Note 19 Investments in associated undertakings

	Group		Parent company	
EURm	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Acquisition value at beginning of year	44	41	37	37
Acquisitions during the year	0	0	-	-
Sales during the year	-20	-	-20	-
Share in earnings	13	4	-	-
Dividend received	-1	-1	-	-
Reclassifications	-	0	-9	-
Acquisition value at end of year	**36**	**44**	**8**	**37**
Accumulated impairment charges at beginning of year	-2	-2	-9	-9
Reclassifications	-	-	9	-
Translation differences	0	0	-	-
Accumulated impairment charges at end of year	**-2**	**-2**	**0**	**-9**
Total	**34**	**42**	**8**	**28**

	Group
EURm	31 Dec 2016
Profit from companies accounted for under the equity method[1]	13

[1] Of which the gain related to VISA Inc's acquisition of VISA Europe amounted to EUR 9m.

Nordea Bank Finland Plc's and Nordea Bank Finland Group's associated undertakings' aggregated balance sheets and income statements can be summarised as follows:

EURm	31 Dec 2016	31 Dec 2015
Total assets	138	174
Net profit	13	4
Other comprehensive income	-	-
Total comprehensive income	13	4

Nordea Bank Finland Plc's and Nordea Bank Finland Group's share of contingent liabilities and commitments in favour of associated undertakings of Nordea Bank Finland Group amounts to EUR 35m (23), of which the unused portion of approved overdraft facilities is 20m (3).

Group

31 Dec 2016	Business ID	Domicile	Carrying amount 2016, EURm	Carrying amount 2015, EURm	Voting power of holding %
Automatia Pankkiautomaatit Oy	0974651-1	Helsinki	9	9	33.3
NF Fleet Oy	2006935-5	Espoo	8	6	20.0
UAB ALD Automotive, Lithuania	300156575	Vilnius	2	2	25.0
ALD Automotive Eesti AS, Estonia	11094435	Tallin	1	1	25.0
ALD Automotive SIA, Latvia	50003825931	Riga	1	1	25.0
Realia Holding Oy[1]	2106796-8	Helsinki	-	20	-
Securus Oy	0742429-5	Helsinki	0	0	35.2
Suomen Luotto-osuuskunta	0201646-0	Helsinki	13	3	27.3
Total			**34**	**42**	

[1] Realia Holding Oy was sold in 2016.

Parent company

31 Dec 2016	Business ID	Domicile	Carrying amount 2016, EURm	Carrying amount 2015, EURm	Voting power of holding %
Automatia Pankkiautomaatit Oy	0974651-1	Helsinki	5	5	33.3
Realia Holding Oy[1]	2106796-8	Helsinki	-	20	-
Securus Oy	0742429-5	Helsinki	0	0	35.2
Suomen Luotto-osuuskunta	0201646-0	Helsinki	3	3	27.3
Total			**8**	**28**	

[1] Realia Holding Oy was sold in 2016.

No associated companies were acquired, dissolved or merged in 2016.

Note 20 Intangible assets

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Computer software	36	36	24	28
Other intangible assets, total	6	8	2	3
Total intangible assets	**42**	**44**	**26**	**31**

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
	2016	2015	2016	2015
Movements in computer software				
Acquisition value at beginning of year	74	186	68	182
Acquisitions during the year	6	4	2	2
Sales/disposals during the year	0	-116	-	-116
Reclassifications	0	-	-	-
Acquisition value at end of year	**80**	**74**	**70**	**68**
Accumulated amortisation at beginning of year	-35	-79	-37	-82
Amortisation according to plan for the year	-5	-4	-5	-4
Accumulated amortisation on sales/disposals during the year	0	49	-	49
Reclassifications	0	-	0	-
Translation differences	0	-1	-	-
Accumulated amortisation at end of year	**-40**	**-35**	**-42**	**-37**
Accumulated impairment charges at beginning of year	-3	-65	-3	-65
Accumulated impairment charges on disposals during the year	-	65	-	65
Impairment charges during the year	-1	-3	-1	-3
Accumulated impairment charges at end of year	**-4**	**-3**	**-4**	**-3**
Total	**36**	**36**	**24**	**28**

Note 21 Leasing

NBF as a lessor

Finance leases

Nordea Bank Finland Group owns assets leased to customers under finance lease agreements. Finance lease agreements are reported as receivables from the lessee included in "Loans to the public" (see Note 13) at an amount equal to the net investment in the lease. The leased assets mainly comprise vehicles, machinery and other equipment.

Reconciliation of gross investments and present value of future minimum lease payments:

	Group	
	31 Dec	31 Dec
EURm	2016	2015
Gross investments	2,819	2,557
Less unearned finance income	-90	-106
Net investments in finance leases	**2,729**	**2,451**
Less unguaranteed residual values accruing to the benefit of the lessor	-16	-21
Present value of future minimum lease payments receivable	**2,713**	**2,430**
Accumulated allowance for uncollectible minimum lease payments receivable	7	8

Note 21 Leasing, cont.

As of 31 December 2016, the gross investment and the net investment by remaining maturity were distributed as follows:

	Group	
	31 Dec 2016	31 Dec 2016
EURm	Gross investment	Net investment
2017	948	924
2018	551	533
2019	533	516
2020	396	382
2021	328	315
Later years	63	59
Total	**2,819**	**2,729**

Operating leases
Assets subject to operating leases mainly comprise vehicles and other equipment. On the balance sheet they are reported as tangible assets.

Under non-cancellable operating leases, the future minimum lease payments receivables are distributed as follows:

	Group
EURm	31 Dec 2016
2017	1
2018	0
2019	0
2020	0
2021	0
Later years	0
Total	**1**

NBF as a lessee

Finance leases

Nordea Bank Finland Group has only to a minor extent entered into finance lease agreements.

Operating leases
Nordea Bank Finland Group has entered into operating lease agreements for premises and office equipment.

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
Leasing expenses during the year, EURm	2016	2015	2016	2015
Leasing expenses during the year	-53	-57	-53	-57
- of which minimum lease payments	-53	-57	-53	-57
- of which contingent rents	0	0	-	-
Leasing income during the year regarding sublease payments	-	-	-	-

Future minimum lease payments under non-cancellable operating leases amounted to and are distributed as follows:

	Group	Parent company
EURm	31 Dec 2016	31 Dec 2016
2017	41	41
2018	21	22
2019	20	20
2020	17	17
2021	11	11
Later years	68	67
Total	**178**	**178**

Note 22 Other assets

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Claims on securities settlement proceeds	1,136	941	1,136	940
Cash/ margin receivables	14,580	15,285	14,581	15,285
Other	522	789	488	745
Total	**16,238**	**17,015**	**16,205**	**16,970**

Note 23 Prepaid expenses and accrued income

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Accrued interest income	77	87	63	77
Other accrued income	226	330	146	171
Prepaid expenses	13	15	13	15
Total	**316**	**432**	**222**	**263**

Note 24 Deposits by credit institutions

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Central banks	7,275	8,680	7,275	8,680
Banks	44,612	60,137	43,100	59,848
Other credit institutions	12,031	9,345	12,170	9,644
Total	**63,918**	**78,162**	**62,545**	**78,172**

Note 25 Deposits and borrowings from the public

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Deposits	51,354	52,690	51,353	52,688
Repurchase agreements	3,998	9,463	3,998	9,462
Total	**55,352**	**62,153**	**55,351**	**62,150**

Note 26 Debt securities in issue

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Certificates of deposit	11,841	18,558	11,841	18,558
Covered bonds	-	17,377	-	17,377
Other bonds	6,666	7,472	6,666	7,472
Total	**18,507**	**43,407**	**18,507**	**43,407**

Note 27 Other liabilities

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Liabilities on securities settlement proceeds	931	837	931	837
Sold, not held, securities	7,561	8,519	7,561	8,519
Accounts payable	9	19	10	16
Cash/margin payables	7,578	8,832	7,578	8,831
Other	1,408	1,859	1,216	1,653
Total	**17,487**	**20,066**	**17,296**	**19,856**

Note 28 Accrued expenses and prepaid income

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Accrued interest	3	2	3	1
Other accrued expenses	288	390	247	287
Prepaid income	95	175	18	94
Total	**386**	**567**	**268**	**382**

Note 29 Provisions

EURm	Group 31 Dec 2016	Group 31 Dec 2015	Parent company 31 Dec 2016	Parent company 31 Dec 2015
Restructuring	43	60	42	59
Guarantees/commitments	16	15	16	15
Tax	0	0	-	-
Other	4	6	4	4
Total	**63**	**81**	**62**	**78**

Group

EURm	Restructuring	Guarantees/ commitments	Tax	Other	Total
At the beginning of year	60	15	0	6	81
New provisions made	0	3	-	2	5
Provisions utilised	-11	-	-	-1	-12
Reversals	-6	-2	-	-1	-9
Reclassifications	-	-	-	-2	-2
Translation differences	-	-	-	0	0
At the end of year	**43**	**16**	**0**	**4**	**63**

Provision for restructuring costs amounts to EUR 43m (60). Provisions for restructuring costs have been utilised by EUR 11m during 2016. The majority of the remaining restructuring provision was made in the latter part of 2015 and is related to the transformational change to a truly digital bank. Provisions are mainly expected to be used during 2017. As with any other provision there is an uncertainty around timing and amount, which is expected to be decreased as the plan is being executed

Loan loss provisions for guarantees/commitments amounted to EUR 16m.

Other provisions, 4m, refer to the following provisions: provision for environmental and property-related obligations of EUR 2m and other statutory provisions 2m. Other provisions are expected to be settled in 2017.

Parent company

EURm	Restructuring	Guarantees/ commitments	Other	Total
At beginning of year	59	15	4	78
New provisions made	0	3	2	5
Provisions utilised	-11	0	-1	-12
Reversals	-6	-2	-1	-9
Translation differences	-	-	0	0
At the end of year	**42**	**16**	**4**	**62**

Provision for restructuring costs amounts to EUR 42m (59). Provisions for restructuring costs have been utilised by EUR 11m during 2016. The majority of the remaining restructuring provision was made in the latter part of 2015 and is related to the transformational change to a truly digital bank. Provisions are mainly expected to be used during 2017. As with any other provision there is an uncertainty around timing and amount, which is expected to be decreased as the plan is being executed

Loan loss provisions for guarantees and other commitments amounted to EUR 16m.

Other provisions, 4m, refer to the following provisions: provision for environmental and property-related obligations of EUR 2m and other statutory provisions 2m. Other provisions are expected to be settled in 2017.

Note 30 Retirement benefit obligations

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Defined benefit plans, net	72	86	74	86
Total	**72**	**86**	**74**	**86**

NBF has various pension plans, which are classified both as defined benefit plans as well as defined contribution plans. IAS 19 secures that the pension obligations net of plan assets backing these obligations is reflected on the Group's balance sheet. The defined benefit plans in Finland are closed to new employees and instead, pensions for new employees are based on defined contribution (DCP) arrangements. The plans for the foreign branches are also mainly defined contribution plans. The existing defined benefit plans in foreign branches are closed to new employees. Defined contribution plans are not reflected on the balance sheet except when earned pension rights have not yet been paid for.

The plans are structured in accordance with local regulations, legislations and local practice and where applicable, collective agreements. Plan assets are generally held in a separate pension fund or foundation. Minimum funding requirements differ between plans but generally the pension obligation measured using local requirements shall be covered in full or with a predetermined surplus.

Characteristics of the Nordea Pension Foundation

The most significant of the Finnish plans is the Nordea Pension Foundation. Nordea Pension Foundation plan is a final salary and service based pension plan providing pension benefits on top of the statutory systems. The employer has promised a certain level of benefit after retirement to a certain group of employees within the plan. Plan's operation is managed by the Board of Members. The board consists of both employers' and employees' representatives. The Board of Members has named a managing director to take care of regular operations in the foundation.

The plan exposes the employer to certain risks. If the return of foundation's assets is not enough to cover the increment of liability and benefit payments over the financial year then the employer funds the deficit with contributions. The present value of the defined benefit liability is calculated using a discount rate determined by reference to high quality bond yields. A decrease in the corporate bond yields increases the liabilities along with increment of plan's benefit obligation calculated according to IAS 19. However, part of increment of obligation is offset by asset increment along with the increment of plan's bond holdings. Asset volatility may also impact NBF although basically the distribution of assets to different asset classes is strictly dictated by authorities so significant concentration risk cannot be borne. The plan's benefits in payment are tied to the TyEL-index which depends on inflation (80 %) and common salary index (20 %). Higher inflation increases the TyEL-index which leads to an increase in liabilities. Higher inflation causes extra challenges to investment activities from which the employer in the last resort is responsible. The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in life expectancy of the plan participants will increase the plan's liability.

No significant plan amendments, curtailments and settlements have been made during the year.

IAS 19 pension calculations and assumptions

Calculations on major plans are performed by external liability calculators and are based on the actuarial assumptions.

Assumptions[1]	Finland
2016	
Discount rate[2]	1.56%
Salary increase	1.75%
Inflation	1.25%
Mortality	New TyEL mortality
Increase in income base amount	1.70%
2015	
Discount rate[2]	2.14%
Salary increase	1.75%
Inflation	1.25%
Mortality	New TyEL mortality
Increase in income base amount	1.70%

[1] The assumptions disclosed for 2016 have an impact on the liability calculation by year-end 2016, while the assumptions disclosed for 2015 are used for calculating the pension expense in 2016.

[2] More information on the discount rate can be found in Note 1, section 18. The sensitivities to changes in the discount rate can be found in the table on the next page.

Note 30 Retirement benefit obligation, cont.

Sensitivities - Impact on Defined Benefit Obligation (DBO)	Group		Parent company	
	2016	2015	2016	2015
Discount rate - Increase 50bps	-6.9%	-6.8%	-6.8%	-6.7%
Discount rate - Decrease 50bps	7.6 %	7.6 %	7.6 %	7.6%
Salary increase - Increase 50bps	0.4%	0.4%	0.4%	0.4%
Salary increase - Decrease 50bps	-0.4%	-0.4%	-0.4%	-0.4%
Inflation - Increase 50bps	4.6%	4.2%	4.6%	4.2%
Inflation - Decrease 50bps	-4.3%	-3.9%	-4.3%	-3.9%
Mortality - Increase 1 year	2.9%	2.6%	2.9%	2.7%
Mortality - Decrease 1 year	-2.7%	-2.6%	-2.8%	-2.6%

The sensitivity analyses are prepared by changing one actuarial assumption while keeping the other assumptions unchanged. This is a simplified approach since the actuarial assumptions usually are correlated. However, it enables the reader to isolate one effect from another. The method used for calculating the impact on the obligation is the same as when calculating the obligation accounted for in the financial statements. Compared with the 2015 Annual Report there have been no changes in the methods used when preparing the sensitivity analyses.

Net retirement benefit liabilities/assets

	Group		Parent company	
EURm	2016	2015	2016	2015
Obligations	889	871	874	857
Plan assets	961	957	948	943
Net liability(-)/asset (+)	**72**	**86**	**74**	**86**
- of which retirement benefit liabilities	6	4	4	4
- of which retirement benefit assets	78	90	78	90

Movements in the obligation

	Group		Parent company	
EURm	2016	2015	2016	2015
Opening balance	871	948	857	934
Current service cost	2	2	2	2
Interest cost	19	20	18	20
Pensions paid	-43	-42	-42	-41
Past service cost	-1	1	-1	1
Settlements	0	0	0	0
Remeasurement from changes in demographic assumptions	-	-32	-	-32
Remeasurement from changes in financial assumptions	73	-24	71	-23
Remeasurement from experience adjustments	-11	-11	-10	-11
Translation differences	-21	9	-21	7
Closing balance	**889**	**871**	**874**	**857**

The average duration of the obligation is 15 years (17) both in the Group and the parent company. The duration is based on discounted cash flows. The fact that the main part of the defined benefit plans are closed for new entrants leads to a lower duration.

Note 30 Retirement benefit obligations, cont.

Movements in the fair value of plan assets

	Group		Parent company	
EURm	2016	2015	2016	2015
Opening balance	957	946	943	934
Interest income (calculated using the discount rate)	20	20	20	20
Pensions paid	-43	-42	-42	-41
Settlements	-	2	-	2
Contributions by employer	3	-1	3	-1
Remeasurement (actual return less interest income)	45	24	46	23
Administrative expenses	0	0	0	0
Translation differences	-22	8	-22	6
Closing balance	**960**	**957**	**948**	**943**

Asset composition
The combined return on assets in 2016 was 7% (5). The asset return was driven by a positive return in all asset classes hereunder equities, bonds, credit investments and real estate. At the end of the year, the equity exposure in pension foundation represented 25% (29) of total assets.

Asset composition in funded schemes, %	2016	2015
Bonds	59 %	54 %
- sovereign	40 %	37 %
- covered bonds	-	-
- corporate bonds	19 %	17 %
- issued by Nordea entities	-	-
- with quoted market price in an active market	59 %	54 %
Equity	25 %	29 %
- domestic	7 %	8 %
- European	7 %	8 %
- US	7 %	7 %
- emerging	4 %	5 %
- Nordea shares	0 %	0 %
- with quoted market price in an active market	25 %	29 %
Real Estate[1]	12 %	10 %
- occupied by Nordea	4 %	3 %
Cash and cash equivalents	4 %	7 %

[1] The geographical location of the real estate follows the geographical location of the relevant pension plan.

Both the Group and the parent company is expected to contribute only a minor amount to its defined benefit plans in 2017.

Defined benefit pension cost
The total net pension cost related to defined benefit plans recognised in the Group's income statement (as staff costs) for the year 2016 is EUR 1m positive (expenses 1m). In the parent company's income statement the respective impact was EUR 1m positive (expenses 1m) in 2016.

Total pension costs comprise defined benefit pension costs as well as costs related to defined contribution plans (see specification in Note 8).

	Group		Parent company	
Recognised in the income statement, EURm	2016	2015	2016	2015
Current service cost	2	3	2	2
Net interest	-2	0	-2	0
Past service cost	-1	1	-1	1
Settlements	0	-2	0	-2
Administrative expenses	0	0	0	0
Pension cost on defined benefit plans (expense+, income-)	**-1**	**2**	**-1**	**1**

Except past service cost, the pension cost is in line with what was expected at the start of the year.

Note 30 Retirement benefit obligations, cont.

	Group		Parent company	
Recognised in other comprehensive income, EURm	2016	2015	2016	2015
Remeasurement from changes in demographic assumptions	-	-32	-	-32
Remeasurement from changes in financial assumptions	73	-24	71	-23
Remeasurement from experience adjustments	-11	-11	-10	-11
Remeasurement of plan assets (actual return less interest income)	-45	-24	-46	-23
Pension cost on defined benefit plans (expense+, income-)	**17**	**-91**	**15**	**-89**

	Group		Parent company	
Net retirement benefit asset//liability	2016	2015	2016	2015
Opening balance	-86	2	-85	1
Pension cost in the income statement	-1	2	-1	1
Remeasurements in other comprehensive income	17	-91	15	-89
Contributions by employer	-3	1	-3	1
Translation differences	1	0	0	1
Closing balance	**-72**	**-86**	**-74**	**-85**

Key management personnel
As at 31 December 2016, members off the Board of Directors of Nordea Bank Finland Plc as well as the President of Nordea Bank Finland Plc, were employed by Nordea, except for the one external member Carl-Johan Granvik.

Information on salaries, loans and pension liabilities regarding members of the Board and the President is presented in Note 8.

Note 31 Subordinated liabilities

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Undated subordinated debenture loans	82	78	82	78
Hybrid capital loans	550	550	550	550
Total	**632**	**628**	**632**	**628**

These debenture loans are subordinated to other liabilities. Dated debenture loans entitle the lender to payment before undated subordinated loans and hybrid capital loans. Within each respective category, the loans entitle lenders to equal payment rights.

Group and parent company

On 31 December 2016 loans - with terms specified below - exceeded 10% of the total outstanding volume.

Issued by	Year of issue/ maturity	Nominal value	Carrying amount, EURm	Interest rate (coupon)
Nordea Bank Finland Plc[1]	1999/undated	MJPY 10,000	82	4.51%
Nordea Bank Finland Plc[2]	2014/30 Sep 2019	MEUR 550	550	Floating 3-month EURIBOR +4.34%

[1] Call date 26 February 2029
[2] Call date 30 September 2019

Note 32 Assets pledged as security for own liabilities

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Assets pledged for own liabilities				
Securities etc[1]	4,139	4,627	4,139	4,627
Loans to the public	-	20,731	-	20,730
Other pledged assets	15,033	15,574	15,033	15,574
Total	**19,172**	**40,932**	**19,172**	**40,931**
The above pledges pertain to the following liabilities				
Deposits by credit institutions	1,648	2,706	1,648	2,706
Deposits and borrowings from the public	2,491	1,921	2,491	1,921
Derivatives	14,581	15,285	14,581	15,285
Debt securities in issue	-	17,378	-	17,377
Other liabilities and commitments	355	260	355	260
Total	**19,075**	**37,550**	**19,075**	**37,549**

[1] Relates only to securities recognised on the balance sheet. Securities borrowed or bought under reverse repurchase agreements are not recognised on the balance sheet and thus not included in the amount. Such transactions are disclosed in Note 40 Transferred assets and obtained collaterals.

Assets pledged for own liabilities contain securities pledged as security in repurchase agreement and in securities lending. The transactions are conducted under standard agreements employed by financial markets participants. Counterparts in those transactions are credit institutions and the public. The transactions are typically short term with maturity within three months.

Loans to the public which had been registered as collateral for issued Finnish covered bonds (EUR 20,730m in 2015) were transferred to Nordea Mortgage Bank as part of the demerger on 1 October 2016. Respectively, covered bonds (EUR 17,377m in 2015) were transferred to Nordea Mortgage Bank.

Note 33 Other assets pledged

Other assets pledged are mainly related to securities which includes interest-bearing securities pledged as securities for payment settlements within the central banks and clearing institutions EUR 4,085 m (4,792). The terms and conditions require day to day securities and relate to liquidity intraday/over night. Collateral pledged on behalf of other items other than the company´s own liabilities, e.g. on behalf of a third party or on behalf of the company´s own contingent liabilities are also accounted for under this item.

Note 34 Contingent liabilities

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Guarantees				
Loan guarantees	16,551	1,415	16,701	1,580
Other guarantees	9,576	9,666	9,576	9,665
Documentary credits	1,289	1,331	1,289	1,334
Other contingent liabilities	20	20	20	20
Total	**27,436**	**12,432**	**27,586**	**12,599**

In the normal business of Nordea Bank Finland, the bank issues various forms of guarantees in favour of the bank's customers. Loan guarantees are given for customers to guarantee obligations in other credit and pension institutions. Other guarantees consist mainly of commercial guarantees such as bid guarantees, advance payment guarantees, warranty guarantees and export related guarantees. Contingent liabilities also include unutilised irrevocable import documentary credits and confirmed export documentary credits. These transactions are part of the bank’s services and support the bank's customers. Guarantees and documentary credits are off-balance sheet items, unless there is a need for a provision to cover a probable loan loss that arises from the judgement that reimbursement will not be received.

Note 35 Commitments

EURm	Group 31 Dec 2016	Group 31 Dec 2015	Parent company 31 Dec 2016	Parent company 31 Dec 2015
Unutilised overdraft facilities	2,962	7,411	2,962	7,411
Loan commitments	12,081	6,202	9,030	3,354
Future payment obligations	2	2	2	2
Other commitments	140	357	-	-
Total	**15,185**	**13,972**	**11,994**	**10,767**

Reverse repurchase agreements are recognised on and derecognised from the balance sheet on settlement date. Nordea has as per 31 December 2016 signed reverse repurchase agreements of EUR 6,182m (6,809) that have not yet been settled and consequently are not recognised on the balance sheet. On settlement date these reverse repurchase agreements will, to the utmost extent, replace existing reverse repurchase agreements not yet derecognised as per 31 December 2016. Net impact on the balance sheet is minor. These instruments have not been disclosed as commitments.

Note 36 Capital adequacy

Capital adequacy is a measure of the financial strength of a bank, usually expressed as a ratio of capital to assets. There is now a worldwide capital adequacy standard (Basel III) drawn up by the Basel Committee on Banking Supervision. Within the EU, the capital adequacy requirements are outlined in the CRD.

Common Equity Tier 1 capital and Tier 1 capital

Common Equity Tier (CET) 1 capital is defined as eligible capital including eligible reserves, net of regulatory required deductions made directly to CET1 capital. The capital recognised as CET1 capital holds the ultimate characteristics for loss absorbance defined from a going concern perspective and represents the most subordinated claim in the event of liquidation.

The Tier 1 capital is defined as the sum of CET1 capital and Additional Tier 1 (AT1) capital where AT1 capital is the total of instruments (hybrids) issued by the bank that meet the transitional regulatory criteria and are not included in the CET1 net after AT1 deductions. All AT1 capital instruments are undated subordinated capital loans.

Eligible capital and eligible reserves

Paid up capital is the share capital contributed by shareholders, including the share premium paid. Eligible reserves consist primarily of retained earnings, other reserves and income from the current year. Retained earnings are earnings from previous years reported via the income statement. Other reserves are related to revaluation and translation reserves referred to acquisitions and associated companies under the equity method. The equity interests of minority shareholdings in companies that are fully consolidated in the financial group are not included. Positive income from the current year is included as eligible capital after verification by the external auditors, however negative income must be deducted.

Additional Tier 1 instruments

The inclusion of undated subordinated loans in additional Tier 1 capital is restricted and repurchase can normally not take place until five years after original issuance of the instrument. Undated subordinated loans may be repaid only upon decision by the Board of Directors in NBF and with the permission of the Supervisory Authority . Furthermore, there are restrictions related to step-up conditions, order of priority, and interest payments under constraint conditions. Additional Tier 1 instruments issued that fulfil the CRD IV requirements are fully included whereas remaining instruments are phased out according to transitional rules.

For the additional Tier 1 instruments, conditions specify appropriation in order to avoid being obliged to enter into liquidation. To the extent that may be required to avoid liquidation, the principal amounts of additional Tier 1 instruments (together with accrued interest) would be written down and converting such amount into a conditional capital contribution.

Tier 2 capital

Tier 2 capital must be subordinated to depositors and general creditors of the bank. It cannot be secured or covered by a guarantee of the issuer or related entity or include any other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and other bank creditors.

Tier 2 instruments

Tier 2 instruments consists mainly of subordinated debt. Tier 2 instruments include two different types of subordinated loan capital; undated loans and dated loans. According to the regulation, Tier 2 instruments issued that fulfil the CRD IV requirements are fully included whereas remaining instruments are phased out according to transitional rules.

The basic principle for subordinated debt in own funds is the order of priority in case of a default or bankruptcy situation. Under such conditions, the holder of the subordinated loan would be repaid after other creditors, but before shareholders. The share of outstanding loan amount possible to include in the Tier 2 capital related to dated loans is reduced if the remaining maturity is less than five years.

Note 36 Capital adequacy, cont.

Common Equity Tier 1 capital: instruments and reserves

Group EURm		(A) amount at disclosure date	(C) amounts subject to pre-regulation (EU) no 575/2013 treatment or prescribed residual amount of regulation (EU) no 575/2013
1	Capital instruments and the related share premium accounts	2,918	-
	of which: Share capital	2,319	-
2	Retained earnings	7,500	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	28	-
5	Minority Interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	301	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	10,747	-
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-235	-
8	Intangible assets (net of related tax liability) (negative amount)	-42	-
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)	-	-
11	Fair value reserves related to gains or losses on cash flow hedges	-6	-
12	Negative amounts resulting from the calculation of expected loss amounts	-111	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-88	-
15	Defined-benefit pension fund assets (negative amount)	-62	-
25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	-
	Of which: …filter for unrealised loss on AFS debt instruments	-	8
	Of which: …filter for unrealised gain on AFS debt instruments	-	87
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	-544	-
29	**Common Equity Tier 1 (CET1) capital**	10,203	-
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	550	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	550	-
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	-
44	**Additional Tier 1 (AT1) capital**	550	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	10,753	-
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	-	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	81	-
51	**Tier 2 (T2) capital before regulatory adjustments**	81	-
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-
58	**Tier 2 (T2) capital**	81	-
59	**Total capital (TC = T1 + T2)**	10,834	-
60	**Total risk weighted assets**	41,122	-
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	24.8%	-
62	Tier 1 (as a percentage of risk exposure amount)	26.1%	-
63	Total capital (as a percentage of risk exposure amount)	26.3%	-

Note 36 Capital adequacy, cont.

Common Equity Tier 1 capital: instruments and reserves

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)	4.7%	-
65	of which: capital conservation buffer requirement	2.5%	-
66	of which: countercyclical buffer requirement	0.2%	-
67	of which: systemic risk buffer requirement	-	-
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	2.0%	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	18.3%	-
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)	173	-
73	Direct and indirect holdings by the institution of the CET 1 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)	9	-
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)	-	-
Applicable caps on the inclusion of provisions in Tier 2			
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	21,972	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	132	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
84	Current cap on T2 instruments subject to phase out arrangements	273	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

Common Equity Tier 1 capital: instruments and reserves

Parent company EURm		(A) amount at disclosure date	(C) amounts subject to pre-regulation (EU) no 575/2013 treatment or prescribed residual amount of regulation (EU) no 575/2013
1	Capital instruments and the related share premium accounts	2,918	-
	of which: Share capital	2,319	-
2	Retained earnings	6,836	-
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	33	-
5	Minority Interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	201	-
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	9,987	-
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-235	-
8	Intangible assets (net of related tax liability) (negative amount)	-26	-
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)	-	-
11	Fair value reserves related to gains or losses on cash flow hedges	-6	-
12	Negative amounts resulting from the calculation of expected loss amounts	-99	-
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-88	-
15	Defined-benefit pension fund assets (negative amount)	-62	-

Note 36 Capital adequacy, cont.

25b	Foreseeable tax charges relating to CET1 items (negative amount)	-	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-	-
	Of which: …filter for unrealised loss on AFS debt instruments	-	8
	Of which: …filter for unrealised gain on AFS debt instruments	-	87
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	-517	-
29	**Common Equity Tier 1 (CET1) capital**	9,471	-
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	550	-
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	550	-
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	-
44	**Additional Tier 1 (AT1) capital**	550	-
45	**Tier 1 capital (T1 = CET1 + AT1)**	10,021	-
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	-	-
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	81	-
51	**Tier 2 (T2) capital before regulatory adjustments**	81	-
Tier 2 (T2) capital: regulatory adjustments			
57	**Total regulatory adjustments to Tier 2 (T2) capital**	-	-
58	**Tier 2 (T2) capital**	81	-
59	**Total capital (TC = T1 + T2)**	10,102	-
60	**Total risk weighted assets**	36,204	-
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	26.2%	-
62	Tier 1 (as a percentage of risk exposure amount)	27.7%	-
63	Total capital (as a percentage of risk exposure amount)	27.9%	-
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)	4.7%	-
65	of which: capital conservation buffer requirement	2.5%	-
66	of which: countercyclical buffer requirement	0.2%	-
67	of which: systemic risk buffer requirement	-	-
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	2.0%	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	19.9%	-
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)	172	-
73	Direct and indirect holdings by the institution of the CET 1 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)	9	-
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)	-	-
Applicable caps on the inclusion of provisions in Tier 2			
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	18,743	-
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	112	-
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
84	Current cap on T2 instruments subject to phase out arrangements	273	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-

Note 36 Capital adequacy, cont.

Minimum capital requirement and REA

Group

EURm	31 Dec 2016 Minimum capital requirement	31 Dec 2016 REA	31 Dec 2015 Minimum capital requirement	31 Dec 2015 REA
Credit risk	**2,486**	**31,074**	**2,713**	**33,909**
- of which counterparty credit risk	533	6,661	586	7,330
IRB	1,758	21,972	2,018	25,226
- corporate	1,164	14,547	1,214	15,175
- advanced	792	9,901	811	10,143
- foundation	372	4,646	403	5,032
- institutions	229	2,868	295	3,683
- retail	350	4,370	500	6,248
- secured by immovable property collateral	96	1,196	216	2,699
- other retail	254	3,174	284	3,549
- other	15	187	9	120
Standardised	728	9,102	695	8,683
- central governments or central banks	5	66	7	90
- regional governments or local authorities	14	172	13	166
- public sector entities	2	29	2	30
- multilateral development banks	2	27	0	0
- international organisations	-	-	-	-
- institutions	497	6,218	538	6,728
- corporate	92	1,148	81	1,007
- retail	40	493	35	433
- secured by mortgages on immovable property	-	-	-	-
- in default	1	13	1	16
- associated with particularly high risk	-	-	-	-
- covered bonds	63	792	4	48
- institutions and corporates with a short-term credit assessment	-	-	-	-
- collective investments undertakings (CIU)	-	-	-	-
- equity	4	43	5	59
- other items	8	101	9	106
Credit Value Adjustment Risk	**125**	**1,566**	**130**	**1,625**
Market risk	**336**	**4,192**	**346**	**4,329**
- trading book, Internal Approach	241	3,008	231	2,887
- trading book, Standardised Approach	86	1,073	108	1,350
- banking book, Standardised Approach	9	111	7	92
Operational risk	**333**	**4,163**	**338**	**4,229**
Standardised	333	4,163	338	4,229
Additional risk exposure amount, Article 3 CRR	**10**	**127**	**23**	**286**
Sub total	**3,290**	**41,122**	**3,550**	**44,378**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	428	5,354	1,105	13,810
Total	**3,718**	**46,476**	**4,655**	**58,188**

Note 36 Capital adequacy, cont.

Minimum capital requirement and REA

Parent company

EURm	31 Dec 2016 Minimum capital requirement	31 Dec 2016 REA	31 Dec 2015 Minimum capital requirement	31 Dec 2015 REA
Credit risk	**2,139**	**26,740**	**2,372**	**29,650**
- of which counterparty credit risk	533	6,661	586	7,330
IRB	1,499	18,743	1,767	22,092
- corporate	1,052	13,146	1,104	13,795
- advanced	791	9,879	812	10,149
- foundation	261	3,267	292	3,646
- institutions	229	2,861	294	3,682
- retail	209	2,607	361	4,514
- secured by immovable property collateral	93	1,166	216	2,698
- other retail	115	1,441	145	1,816
- other	10	129	8	101
Standardised	640	7,997	605	7,558
- central governments or central banks	5	61	7	85
- regional governments or local authorities	13	166	13	166
- public sector entities	2	29	2	29
- multilateral development banks	2	26	0	0
- international organisations	-	-	-	-
- institutions	498	6,226	538	6,725
- corporate	2	20	1	16
- retail	4	42	4	46
- secured by mortgages on immovable property	-	-	-	-
- in default	0	0	0	0
- associated with particularly high risk	-	-	-	-
- covered bonds	63	792	4	48
- equity	44	543	28	343
- other items	7	92	8	100
Credit Value Adjustment Risk	**125**	**1,566**	**130**	**1,625**
Market risk	**335**	**4,191**	**346**	**4,328**
- trading book, Internal Approach	240	3,008	231	2,887
- trading book, Standardised Approach	86	1,073	108	1,350
- banking book, Standardised Approach	9	110	7	91
Operational risk	**288**	**3,598**	**293**	**3,666**
Standardised	288	3,598	293	3,666
Additional risk exposure amount, Article 3 CRR	**9**	**109**	**21**	**252**
Sub total	**2,896**	**36,204**	**3,162**	**39,521**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	347	4,332	966	12,079
Total	**3,243**	**40,536**	**4,128**	**51,600**

Nordea Bank AB (publ) has in December 2012 issued a guarantee in favour of Nordea Bank Finland Plc where Nordea Bank AB (publ) guarantees part of the exposures in the exposure class IRB corporate in Nordea Bank Finland Plc. The net effect of the guarantee in REA in Nordea Bank Finland Plc was EUR -1.8bn as at the end of 2016 (-2.9).

Note 36 Capital adequacy, cont.

Leverage ratio

	Group		Parent company	
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Tier 1 capital, transitional definition, EURm[1]	10,753	11,548	10,021	10,926
Leverage ratio exposure, EURm	221,238	255,891	218,562	255,589
Leverage ratio, percentage	4.9	4.5	4.6	4.3

[1] Including profit of the period

REA and capital requirements for market risk, 31 December 2016

Group

	Trading book, IA		Trading book, SA		Banking book, SA		Total	
EURm	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement
Interest rate risk and other[1]	880	70	925	74	-	-	1,805	144
Equity risk	358	29	120	10	-	-	477	39
Foreign exchange risk	290	23	-	-	111	9	401	32
Commodity risk	-	-	28	2	-	-	28	2
Settlement risk	-	-	0	0	-	-	0	0
Diversification effect	-619	-49	-	-	-	-	-619	-49
Stressed Value-at-Risk	937	75	-	-	-	-	937	75
Incremental Risk Measure	348	28	-	-	-	-	348	28
Comprehensive Risk Measure	814	65	-	-	-	-	814	65
Total	**3,008**	**241**	**1,073**	**86**	**111**	**9**	**4,192**	**336**

[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.

Parent company

	Trading book, IA		Trading book, SA		Banking book, SA		Total	
EURm	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement
Interest rate risk and other[1]	880	70	925	74	-	-	1,805	144
Equity risk	358	28	120	10	-	-	477	38
Foreign exchange risk	290	23	-	-	110	9	400	32
Commodity risk	-	-	28	2	-	-	28	2
Settlement risk	-	-	0	0	-	-	0	0
Diversification effect	-619	-49	-	-	-	-	-619	-49
Stressed Value-at-Risk	937	75	-	-	-	-	937	75
Incremental Risk Measure	348	28	-	-	-	-	348	28
Comprehensive Risk Measure	814	65	-	-	-	-	814	65
Total	**3,008**	**240**	**1,073**	**86**	**110**	**9**	**4,191**	**335**

[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.

Specification over group undertakings consolidated in the Nordea Bank Finland Group

31 Dec 2016	Number of shares	Carrying amount EURm	Voting power of holding, %	Domicile	Consolidation method
Group undertakings included in the NBF Group					
Nordea Finance Finland Ltd	1,000,000	306	100	Helsinki	purchase method
Other companies		0			
Total included in the capital base		**306**			

Note 37 Classification of financial instruments

Group

31 Dec 2016, EURm	Loans and receivables	Held to maturity	Financial assets at fair value through profit or loss: Held for trading	Financial assets at fair value through profit or loss: Designated at fair value through profit or loss	Derivatives used for hedging	Available for sale	Non-financial assets and associates	Total
Assets								
Cash and balances with central banks	29,367	-	-	-	-	-	-	29,367
Loans to central banks	199	-	100	-	-	-	-	299
Loans to credit institutions	23,725	-	2,619	-	-	-	-	26,344
Loans to the public	42,559	-	22,052	-	-	-	-	64,611
Interest-bearing securities	-	42	19,891	-	-	7,435	-	27,368
Financial instruments pledged as collateral	-	-	4,139	-	-	-	-	4,139
Shares	-	-	1,246	16	-	-	-	1,262
Derivatives	-	-	68,495	-	68	-	-	68,563
Fair value changes of the hedged items in portfolio hedge of interest rate risk	21	-	-	-	-	-	-	21
Investments in associated undertakings	-	-	-	-	-	-	34	34
Intangible assets	-	-	-	-	-	-	42	42
Properties and equipment	-	-	-	-	-	-	84	84
Investment property	-	-	-	-	-	-	1	1
Deferred tax assets	-	-	-	-	-	-	3	3
Current tax assets	-	-	-	-	-	-	5	5
Retirement benefit assets	-	-	-	-	-	-	78	78
Other assets	1,389	-	14,581	-	-	-	268	16,238
Prepaid expenses and accrued income	90	-	-	-	-	-	226	316
Total	**97,350**	**42**	**133,123**	**16**	**68**	**7,435**	**741**	**238,775**

31 Dec 2016, EURm	Financial liabilities at fair value through profit or loss: Held for trading	Financial liabilities at fair value through profit or loss: Designated at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Liabilities						
Deposits by credit institutions	7,218	-	-	56,700	-	63,918
Deposits and borrowings from the public	3,998	-	-	51,354	-	55,352
Debt securities in issue	6,666	-	-	11,841	-	18,507
Derivatives	70,730	-	134	-	-	70,864
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	25	-	25
Current tax liabilities	-	-	-	-	65	65
Other liabilities	15,138	-	-	2,146	203	17,487
Accrued expenses and prepaid income	-	-	-	99	287	386
Deferred tax liabilities	-	-	-	-	60	60
Provisions	-	-	-	-	63	63
Retirement benefit liabilities	-	-	-	-	6	6
Subordinated liabilities	-	-	-	632	-	632
Total	**103,750**	**-**	**134**	**122,797**	**684**	**227,365**

Note 37 Classification of financial instruments, cont.

Group

31 Dec 2015, EURm	Loans and receivables	Held to maturity	Financial assets at fair value through profit or loss: Held for trading	Financial assets at fair value through profit or loss: Designated at fair value through profit or loss	Derivatives used for hedging	Available for sale	Non-financial assets and asso-ciates	Total
Assets								
Cash and balances with central banks	32,613	-	-	-	-	-	-	32,613
Loans to central banks	199	-	5,129	-	-	-	-	5,328
Loans to credit institutions	23,622	-	3,467	-	-	-	-	27,089
Loans to the public	66,569	-	34,878	-	-	-	-	101,447
Interest-bearing securities	-	41	21,214	-	-	8,888	-	30,143
Financial instruments pledged as collateral	-	-	4,627	-	-	-	-	4,627
Shares	-	-	2,013	7	-	-	-	2,020
Derivatives	-	-	79,745	-	812	-	-	80,557
Fair value changes of the hedged items in portfolio hedge of interest rate risk	51	-	-	-	-	-	-	51
Investments in associated undertakings	-	-	-	-	-	-	42	42
Intangible assets	-	-	-	-	-	-	44	44
Properties and equipment	-	-	-	-	-	-	76	76
Investment property	-	-	-	-	-	-	1	1
Deferred tax assets	-	-	-	-	-	-	14	14
Current tax assets	-	-	-	-	-	-	1	1
Retirement benefit assets	-	-	-	-	-	-	90	90
Other assets	1,496	-	-	15,285	-	-	234	17,015
Prepaid expenses and accrued income	102	-	-	-	-	-	330	432
Total	**124,652**	**41**	**151,073**	**15,292**	**812**	**8,888**	**832**	**301,590**

31 Dec 2015, EURm	Financial liabilities at fair value through profit or loss: Held for trading	Financial liabilities at fair value through profit or loss: Designated at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Liabilities						
Deposits by credit institutions	16,092	-	-	62,070	-	78,162
Deposits and borrowings from the public	9,462	-	-	52,691	-	62,153
Debt securities in issue	7,472	-	-	35,935	-	43,407
Derivatives	83,283	-	255	-	-	83,538
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	557	-	557
Current tax liabilities	-	-	-	-	77	77
Other liabilities	8,519	8,832	-	2,528	187	20,066
Accrued expenses and prepaid income	-	-	-	177	390	567
Deferred tax liabilities	-	-	-	-	54	54
Provisions	-	-	-	-	81	81
Retirement benefit liabilities	-	-	-	-	4	4
Subordinated liabilities	-	-	-	628	-	628
Total	**124,828**	**8,832**	**255**	**154,586**	**793**	**289,294**

Note 37 Classification of financial instruments, cont.

Parent company

31 Dec 2016, EURm	Loans and receivables	Held to maturity	Financial assets at fair value through profit or loss: Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Available for sale	Non-financial assets and associates	Total
Assets								
Cash and balances with central banks	29,367	-	-	-	-	-	-	29,367
Loans to central banks	-	-	100	-	-	-	-	100
Loans to credit institutions	29,137	-	2,619	-	-	-	-	31,756
Loans to the public	34,702	-	22,052	-	-	-	-	56,754
Interest-bearing securities	-	42	19,891	-	-	7,435	-	27,368
Financial instruments pledged as collateral	-	-	4,139	-	-	-	-	4,139
Shares	-	-	1,247	15	-	-	-	1,262
Derivatives	-	-	68,495	-	68	-	-	68,563
Fair value changes of the hedged items in portfolio hedge of interest rate risk	21	-	-	-	-	-	-	21
Investments in group undertakings	-	-	-	-	-	-	306	306
Investments in associated undertakings	-	-	-	-	-	-	8	8
Intangible assets	-	-	-	-	-	-	26	26
Properties and equipment	-	-	-	-	-	-	80	80
Investment property	-	-	-	-	-	-	1	1
Deferred tax assets	-	-	-	-	-	-	0	0
Current tax assets	-	-	-	-	-	-	-	-
Retirement benefit assets	-	-	-	-	-	-	78	78
Other assets	1,362	-	14,581		-	-	262	16,205
Prepaid expenses and accrued income	76	-	-	-	-	-	146	222
Total	**94,665**	**42**	**133,124**	**15**	**68**	**7,435**	**907**	**236,256**

31 Dec 2016, EURm	Financial liabilities at fair value through profit or loss: Held for trading	Designated at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Liabilities						
Deposits by credit institutions	7,218	-	-	55,327	-	62,545
Deposits and borrowings from the public	3,998	-	-	51,353	-	55,351
Debt securities in issue	6,666	-	-	11,841	-	18,507
Derivatives	70,730	-	134	-	-	70,864
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	25	-	25
Current tax liabilities	-	-	-	-	65	65
Other liabilities	15,138	-	-	2,066	92	17,296
Accrued expenses and prepaid income	-	-	-	21	247	268
Deferred tax liabilities	-	-	-	-	-	-
Provisions	-	-	-	-	62	62
Retirement benefit liabilities	-	-	-	-	4	4
Subordinated liabilities	-	-	-	632	-	632
Total	**103,750**	**-**	**134**	**121,265**	**470**	**225,619**

Note 37 Classification of financial instruments, cont.

Parent company

31 Dec 2015, EURm	Loans and receivables	Held to maturity	Financial assets at fair value through profit or loss: Held for trading	Financial assets at fair value through profit or loss: Designated at fair value through profit or loss	Derivatives used for hedging	Available for sale	Non-financial assets and associates	Total
Assets								
Cash and balances with central banks	32,613	-	-	-	-	-	-	32,613
Loans to central banks	-	-	5,129	-	-	-	-	5,129
Loans to credit institutions	30,040	-	3,467	-	-	-	-	33,507
Loans to the public	59,185	-	34,878	-	-	-	-	94,063
Interest-bearing securities	-	41	21,214	-	-	8,888	-	30,143
Financial instruments pledged as collateral	-	-	4,627	-	-	-	-	4,627
Shares	-	-	2,012	7	-	-	-	2,019
Derivatives	-	-	79,745	-	812	-	-	80,557
Fair value changes of the hedged items in portfolio hedge of interest rate risk	51	-	-	-	-	-	-	51
Investments in group undertakings	-	-	-	-	-	-	309	309
Investments in associated undertakings	-	-	-	-	-	-	28	28
Intangible assets	-	-	-	-	-	-	31	31
Properties and equipment	-	-	-	-	-	-	69	69
Investment property	-	-	-	-	-	-	1	1
Deferred tax assets	-	-	-	-	-	-	12	12
Retirement benefit assets	-	-	-	-	-	-	90	90
Other assets	1,459	-	-	15,285	-	-	226	16,970
Prepaid expenses and accrued income	92	-	-	-	-	-	171	263
Total	**123,440**	**41**	**151,072**	**15,292**	**812**	**8,888**	**937**	**300,482**

31 Dec 2015, EURm	Financial liabilities at fair value through profit or loss: Held for trading	Financial liabilities at fair value through profit or loss: Designated at fair value through profit or loss	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Liabilities						
Deposits by credit institutions	16,092	-	-	62,080	-	78,172
Deposits and borrowings from the public	9,462	-	-	52,688	-	62,150
Debt securities in issue	7,472	-	-	35,935	-	43,407
Derivatives	83,282	-	256	-	-	83,538
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	-	557	-	557
Current tax liabilities	-	-	-	-	77	77
Other liabilities	8,519	8,832	-	2,409	96	19,856
Accrued expenses and prepaid income	-	-	-	96	286	382
Provisions	-	-	-	-	78	78
Retirement benefit liabilities	-	-	-	-	4	4
Subordinated liabilities	-	-	-	628	-	628
Total	**124,827**	**8,832**	**256**	**154,393**	**541**	**288,849**

Note 38 Assets and liabilities at fair value

Fair value of financial assets and liabilities

Group

	31 Dec 2016		31 Dec 2015	
EURm	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and balances with central banks	29,367	29,367	32,613	32,613
Loans	91,273	91,163	133,915	133,622
Interest-bearing securities	27,368	27,369	30,143	30,145
Financial instruments pledged as collateral	4,139	4,139	4,627	4,627
Shares	1,262	1,262	2,020	2,020
Derivatives	68,563	68,563	80,557	80,557
Other assets	15,971	15,971	16,781	16,781
Prepaid expenses and accrued income	90	90	102	102
Total financial assets	**238,033**	**237,924**	**300,758**	**300,467**
Financial liabilities				
Deposits and debt instruments	137,802	137,802	184,279	184,260
Derivatives	70,864	70,864	83,538	83,538
Other liabilities	17,284	17,284	19,879	19,879
Accrued expenses and prepaid income	99	99	177	177
Subordinated liabilities	632	632	628	628
Total financial liabilities	**226,681**	**226,681**	**288,501**	**288,482**

Parent company

	31 Dec 2016		31 Dec 2015	
EURm	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and balances with central banks	29,367	29,367	32,613	32,613
Loans	88,630	88,519	132,749	132,311
Interest-bearing securities	27,368	27,369	30,143	30,145
Financial instruments pledged as collateral	4,139	4,139	4,627	4,627
Shares	1,262	1,262	2,019	2,019
Derivatives	68,563	68,563	80,557	80,557
Other assets	15,944	15,943	16,745	16,744
Prepaid expenses and accrued income	76	76	92	92
Total financial assets	**235,349**	**235,238**	**299,545**	**299,108**
Financial liabilities				
Deposits and debt instruments	136,428	136,429	184,286	184,267
Derivatives	70,864	70,864	83,538	83,538
Other liabilities	17,204	17,204	19,760	19,760
Accrued expenses and prepaid income	21	21	96	96
Subordinated liabilities	632	632	628	628
Total financial liabilities	**225,149**	**225,150**	**288,308**	**288,289**

For information about valuation of items measured at fair value on the balance sheet, see Note 1 and the section "Determination of fair values for items measured at fair value on the balance sheet" in this note. For information about valuation of items not measured at fair value on the balance sheet, see the section "Financial assets and liabilities not held at fair value on the balance sheet" in this note.

Note 38 Assets and liabilities at fair value, cont.

Assets and liabilities at fair value on the balance sheet

Group

Categorisation into the fair value hierarchy

31 Dec 2016, 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[1]				
Loans to central banks	-	100	-	100
Loans to credit institutions	-	2,619	-	2,619
Loans to the public	-	22,052	-	22,052
Interest-bearing securities	12,907	14,407	12	27,326
Financial instruments pledged as collateral	3,427	712	-	4,139
Shares	1,172	29	61	1,262
Derivatives	75	66,810	1,678	68,563
Investment properties	-	1	-	1
Other assets	-	14,581	-	14,581
Total	**17,581**	**121,311**	**1,751**	**140,643**
Liabilities at fair value on the balance sheet[1]				
Deposits by credit institutions	-	7,218	-	7,218
Deposits and borrowings from the public	-	3,998	-	3,998
Debt securities in issue[2]	-	6,666	-	6,666
Derivatives[2]	94	69,500	1,270	70,864
Other liabilities	6,252	8,886	-	15,138
Total	**6,346**	**96,268**	**1,270**	**103,884**

[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 6,697m, of which EUR 6,730m is categorised into level 2 and EUR -33m into Level 3 in the fair value hierarchy.

31 Dec 2015, 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[1]				
Loans to central banks	-	5,129	-	5,129
Loans to credit institutions	-	3,467	-	3,467
Loans to the public	-	34,878	-	34,878
Interest-bearing securities	12,381	17,662	59	30,102
Financial instruments pledged as collateral	3,279	1,348	-	4,627
Shares	1,647	301	72	2,020
Derivatives	211	78,684	1,662	80,557
Investment properties	-	1	-	1
Other assets	-	15,285	-	15,285
Total	**17,518**	**156,755**	**1,793**	**176,066**
Liabilities at fair value on the balance sheet[1]				
Deposits by credit institutions	-	16,092	-	16,092
Deposits and borrowings from the public	-	9,462	-	9,462
Debt securities in issue[2]	-	7,472	-	7,472
Derivatives[2]	235	81,752	1,551	83,538
Other liabilities	6,739	10,612	-	17,351
Total	**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 7,411m, of which EUR 7,468m is categorised into Level 2 and EUR -57m into Level 3 in the fair value hierarchy.

Note 38 Assets and liabilities at fair value, cont.

Parent company

Categorisation into the fair value hierarchy

31 Dec 2016, 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[1]				
Loans to central banks	-	100	-	100
Loans to credit institutions	-	2,619	-	2,619
Loans to the public	-	22,052	-	22,052
Interest-bearing securities	12,907	14,407	12	27,326
Financial instruments pledged as collateral	3,427	712	-	4,139
Shares	1,172	29	61	1,262
Derivatives	75	66,810	1,678	68,563
Investment properties	-	1	-	1
Other assets	-	14,581	-	14,581
Total	**17,581**	**121,311**	**1,751**	**140,643**
Liabilities at fair value on the balance sheet[1]				
Deposits by credit institutions	-	7,218	-	7,218
Deposits and borrowings from the public	-	3,998	-	3,998
Debt securities in issue[2]	-	6,666	-	6,666
Derivatives[2]	94	69,500	1,270	70,864
Other liabilities	6,252	8,886	-	15,138
Total	**6,346**	**96,268**	**1,270**	**103,884**

[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 6,697m, of which EUR 6,730m is categorised into level 2 and EUR -33m into Level 3 in the fair value hierarchy.

31 Dec 2015, 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[1]				
Loans to central banks	-	5,129	-	5,129
Loans to credit institutions	-	3,467	-	3,467
Loans to the public	-	34,878	-	34,878
Interest-bearing securities	12,381	17,662	59	30,102
Financial instruments pledged as collateral	3,279	1,348	-	4,627
Shares	1,647	301	71	2,019
Derivatives	211	78,684	1,662	80,557
Investment properties	-	1	-	1
Other assets	-	15,285	-	15,285
Total	**17,518**	**156,755**	**1,792**	**176,065**
Liabilities at fair value on the balance sheet[1]				
Deposits by credit institutions	-	16,092	-	16,092
Deposits and borrowings from the public	-	9,462	-	9,462
Debt securities in issue[2]	-	7,472	-	7,472
Derivatives[2]	235	81,752	1,551	83,538
Other liabilities	6,739	10,612	-	17,351
Total	**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 off the structured bonds is EUR 7,411m, of which EUR 7,468m is categorised into Level 2 and EUR -57m into Level 3 in the fair value hierarchy.

Note 38 Assets and liabilities at fair value, cont.

Determination of fair values for items measured at fair value on the balance sheet
Fair value measurements of assets and liabilities carried at fair value have been categorised under the three levels of the IFRS fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The categorisation of these instruments is based on the lowest level input that is significant to the fair value measurement in its entirety.

Level 1 in the fair value hierarchy consists of assets and liabilities valued using unadjusted quoted prices in active markets for identical assets or liabilities. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an on-going basis. This category includes listed derivatives, listed equities, government bonds in developed countries, and most liquid mortgage bonds and corporate bonds where direct tradable price quotes exist.

Level 2 in the fair value hierarchy consists of assets and liabilities that do not have directly quoted market prices available from active markets. The fair values are based on quoted prices for similar assets or liabilities in active markets or quoted prices for identical or similar assets or liabilities in markets that are not active. Alternatively, the fair values are estimated using valuation techniques or valuation models based on market prices or rates prevailing at the balance sheet date and where any unobservable inputs have had an insignificant impact on the fair values. This is the case for the majority of Nordea's OTC derivatives, securities purchased/sold under resale/repurchase agreements, securities borrowed/lent and other instruments where active markets supply the input to the valuation techniques or models.

Level 3 in the fair value hierarchy consists of those types of assets and liabilities for which fair values cannot be obtained directly from quoted market prices or indirectly using valuation techniques or models supported by observable market prices or rates. This is generally the case for investments in unlisted securities, private equity funds, hedge funds, investment properties, more complex OTC derivatives where unobservable input have a significant impact on the fair values, certain complex or structured financial instruments and illiquid interest bearing securities. Complex valuation models are generally characterised by the use of unobservable and model specific parameters.

All valuation models, both complex and simple models, make use of market parameters. These parameters comprise interest rates, volatilities, correlations etc. Some of these parameters are observable while others are not. For non-exotic currencies the interest rates are all observable, and the volatilities and the correlations of the interest rates and FX rates are observable up to a certain maturity. Volatilities and correlations are also observable for the most liquid equity instruments in the short end. For less liquid equity instruments the option market is fairly illiquid, and hence the volatilities and correlations are unobservable. For each instrument the sensitivity towards unobservable parameters is measured. If the impact from unobservable parameters on the valuation is significant, the instrument is categorised as Level 3 in the fair value hierarchy.

For interest-bearing securities the categorisation into the three levels are based on the internal pricing methodology. These instruments can either be directly quoted in active markets (Level 1) or measured using a methodology giving a quote based on observable inputs (Level 2). Level 3 bonds are characterised by illiquidity.

For OTC derivatives valuation models are used for establishing fair value. For vanilla derivatives standard models such as Black-Scholes are used for valuation. For more exotic OTC derivatives, more complex valuation models are used. The models are usually in-house developed, and based on assumptions about the behaviour of the underlying asset and statistical scenario analysis. Most OTC derivatives are categorised as Level 2 in the fair value hierarchy implying that all significant model parameters are observable in active markets.

Valuations of Private Equity Funds (PEF) and unlisted equity instruments are by nature more uncertain than valuations of more actively traded equity instruments. Emphasis is put on using a consistent approach across all assets and over time. The methods used are consistent with the guideline "International Private Equity and Venture Capital Valuation Guidelines" issued by EVCA (European Venture Capital Association). The EVCA guidelines are considered as best practice in the PEF industry. For US based funds, similar methods are applied.

Fair value of financial assets and liabilities are generally calculated as the theoretical net present value of the individual instruments, based on independently sourced market parameters as described above, and assuming no risks and uncertainties. This calculation is supplemented by a portfolio adjustment.

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). When calculating FFVA, Nordea uses an estimated funding curve which reflects the market cost of funding.

Another important part of the portfolio adjustment serves to adjust the net open market risk exposures from mid-prices to ask or bid prices (depending on the net position). For different risk categories, exposures are aggregated and netted according to internal guidelines and aggregated market price information on bid-ask spreads are applied in the calculation. Spreads are updated on a regular basis.

Note 38 Assets and liabilities at fair value, cont.

The fair value measurement of the investment properties takes into account a market participant's ability to generate economic benefits by using the investment properties in its highest and best use, i.e. taking into account the use of the investment properties that is physically possible, legally permissible and financially feasible. The current use of the investment properties in Nordea is in accordance with the highest and best use. The valuation of the investment properties is carried out taking into account the purpose and the nature of the property by using the most appropriate valuation methods. The primary valuation approach is a discounted cash flow model using current cash flows, market interest rates and the current yield requirements.

Transfers between level 1 and 2

During the year, NBF transferred interest-bearing securities (including such financial instruments pledged as collateral) of EUR 194m (4m) from Level 1 to Level 2 and EUR 88m (34m) from level 2 to level 1. NBF transferred derivatives 36m (95m) from level 2 to level 1 of the fair value hierarchy for financial assets. NBF also transferred derivatives 46m (116m) and other liabilities 1m (4m) from level 2 to level 1 and other liabilities 1m (0) from level 1 to level 2 for financial liabilities which are recorded at fair value. The reason for the transfer from level 1 to level 2 was that the instruments were consider not to be traded actively anymore on the market. The reason for the transfer from level 2 to level 1 was that the instruments have been actively traded during the year and reliable quoted prices are obtained in the market. Transfers between levels are considered to have occurred at the end of year.

Movements in level 3

Group

31 Dec 2016, EURm	1 Jan 2016	Reclassification	Fair value gains/losses recognised in the income statement during the year: Realised	Fair value gains/losses recognised in the income statement during the year: Unrealised	Purchases/ Issues	Sales
Interest-bearing securities	59	-	0	-16	4	-16
Shares	72	-	57	-64	11	-15
Derivatives (net assets and liabilities)	111	-	32	197	-	-

31 Dec 2016, EURm	Settlements	Transfers into level 3	Transfers out from level 3	Translation differences	31 Dec 2016
Interest-bearing securities	0	1	-21	-	12
Shares	-	0	0	0	61
Derivatives (net assets and liabilities)	-32	21	79	-	408

Unrealised gains and losses relate to those assets and liabilities held at the end of the year. During the period NBF transferred interest-bearing securities EUR 1m from Level 2 to Level 3 and EUR 21m from Level 3 to Level 2. During the period NBF also transferred derivatives (net) of EUR 21m from Level 2 to Level 3 and EUR 79m 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. Fair value gains and losses in the income statement during the year are included in "Net result from items at fair value" (see Note 5). Assets and liabilities related to derivatives are presented net.

Group

31 Dec 2015, EURm	1 Jan 2015	Reclassification	Fair value gains/losses recognised in the income statement during the year: Realised	Fair value gains/losses recognised in the income statement during the year: Unrealised	Purchases/ Issues	Sales
Interest-bearing securities	77	-	0	10	78	-104
Shares	453	-	23	-74	0	-24
Derivatives (net assets and liabilities)	-191	-	-19	-21	-	-

31 Dec 2015, EURm	Settlements	Transfers into level 3	Transfers out from level 3	Translation differences	31 Dec 2015
Interest-bearing securities	0	-	-2	-	59
Shares	-	27	-333	0	72
Derivatives (net assets and liabilities)	19	450	-127	-	111

Unrealised gains and losses relate to those assets and liabilities held at the end of the year. During the period NBF transferred shares EUR 333m from level 3 to level 2. The reason for the transfer was that the classification of the equity related funds has been reviewed. During the period NBF also transferred derivatives (net) of EUR 450m from Level 2 to Level 3 and EUR 127m 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 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. Fair value gains and losses in the income statement during the year are included in "Net result from items at fair value" (see Note 5). Assets and liabilities related to derivatives are presented net.

Note 38 Assets and liabilities at fair value, cont.

Movements in level 3

Parent company

31 Dec 2016, EURm	1 Jan 2016	Reclassification	Fair value gains/losses recognised in the income statement during the year: Realised	Fair value gains/losses recognised in the income statement during the year: Unrealised	Purchases/ Issues	Sales
Interest-bearing securities	59	-	0	-16	4	-16
Shares	71	-	57	-64	11	-15
Derivatives (net assets and liabilities)	111	-	32	197	-	-

31 Dec 2016, EURm	Settlements	Transfers into level 3	Transfers out from level 3	Translation differences	31 Dec 2016
Interest-bearing securities	0	1	-21	-	12
Shares	-	0	0	-	61
Derivatives (net assets and liabilities)	-32	21	79	-	408

Unrealised gains and losses relate to those assets and liabilities held at the end of the year. During the period NBF transferred interest-bearing securities EUR 1m from Level 2 to Level 3 and EUR 21m from Level 3 to Level 2. During the period NBF also transferred derivatives (net) of EUR 21m from Level 2 to Level 3 and EUR 79m 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. Fair value gains and losses in the income statement during the year are included in "Net result from items at fair value" (see Note 5). Assets and liabilities related to derivatives are presented net.

Parent company

31 Dec 2015, EURm	1 Jan 2015	Reclassification	Fair value gains/losses recognised in the income statement during the year: Realised	Fair value gains/losses recognised in the income statement during the year: Unrealised	Purchases/ Issues	Sales
Interest-bearing securities	77	-	0	10	78	-104
Shares	452	-	23	-74	0	-24
Derivatives (net assets and liabilities)	-191	-	-19	-21	-	-

31 Dec 2015, EURm	Settlements	Transfers into level 3	Transfers out from level 3	Translation differences	31 Dec 2015
Interest-bearing securities	0	-	-2	-	59
Shares	-	27	-333	-	71
Derivatives (net assets and liabilities)	19	450	-127	-	111

Unrealised gains and losses relate to those assets and liabilities held at the end of the year. During the period NBF transferred shares EUR 333m from level 3 to level 2. The reason for the transfer was that the classification of the equity related funds has been reviewed. During the period NBF also transferred derivatives (net) of EUR 450m from Level 2 to Level 3 and EUR 127m 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 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. Fair value gains and losses in the income statement during the year are included in "Net result from items at fair value" (see Note 5). Assets and liabilities related to derivatives are presented net.

Note 38 Assets and liabilities at fair value, cont.

The valuation processes for fair value measurements in level 3

Financial instruments
Nordea has an independent valuation control unit, Group Valuation Control (GVC) established as part of the CFO organisation. GVC has the responsibility of setting the Nordea valuation framework as well as overseeing and independently assessing valuations of financial instruments held at fair value on Nordea´s balance sheet. GVC issues the Nordea Group Valuation Policy, which is approved by the Group Valuation Committee. The Group Valuation Committee is chaired by the Group CFO. It governs valuation matters and also serves as escalation point for valuation issues.

The valuation control process in Nordea consists of several steps. The first step is to determine the end of day (EOD) marking of mid-prices. It is the responsibility of the business areas to determine correct prices used for the valuation process. These prices are either internally marked prices set by a trading unit or externally sourced prices. The valuation prices and valuation approaches are then controlled and tested by independent control units. The cornerstone in the control process is the independent price verification (IPV). The IPV test comprises verification of the correctness of valuations by using independently sourced data that best reflects the market. Finally the results of valuation testing and valuations are analysed and any findings are escalated with valuation committees as decision making body.

The verification of the correctness of prices and other parameters is for most products carried out daily. Third-party information, such as broker quotes and pricing services, is used as benchmark data in the verification. The quality of the benchmark data is assessed on a regular basis. This quality assessment is used in the measurement of the valuation uncertainty.

The valuation adjustments at portfolio level and the deferrals of day 1 P/L on level 3 trades are calculated and reported on a monthly basis. The actual assessment of instruments in the fair value hierarchy is performed on a continuous basis.

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

Group and parent company

31 Dec 2016, EURm	Fair value	Valuation techniques	Unobservable input	Range of fair value
Interest-bearing securities				
Mortgage and other credit institutions	11	Discounted cash flows	Credit spread	-1/1
Corporates	1	Discounted cash flows	Credit spread	
Total	**12**			
Shares				
Private equity funds	0	Net asset value[1]		+/-0
Hedge funds	31	Net asset value[1]		-2/2
Credit Funds	-	-		-
Other funds	25	Net asset value/fund prices[1]		-2/2
Other	5	-		+/-0
Total	**61**			
Derivatives				
Interest rate derivatives	340	Option model	Correlations	-21/18
			Volatilities	
Equity derivatives	74	Option model	Correlations	
			Volatilities	-18/11
			Dividend	
Foreign exchange derivatives	-6	Option model	Correlations	+/-0
			Volatilities	
Credit derivatives	-32	Credit derivate model	Correlations	-13/10
			Recovery rates	
Other	32	Option model	Correlations	+/-0
			Volatilities	
Total	**408**			

[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. For private equity funds the dominant measurement methodology used by the suppliers/custodians, is consistent with the International Private Equity and Venture Capital Valuation (IPEV) guidelines issued by the EVCA (European Venture Capital Association).

Note 38 Assets and liabilities at fair value, cont.

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

Group and parent company

31 Dec 2015, EURm	Fair value	Valuation techniques	Unobservable input	Range of fair value
Interest-bearing securities				
Mortgage and other credit institutions	59	Discounted cash flows	Credit spread	-4/4
Corporates	0	Discounted cash flows	Credit spread	-
Total	**59**			
Shares				
Private equity funds	2	Net asset value[1]		
Hedge funds	38	Net asset value[1]		
Credit Funds	26	Net asset value[1]		
Other funds	1	Net asset value[1]		
Other	5	-		
Total[2]	**72**			
Derivatives				
Interest rate derivatives	159	Option model	Correlations	-26/19
			Volatilities	
Equity derivatives	-23	Option model	Correlations	-26/19
			Volatilities	
			Dividend	
Foreign exchange derivatives	-34	Option model	Correlations	+/-0
			Volatilities	
Credit derivatives	-19	Credit derivate model	Correlations	-8/6
			Recovery rates	
Other	28	Option model	Correlations	+/-0
			Volatilities	
Total	**111**			

[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. For private equity funds the dominant measurement methodology used by the suppliers/custodians, is consistent with the International Private Equity and Venture Capital Valuation (IPEV) guidelines issued by the EVCA (European Venture Capital Association).

[2] Effects of reasonably possible alternative assumptions are EURm -4/4 (EURm -39/39).

The tables above show, for each class of assets and liabilities categorised in Level 3, the fair value, the valuation techniques used to estimate the fair value, significant unobservable inputs used in the valuation techniques and for financial assets and liabilities the fair value sensitivity to changes in key assumptions.

The column “range of fair value” in the tables above shows the sensitivity of the fair values of Level 3 financial instruments to changes in key assumptions. Where the exposure to an unobservable parameter is offset across different instruments then only the net impact is disclosed in the table. The range disclosed are likely to be greater than the true uncertainty in fair value of these instruments, as it is unlikely in practice that all unobservable parameters would be simultaneously at the extremes of their ranges of reasonably possible alternatives. The disclosure is neither predictive nor indicative of future movements in fair value.

In order to calculate the sensitivity (range) in fair value of derivatives a range of different modelling approaches are applied to determine an uncertainty interval around the reported fair value. The different approaches applied target various aspects of derivatives pricing. Two common components of derivative valuation models are volatility of underlying risk factors and correlation between the relevant risk factors. Each of these is addressed by applying different assumptions to input and/or the choice of modelling approach. Besides these common factors a number of asset class specific factors are addressed. These include equity dividend expectations, recovery assumptions for credit derivatives and inflation expectations. The fair values of derivatives are presented as the net of assets and liabilities.

In order to calculate the sensitivity (range) in fair value of shares and interest-bearing securities the fair value was increased and decreased within a total range of 2-10 percentage units depending of the valuation uncertainty and underlying assumptions. Higher ranges are applied to instruments with more uncertain valuations relative to actively traded instruments and underlying uncertainties in individual assumptions.

Note 38 Assets and liabilities at fair value, cont.

Movements in deferred Day 1 profit or loss

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, 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 year (movements in deferred Day 1 profit).

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
Deferred day 1 profit - derivatives EURm	2016	2015	2016	2015
Amount at beginning of year	-45	-44	-45	-44
Deferred profit/loss on new transactions	-19	-14	-19	-14
Recognised in the income statement during the year	16	14	16	14
Subsequent move to observability	14	0	14	0
Amount at end of year	**-34**	**-44**	**-34**	**-44**

Financial assets and liabilities not held at fair value on the balance sheet

Group	31 Dec 2016		31 Dec 2015		
EURm	Carrying amount	Fair value	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet					
Cash and balances with central banks	29,367	29,367	32,613	32,613	3
Loans	66,503	66,393	90,441	90,149	3
Interest bearing-securities	42	42	41	42	2
Other assets and Prepaid expenses and accrued income	1,479	1,479	1,600	1,600	3
Total	**97,391**	**97,281**	**124,695**	**124,404**	
Liabilities not held at fair value on the balance sheet					
Deposits and debt instruments	120,552	120,552	151,881	151,862	3
Other liabilities and Accrued expenses and prepaid income	2,244	2,244	2,705	2,705	3
Total	**122,796**	**122,796**	**154,586**	**154,567**	

Parent	31 Dec 2016		31 Dec 2015		
EURm	Carrying amount	Fair value	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet					
Cash and balances with central banks	29,367	29,367	32,613	32,613	3
Loans	63,860	63,749	89,276	88,837	3
Interest bearing-securities	42	42	41	42	2
Other assets and Prepaid expenses and accrued income	1,439	1,439	1,552	1,552	3
Total	**94,708**	**94,597**	**123,482**	**123,044**	
Liabilities not held at fair value on the balance sheet					
Deposits and debt instruments	119,178	119,179	151,888	151,869	3
Other liabilities and Accrued expenses and prepaid income	2,086	2,086	2,506	2,506	3
Total	**121,264**	**121,265**	**154,394**	**154,375**	

Note 38 Assets and liabilities at fair value, cont.

Financial assets and liabilities not held at fair value on the balance sheet

Cash and balances with central banks
The fair value of" Cash and balances with central banks", is due to its short term nature, assumed to equal the carrying amount and is thus is categorised into Level 3 in the fair value hierarchy.

Loans
The fair value of "Loans to central banks", "Loans to credit institutions" and "Loans to the public" have 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.

The fair value measurement is categorised into Level 3 in the fair value hierarchy.

Interest bearing-securities
The fair value is EUR 42m (42), of which EUR 0m (0) is categorised in level 1 and EUR 42m (42) in Level 2 of the fair value hierarchy. The measurement principles follow those for similar instruments that are held at fair value on the balance sheet.

Other assets and prepaid expenses and accrued income
The balance sheet items "Other assets" and "Prepaid expenses and accrued income" consist of short receivables, mainly accrued interest receivables. The fair value is therefore considered to equal the carrying amount and is categorised into Level 3 in the fair value hierarchy.

Deposits and debt instruments
"The fair value of ”Deposits by credit institutions”, “Deposits and borrowings from the public”, “Debt securities in issue” and “Subordinated liabilities” has been calculated as the carrying amount adjusted for fair value changes in interest rate risk and in own credit risk. The fair value is categorised into Level 3 in the fair value hierarchy. The fair value changes related to interest rate risk is based on changes in relevant interest rates compared with corresponding nominal interest rate in the portfolios. The fair value changes in the credit risk is calculated as a difference between the credit spread in the nominal interest rate compared with the current spread that is observed in the market. This calculation is performed on an aggregated level for all long term issuances recognised in the balance sheet items “Debt securities in issue” and “Subordinated liabilities”. As the contractual maturity is short for “Deposits by credit institutions” and “Deposits and borrowing from the public” the changes in Nordea´s own credit risk related to these items is assumed not to be significant. This is also the case for short term issuances recognised in the balance sheet items “Debt securities in issue” and “Subordinated liabilities”.

Other liabilities and accrued expenses and prepaid income
The balance sheet items "Other liabilities" and "Accrued expenses and prepaid income" consist of short-term liabilities, mainly liabilities on securities settlement. The fair value is therefore considered to be equal to the carrying amount and is categorised into level 3 in the fair value hierarchy.

Note 39 Financial instruments set off on balance or subject to netting agreements

Group

31 Dec 2016, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	220,044	-151,796	68,248	-51,445	-	-5,551	11,252
Reverse repurchase agreements	44,753	-9,991	34,762	-2,841	-37,323	-	-5,402
Total	**264,797**	**-161,787**	**103,010**	**-54,286**	**-37,323**	**-5,551**	**5,850**

31 Dec 2016, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	221 655	-151 796	69 860	-51 445	-	-8 707	9 708
Repurchase agreements	31 199	-9 991	21 207	-10 951	-10 239	-	17
Total	252 854	-161 787	91 067	-62 396	-10 239	-8 707	9 725

[1] All amounts are measured at fair value.

[2] Reverse repurchase agreements and Securities borrowing agreements are on the balance sheet classified as Loans to central banks, Loans to credit institutions or Loans to the public. Repurchase agreements and Securities lending agreements are on the balance sheet classified as Deposits by credit institution or as Deposits and borrowings from the public.

Group

31 Dec 2015, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	207,755	-127,466	80,290	-62,598	-	-7,582	10,111
Reverse repurchase agreements	63,251	-9,888	53,362	-16,532	-36,631	-	199
Total	**271,006**	**-137,354**	**133,652**	**-79,130**	**-36,631**	**-7,582**	**10,310**

31 Dec 2015, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	210,312	-127,466	82,846	-62,598	-	-12,390	7,859
Repurchase agreements	45,330	-9,888	35,442	-16,532	-18,875	-	36
Total	**255,642**	**-137,354**	**118,288**	**-79,130**	**-18,875**	**-12,390**	**7,895**

[1] All amounts are measured at fair value.

[2] Reverse repurchase agreements and Securities borrowing agreements are on the balance sheet classified as Loans to central banks, Loans to credit institutions or Loans to the public. Repurchase agreements and Securities lending agreements are on the balance sheet classified as Deposits by credit institution or as Deposits and borrowings from the public.

Note 39 Financial instruments set off on balance or subject to netting agreements, cont.

Parent company

31 Dec 2016, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	220,044	-151,796	68,248	-51,445	-	-5,551	11,252
Reverse repurchase agreements	44,753	-9,991	34,762	-2,841	-37,323	-	-5,402
Total	**264,797**	**-161,787**	**103,010**	**-54,286**	**-37,323**	**-5,551**	**5,850**

31 Dec 2016, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	221 655	-151 796	69 860	-51 445	-	-8 707	9 708
Repurchase agreements	31 199	-9 991	21 207	-10 951	-10 239	-	17
Total	**252 854**	**-161 787**	**91 067**	**-62 396**	**-10 239**	**-8 707**	**9 725**

[1] All amounts are measured at fair value.

[2] Reverse repurchase agreements and Securities borrowing agreements are on the balance sheet classified as Loans to central banks, Loans to credit institutions or Loans to the public. Repurchase agreements and Securities lending agreements are on the balance sheet classified as Deposits by credit institutions or as Deposits and borrowings from the public.

Parent company

31 Dec 2015, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	207,755	-127,466	80,290	-62,598	-	-7,582	10,111
Reverse repurchase agreements	63,251	-9,888	53,362	-16,532	-36,631	-	199
Total	**271,006**	**-137,354**	**133,652**	**-79,130**	**-36,631**	**-7,582**	**10,310**

31 Dec 2015, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	210,312	-127,466	82,846	-62,598	-	-12,390	7,859
Repurchase agreements	45,330	-9,888	35,442	-16,532	-18,875	-	36
Total	**255,642**	**-137,354**	**118,288**	**-79,130**	**-18,875**	**-12,390**	**7,895**

[1] All amounts are measured at fair value.

[2] Reverse repurchase agreements and Securities borrowing agreements are on the balance sheet classified as Loans to central banks, Loans to credit institutions or Loans to the public. Repurchase agreements and Securities lending agreements are on the balance sheet classified as Deposits by credit institutions or as Deposits and borrowings from the public.

Note 39 Financial instruments set off on balance or subject to netting agreements, cont.

Enforceable master netting arrangements and similar agreements

The fact that financial instruments are being accounted for on a gross basis on the balance sheet, would not imply that the financial instruments are not subject to master netting agreements or similar arrangements. Generally financial instruments (derivatives, repos and securities lending transactions), would be subject to master netting agreements, and as a consequence, Nordea would be allowed to benefit from netting both in the ordinary course of business and in the case of default towards its counter parties, in any calculations involving counterparty credit risk. The reason why the netted exposures are not reflected under assets and liabilities on the balance sheet, would in most instances depend on the limited application of net settlement of financial transactions.

For a description of counterparty risk see section Risk, Liquidity and Capital management, counterparty credit risk, in the Board of Directors' report.

Note 40 Transferred assets and obtained collaterals

Transferred assets that are not derecognised in their entirety and associated liabilities

All assets transferred continue to be recognised on the balance sheet if Nordea is still exposed to changes in the fair value of the assets. This is the case for repurchase agreements and securities lending transactions.

Repurchase agreements are a form of collateralised borrowing where Nordea sells securities with an agreement to repurchase them at a later date at a fixed price. The cash received is recognised as a deposit (liability). Securities delivered under repurchase agreements are not derecognised from the balance sheet.

Securities lending transactions are transactions where Nordea lends securities it holds to a counterpart and receives a fee.

As both repurchase agreements and securities lending transactions results in the securities are returned to Nordea, all risks and rewards of the instruments transferred is retained by Nordea, although they are not available for Nordea during the period they are transferred. The counterpart in the transactions holds the securities as collateral, but has no recourse to other assets in Nordea.

The securities are still reported on the balance sheet and the corresponding liabilities are measured at fair value.

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Repurchase agreements				
Interest-bearing securities	4,139	4,627	4,139	4,627
Total	**4,139**	**4,627**	**4,139**	**4,627**

Liabilities associated with the assets

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Repurchase agreements				
Deposits by credit institutions	1,648	2,706	1,648	2 706
Deposits and borrowings from the public	2,491	1,921	2,491	1 921
Total	**4,139**	**4,627**	**4,139**	**4,627**
Net	**0**	**0**	**0**	**0**

Obtained collaterals which are permitted to be sold or repledged

NBF obtains collaterals under reverse repurchase and securities borrowing agreements which, under the terms of the agreements, can be sold or repledged. The transactions are conducted under standard agreements employed by financial markets participants. Generally, the agreements require additional collateral to be provided if the value of the securities falls below a predetermined level. Under standard terms for most repurchase transactions, the recipient of collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transactions. The fair value of the securities obtained as collateral under reverse repurchase and securities borrowing agreements are disclosed below.

	Group		Parent company	
	31 Dec	31 Dec	31 Dec	31 Dec
EURm	2016	2015	2016	2015
Reverse repurchase agreements				
Received collaterals which can be repledged or sold	32,629	40,915	32,629	40,915
- of which repledged or sold	16,151	19,660	16,151	19,660
Total	**32,629**	**40,915**	**32,629**	**40,915**

Note 41 Maturity analysis for assets and liabilities

Group

Expected maturity

		31 Dec 2016			31 Dec 2015		
		Expected to be recovered or settled:			Expected to be recovered or settled:		
EURm	Note	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
Cash and balances with central banks		29,367	-	29,367	32,613	-	32,613
Loans to central banks	13	299	-	299	5,328	-	5,328
Loans to credit institutions	13	18,222	8,122	26,344	20,929	6,160	27,089
Loans to the public	13	32,541	32,070	64,611	45,624	55,823	101,447
Interest-bearing securities	14	7,470	19,898	27,368	9,850	20,293	30,143
Financial instruments pledged as collateral	15	1,130	3,009	4,139	1,504	3,123	4,627
Shares	16	1,262	0	1,262	2,019	1	2,020
Derivatives	17	12,398	56,165	68,563	11,865	68,692	80,557
Fair value changes of the hedged items in portfolio hedge of interest rate risk		15	6	21	3	48	51
Investments in associated undertakings	19	2	32	34	2	40	42
Intangible assets	20	13	29	42	8	36	44
Properties and equipment		2	82	84	6	70	76
Investment properties		-	1	1	-	1	1
Deferred tax assets	12	3	0	3	14	0	14
Current tax assets	12	5	-	5	1	-	1
Retirement benefit assets	30	-	78	78	-	90	90
Other assets	22	16,232	6	16,238	17,010	5	17,015
Prepaid expenses and accrued income	23	316	-	316	432	-	432
Total assets		**119,277**	**119,498**	**238,775**	**147,208**	**154,382**	**301,590**
Deposits by credit institutions	24	59,783	4,135	63,918	73,178	4,984	78,162
Deposits and borrowings from the public	25	55,191	161	55,352	61,486	667	62,153
Debt securities in issue	26	11,911	6,596	18,507	19,651	23,756	43,407
Derivatives	17	13,643	57,221	70,864	13,778	69,760	83,538
Fair value changes of the hedged items in portfolio hedge of interest rate risk		3	22	25	50	507	557
Current tax liabilities	12	65	-	65	77	-	77
Other liabilities	27	17,487	-	17,487	20,066	-	20,066
Accrued expenses and prepaid income	28	382	4	386	562	5	567
Deferred tax liabilities	12	39	21	60	36	18	54
Provisions	29	0	63	63	1	80	81
Retirement benefit liabilities	30	-	6	6	1	3	4
Subordinated liabilities	31	-	632	632	-	628	628
Total liabilities		**158,504**	**68,861**	**227,365**	**188,886**	**100,408**	**289,294**

Note 41 Maturity analysis for assets and liabilities, cont.

Parent company

Expected maturity

		31 Dec 2016			31 Dec 2015		
		Expected to be recovered or settled:			Expected to be recovered or settled:		
EURm	Note	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
Cash and balances with central banks		29,367	-	29,367	32,613	-	32,613
Loans to central banks	13	100	-	100	5,129	-	5,129
Loans to credit institutions	13	21,783	9,973	31,756	24,337	9,170	33,507
Loans to the public	13	27,758	28,996	56,754	41,145	52,918	94,063
Interest-bearing securities	14	7,470	19,898	27,368	9,850	20,293	30,143
Financial instruments pledged as collateral	15	1,130	3,009	4,139	1,504	3,123	4,627
Shares	16	1,262	-	1,262	2,019	-	2,019
Derivatives	17	12,397	56,166	68,563	11,865	68,692	80,557
Fair value changes of the hedged items in portfolio hedge of interest rate risk		15	6	21	3	48	51
Investments in group undertakings	18	-	306	306	-	309	309
Investments in associated undertakings	19	-	8	8	-	28	28
Intangible assets	20	-	26	26	-	31	31
Properties and equipment		-	80	80	-	69	69
Investment properties		-	1	1	-	1	1
Deferred tax assets	12	0	-	0	12	-	12
Retirement benefit assets	30	-	78	78	-	90	90
Other assets	22	16,205	-	16,205	16,970	-	16,970
Prepaid expenses and accrued income	23	222	-	222	263	-	263
Total assets		**117,709**	**118,547**	**236,256**	**145,710**	**154,772**	**300,482**
Deposits by credit institutions	24	58,436	4,109	62,545	73,188	4,984	78,172
Deposits and borrowings from the public	25	55,190	161	55,351	61,483	667	62,150
Debt securities in issue	26	11,911	6,596	18,507	19,651	23,756	43,407
Derivatives	17	13,644	57,220	70,864	13,778	69,760	83,538
Fair value changes of the hedged items in portfolio hedge of interest rate risk		3	22	25	50	507	557
Current tax liabilities	12	65	-	65	77	-	77
Other liabilities	27	17,296	-	17,296	19,856	-	19,856
Accrued expenses and prepaid income	28	268	-	268	382	-	382
Provisions	29	-	62	62	-	78	78
Retirement benefit liabilities	30	-	4	4	-	4	4
Subordinated liabilities	31	-	632	632	-	628	628
Total liabilities		**156,813**	**68,806**	**225,619**	**188,465**	**100,384**	**288,849**

Note 41 Maturity analysis for assets and liabilities, cont.

Contractual undiscounted cash flows

Group

31 Dec 2016, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	**Total**
Interest-bearing financial assets	34,567	53,549	14,253	49,098	17,213	**168,680**
Non interest-bearing financial assets					17,343	**17,343**
Non-financial assets					741	**741**
Total assets	**34,567**	**53,549**	**14,253**	**49,098**	**35,297**	**186,763**
Interest-bearing financial liabilities	48,307	72,525	18,931	9,355	153	**149,272**
Non interest-bearing financial liabilities					18,091	**18,091**
Non-financial liabilities and equity					11,410	**11,410**
Total liabilities and equity	**48,307**	**72,525**	**18,931**	**9,355**	**29,653**	**178,772**
Derivatives, cash inflow		591,920	152,001	214,497	25,013	**983,432**
Derivatives, cash outflow		590,211	154,959	218,153	25,133	**988,455**
Net exposure	**0**	**1,710**	**-2,958**	**-3,656**	**-119**	**-5,024**
Exposure	**-13,741**	**-17,266**	**-7,637**	**36,086**	**5,525**	**2,968**
Cumulative exposure	**-13,741**	**-31,007**	**-38,643**	**-2,557**	**2,968**	

Group

31 Dec 2015, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	**Total**
Interest-bearing financial assets	40,166	66,539	24,891	53,088	36,266	**220,949**
Non interest-bearing financial assets					99,511	**99,511**
Non-financial assets					832	**832**
Total assets	**40,166**	**66,539**	**24,891**	**53,088**	**136,608**	**321,292**
Interest-bearing financial liabilities	48,601	91,441	25,095	23,865	7,411	**196,413**
Non interest-bearing financial liabilities					104,152	**104,152**
Non-financial liabilities and equity					13,089	**13,089**
Total liabilities and equity	**48,601**	**91,441**	**25,095**	**23,865**	**124,652**	**313,654**
Derivatives, cash inflow		546,220	110,138	46,883	9,444	**712,685**
Derivatives, cash outflow		546,781	111,220	52,935	9,916	**720,853**
Net exposure	**0**	**-561**	**-1,081**	**-6,052**	**-472**	**-8,167**
Exposure	**-8,435**	**-25,463**	**-1,286**	**23,171**	**11,483**	**-529**
Cumulative exposure	**-8,435**	**-33,898**	**-35,184**	**-12,013**	**-529**	

Note 41 Maturity analysis for assets and liabilities, cont.

Contractual undiscounted cash flows

Parent company

31 Dec 2016, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest-bearing financial assets	34,543	49,773	16,125	48,532	16,919	**165,893**
Non interest-bearing financial assets					17,302	**17,302**
Non-financial assets					907	**907**
Total assets	**34,543**	**49,773**	**16,125**	**48,532**	**35,128**	**184,102**
Interest-bearing financial liabilities	48,191	71,495	18,798	9,263	152	**147,899**
Non interest-bearing financial liabilities					17,718	**17,718**
Non-financial liabilities and equity					10,637	**10,637**
Total liabilities and equity	**48,191**	**71,495**	**18,798**	**9,263**	**28,507**	**176,254**
Derivatives, cash inflow		591,920	152,001	214,497	25,013	**983,432**
Derivatives, cash outflow		590,211	154,959	218,153	25,133	**988,455**
Net exposure	**0**	**1,710**	**-2,958**	**-3,656**	**-119**	**-5,024**
Exposure	**-13,648**	**-20,012**	**-5,631**	**35,613**	**6,502**	**2,824**
Cumulative exposure	**-13,648**	**-33,660**	**-39,291**	**-3,678**	**2,824**	

Parent company

31 Dec 2015, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Interest-bearing financial assets	40,153	66,728	24,927	53,695	34,131	**219,633**
Non interest-bearing financial assets					99,859	**99,859**
Non-financial assets					541	**541**
Total assets	**40,153**	**66,728**	**24,927**	**53,695**	**134,531**	**320,033**
Interest-bearing financial liabilities	48,601	91,442	25,099	23,866	7,412	**196,420**
Non interest-bearing financial liabilities					103,952	**103,952**
Non-financial liabilities and equity					12,174	**12,174**
Total liabilities and equity	**48,601**	**91,442**	**25,099**	**23,866**	**123,538**	**312,546**
Derivatives, cash inflow		546,220	110,138	46,883	9,444	**712,685**
Derivatives, cash outflow		546,781	111,220	52,935	9,916	**720,853**
Net exposure	**0**	**-561**	**-1,081**	**-6,052**	**-472**	**-8,167**
Exposure	**-8,448**	**-25,275**	**-1,253**	**23,776**	**10,521**	**-680**
Cumulative exposure	**-8,448**	**-33,723**	**-34,977**	**-11,201**	**-680**	

The table is based on contractual maturities for the balance sheet items. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis. In addition to the instruments on the balance sheet items, Nordea has credit commitments amounting to EUR 15,043m (13,613), which could be drawn on at any time.

NBF has also issued guarantees of EUR 26,127m (11,081) which may lead to future cash outflows if certain events occur.

Note 42 Related-party transactions

Shareholders with significant influence and close family members to key management personnel in the Nordea Group as well as companies significantly influenced by key management personnel or by close family members to key management personnel in the Nordea Group are considered to be related parties to Nordea. Included in this group of related parties are Sampo Oyj and Aegon Asset Management. If transactions with related companies are made in Nordea's and the related companies' ordinary course of business and on the same criteria and terms as those for comparable transactions with parties of similar standing, and if they did not involve more than normal risk taking, the transactions are not included in the table. Nordea has thus not disclosed any transactions with shareholders with significant influence.

Group

	Nordea Group undertakings		Nordea Group associated undertakings		Other related parties	
EURm	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Assets						
Loans	26,040	25,580	108	164	-	-
Interest-bearing securities	1,770	2,115	24	73	-	-
Financial instruments pledged as collateral	209	286	-	-	-	-
Derivatives	2,991	3,909	42	76	-	-
Other assets	1,027	1,860	-	-	-	-
Prepaid expenses and accrued income	25	14	-	-	-	-
Total assets	**32,062**	**33,764**	**174**	**313**	**-**	**-**
Liabilities						
Deposits	38,034	47,061	40	4	13	11
Debt securities in issue	326	587	-	-	-	-
Derivatives	4,680	5,925	26	112	-	-
Subordinated liabilities	550	550	-	-	-	-
Other liabilities	102	85	-	-	-	-
Accrued expenses and deferred income	138	204	-	-	-	-
Total liabilities	**43,830**	**54,412**	**66**	**116**	**13**	**11**
Off balance[1]	**351,142**	**248,344**	**1,585**	**3,337**	**-**	**-**

[1] Including nominal values on derivatives.

Group

EURm	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Net interest income	78	85	2	2	0	0
Net fee and commission income	-426	-454	1	1	0	0
Net result from items at fair value	87	790	52	246	-	-
Other operating income	32	18	0	0	-	-
Total operating expenses	-212	-189	0	0	-	-
Profit before loan losses	**-441**	**250**	**55**	**249**	**0**	**0**

Parent company

	Group undertakings		Associated undertakings		Other related parties	
EURm	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Assets						
Loans	31,452	32,004	86	142	-	-
Interest-bearing securities	1,770	2,115	-	-	-	-
Financial instruments pledged as collateral	209	286	-	-	-	-
Derivatives	2,991	3,909	2	4	-	-
Investments in associated undertakings	-	-	8	28	-	-
Investments in group undertakings	306	309	-	-	-	-
Other assets	1,027	1,860	-	-	-	-
Prepaid expenses and accrued income	29	21	-	-	-	-
Total assets	**37,784**	**40,504**	**96**	**174**	**-**	**-**

Note 42 Related-party transactions, cont.

Parent company

EURm	Group undertakings 31 Dec 2016	Group undertakings 31 Dec 2015	Associated undertakings 31 Dec 2016	Associated undertakings 31 Dec 2015	Other related parties 31 Dec 2016	Other related parties 31 Dec 2015
Liabilities						
Deposits	36,662	47,071	40	4	13	11
Debt securities in issue	326	587	-	-	-	-
Derivatives	4,680	5,925	-	-	-	-
Subordinated liabilities	550	550	-	-	-	-
Other liabilities	102	85	-	-	-	-
Accrued expenses and deferred income	74	136	-	-	-	-
Total liabilities	**42,394**	**54,354**	**40**	**4**	**13**	**11**
Off balance[1]	**351,393**	**248,700**	**70**	**93**	-	-

[1] Including nominal values on derivatives.

Parent company

EURm	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Net interest income	86	101	2	2	0	0
Net fee and commission income	-358	-387	0	0	0	0
Net result from items at fair value	88	790	1	1	-	-
Other operating income	37	22	-	-	-	-
Total operating expenses	-206	-190	-	-	-	-
Profit before loan losses	**-353**	**336**	**3**	**3**	**0**	**0**

The terms “group undertakings” and “associated undertakings” refer to group undertakings and associated undertakings of the Nordea Group. Related-party transactions of Nordea Bank Finland Group and the Nordea Group are included in group undertakings of the parent company.

Compensations and loans and receivables to key management personnel

Compensations and loans to Key management personnel are specified in Note 8.

Note 43 Credit risk disclosure

Credit risk management and credit risk analysis are described in the Risk, Liquidity and Capital management section of the Board of Directors´ Report. Additional information on credit risk is also disclosed in the Capital and Risk Management Report 2016 (Pillar III), which is available at www.nordea.com.

Group

Exposure types, EURm	31 Dec 2016	31 Dec 2015[1]
On-balance sheet items	112,815	139,620
Off-balance sheet items	20,728	11,828
Securities financing	3,471	4,828
Derivatives	24,177	24,437
Exposure At Default (EAD)	**161,191**	**180,713**

[1] Figures have been restated for 2015

Tables presented in this note, containing exposure, are presented as Exposure At Default (EAD). EAD is the exposure after applying credit conversion factors (CCF).

Note 43 Credit risk disclosure, cont.

Link between credit risk exposure and the balance sheet

This section discloses the link between the loan portfolio as defined by accounting standards and exposure as defined in Capital Requirements Regulation (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. In this note, however, 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 presented in this note, is divided into exposure classes where each exposure class is divided into exposure types as follows:

- On-balance sheet items
- Off-balance sheet items (e.g. guarantees, credit commitments and unutilised lines of credit)
- Securities financing (e.g. reverse repurchase agreements and securities lending)
- Derivatives

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

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

The table below shows the link between the CRR credit risk exposure and items presented in the Annual Report.

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).
- Other, mainly allowances and intangible assets.

Off-balance sheet items

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

- “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

Derivatives and securities financing

The fair value of derivatives 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 on the balance sheet calculated based on nominal value. In the CRR calculations these exposure types are determined net of the collateral.

On-balance sheet items

Group

31 Dec 2016, EURm	Original exposure	Items related to market risk	Repos, derivatives, securities lending	Items excluded from CCR scope of consolidation	Other	Balance sheet
Cash and balances with central banks	29,367	-	-	-	-	29,367
Loans to central banks and credit institutions	23,924	-	2,719	-	-	26,643
Loans to the public	43,170	-	22,052	-5	-607	64,611
Interest-bearing securities and pledged instruments	15,596	15,911	-	-	-	31,507
Derivatives[1]	-	-	68,563	-	-	68,563
Intangible assets	-	-	-	-	42	42
Other assets and prepaid expenses	801	15,828	98	80	1,234	18,042
Total assets	**112,859**	**31,739**	**93,432**	**76**	**669**	**238,775**
Exposure at default[2]	**112,815**					

[1] Derivatives are included in banking and trading books, but not at book values. Counterparty risk in trading derivatives is included in the credit risk.
[2] The on-balance exposure have a CCF of 100%, but can still have a lower EAD due to provisions in the standardised approach, that are deducted from the original exposure when calculating EAD.

Note 43 Credit risk disclosure, cont.

On-balance sheet items

Group

31 Dec 2015, EURm	Original exposure	Items related to market risk	Repos, derivatives, securities lending	Items excluded from CCR scope of consolidation	Other	Balance sheet
Cash and balances with central banks	32,613	-	-	-	-	32,613
Loans to central banks and credit institutions	23,817	-	8,596	4	-	32,417
Loans to the public	67,210	-	34,878	-6	-635	101,447
Interest-bearing securities and pledged instruments	14,850	19,921	-	-	-	34,771
Derivatives[1]	-	-	80,557	-	-	80,557
Intangible assets	-	-	-	-	44	44
Other assets and prepaid expenses	1,175	17,297	116	70	1,083	19,742
Total assets	**139,665**	**37,218**	**124,147**	**68**	**491**	**301,590**
Exposure at default[2, 3]	**139,620**					

[1] Derivatives are included in banking and trading books, but not at book values. Counterparty risk in trading derivatives is included in the credit risk.

[2] The on-balance exposure have a CCF of 100%, but can still have a lower EAD due to provisions in the standardised approach, that are deducted from the original exposure when calculating EAD.

[3] Exposure at default has been restated for 2015

Off-balance sheet items

Group

31 Dec 2016, EURm	Credit risk in accordance with CRR	Off-balance sheet
Contingent liabilities	27,436	27,436
Commitments	15,185	15,185
Total	**42,622**	**42,622**

31 Dec 2016, EURm	Credit risk in accordance with CRR	Items not included in accounts	Original exposure	Average conversion factor	Exposure at default EAD
Credit facilities	7,052	4,168	11,219	47%	5,308
Checking accounts	6,892	-	6,892	49%	3,357
Loan commitments	1,344	50	1,394	45%	621
Guarantees	26,313	-	26,313	42%	11,111
Other	1,020	-	1,020	32%	331
Total	**42,622**	**4,217**	**46,839**		**20,728**

31 Dec 2015, EURm	Credit risk in accordance with CRR	Off-balance sheet
Contingent liabilities	12,432	12,432
Commitments	13,972	13,972
Total	**26,404**	**26,404**

31 Dec 2015, EURm	Credit risk in accordance with CRR	Items not included in accounts	Original exposure	Average conversion factor	Exposure at default EAD
Credit facilities	5,810	4,611	10,421	38%	3,945
Checking accounts	7,157	-	7,157	44%	3,121
Loan commitments	979	347	1,326	44%	579
Guarantees	11,646	-	11,646	34%	3,926
Other	812	-	812	32%	257
Total	**26,404**	**4,958**	**31,362**		**11,828**

Note 43 Credit risk disclosure, cont.

Exposure split by industry group

In the table below, the total exposure is split by industry. The industry breakdown mainly follows the Global Industries Classification Standard (GICS) and is based on NACE codes (i.e. statistical classification codes of economic activities in the European community). Banks is the largest sector followed by other, public and organisations. Together they account for more than 67% of the total exposure of EUR 161bn. The largest nominal decrease was found within the other, public and organisations industry and the largest nominal increase within other financial institutions. Total exposures decreased to EUR 161bn 2016 from EUR 181bn 2015, the main reason for this is the move of exposures from Nordea Bank Finland Plc to Nordea Mortgage Bank during 2016.

Group

EURm	31 Dec 2016	31 Dec 2015[1]
Banks	69,331	68,937
Construction and engineering	1,501	1,387
Consumer durables (cars, appliances, etc.)	1,346	1,705
Consumer staples (food, agriculture etc.)	2,064	2,099
Energy (oil, gas, etc.)	924	591
Health care and pharmaceuticals	1,005	810
Industrial capital goods	2,614	2,809
Industrial commercial services	3,424	3,397
IT software, hardware and services	814	744
Media and leisure	876	859
Metals and mining materials	292	242
Other financial institutions	10,205	8,638
Other materials (chemical, building materials etc.)	2,475	2,538
Other, public and organisations	39,118	57,572
Paper and forest materials	1,545	1,451
Real estate management and investment	10,065	12,273
Retail trade	3,413	3,437
Shipping and offshore	3,844	4,540
Telecommunication equipment	178	172
Telecommunication operators	644	715
Transportation	2,428	2,134
Utilities (distribution and production)	3,087	3,664
Total exposure	**161,191**	**180,713**

[1] Figures have been restated for 2015

Collateral distribution

The table below presents the distribution of collateral used in the capital adequacy calculation process. The table shows real estate to constitute a major share of eligible collateral items even though a large drop since 2015 is seen. The reason for the decrease within residential real estate is the move of exposures from Nordea Bank Plc to Nordea Mortgage Bank Plc during 2016. The relative share of all the other collaterals increased during the year.

Group

EURm	31 Dec 2016	31 Dec 2015
Financial Collateral	4%	2%
Receivables	4%	2%
Residential Real Estate	49%	74%
Commercial Real Estate	21%	11%
Other Physical Collateral	21%	12%
Total	**100%**	**100%**

Note 43 Credit risk disclosure, cont.

Collateralised Debt Obligations (CDO) - Exposure[1]

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.

Credit derivatives transactions create counterparty credit risk in 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.

Group and parent company

	31 Dec 2016		31 Dec 2015	
Nominals, EURm	Bought protection	Sold protection	Bought protection	Sold protection
CDOs, gross	842	2,190	788	1,854
Hedged exposures	806	805	754	754
CDOs, net[2]	**36[3]**	**1,385[4]**	**34[3]**	**1,100[4]**
- of which Equity	3	86	3	74
- of which Mezzanine	15	643	10	539
- of which Senior	18	656	21	487

[1] First-to-Default swaps are not classified as CDOs and are therefore not included in the table. Net bought protection amounts to EUR 7m (15) and net sold protection to EUR 13m (64). Both bought and sold protection are, to the predominant part, investment grade.

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

[3] Of which investment grade EUR 0m (0) and sub investment grade EUR 36m (34).

[4] Of which investment grade EUR 545m (538) and sub investment grade EUR 840m (563) and not rated EUR 0m (0).

Assets taken over for protection of claims[1]

	Group		Parent company	
EURm	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Current assets, carrying amount:				
Shares and other participations	1	1	1	1
Other assets	2	1	-	1
Total	**3**	**2**	**1**	**2**

[1] In accordance with Nordea's policy for taking over assets for protection of claims, which is in compliance with the local Banking Business Acts, wherever Nordea is located. Assets, used as collateral for the loan, are generally taken over when the customer is not able to fulfil its obligations to Nordea.

Past due loans, excl. impaired loans

The table below shows past due loans not 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 that are not considered impaired were at end of 2016 EUR 297m up from EUR 245m one year ago. Past due loans for household customers decreased to EUR 288m (565).

	Group				Parent company			
	31 Dec 2016		31 Dec 2015		31 Dec 2016		31 Dec 2015	
EURm	Corporate customers	Household customers	Corporate customers	Household customers	Corporate customers	Household customers	Corporate customers	Household customers
6-30 days	129	146	146	364	45	121	103	358
31-60 days	63	84	48	108	19	41	39	106
61-90 days	44	42	14	35	9	22	10	34
>90 days	60	15	37	58	39	12	26	32
Total	**297**	**288**	**245**	**565**	**112**	**195**	**177**	**530**
Past due not impaired loans divided by loans to the public after allowances, %	0.62	1.82	0.39	1.53	0.26	1.53	0.30	1.56

Note 43 Credit risk disclosure, cont.

Loans to corporate customers, by size of loan

The distribution of loans to corporate customers by size of loans shows that approximately 82% (81) of the corporate volume represents loans up to EUR 50m.

	Group				Parent company			
EURm	31 Dec 2016	%	31 Dec 2015	%	31 Dec 2016	%	31 Dec 2015	%
0-10	26,849	56.3	34,723	55.0	24,161	56.3	32,326	55.0
10-50	12,484	26.2	16,250	25.7	11,234	26.2	15,128	25.7
50-100	3,785	7.9	5,321	8.4	3,406	7.9	4,954	8.4
100-250	4,568	9.6	6,089	9.6	4,111	9.6	5,669	9.6
250-500	0	0.0	796	1.3	0	0.0	741	1.3
500-	0	0.0	0	0.0	0	0.0	0	0.0
Total	**47,687**	**100.0**	**63,179**	**100.0**	**42,913**	**100.0**	**58,818**	**100.0**

Interest-bearing securities

For more information about credit risk related to interest-bearing securities, see Note 14 where the carrying amount of interest-bearing securities is split on different types of counterparties.

Note 44 Interests in structured entities

Structured entities are entities designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. It normally has restricted activities with a narrow and well defined objective. If Nordea controls such an entity, it is consolidated.

Unconsolidated structured entities

For structured entities in which Nordea has an interest but does not control it, disclosures are provided. To be considered to have an interest in such an entity, Nordea must be exposed to variability in returns on the investment in the structured entity. Investment funds are the only interest in unconsolidated structured entities Nordea currently holds. Variability in returns is assessed based on both fees received and revaluation of holdings in the funds.

There are several different products where Nordea invests in investment funds:

- on behalf of depositors where the return is based the investment
- to hedge exposures in structured products issued to customers
- illiquid investments in private equity and credit funds

As Nordea is exposed to variability in returns on a gross basis, information about these funds are disclosed although the net exposure is considerably less.

Investment funds acquired to hedge exposures in structured products reduce the exposures and to the extent hedges are effective, Nordea is not exposed to changes in value. The maximum loss on these funds is estimated to EUR 6m, net of hedges.

NBF's interests in unconsolidated structured entities and any related liability are disclosed in the table below:

EURm	Group 31 Dec 2016	Parent company 31 Dec 2016
Assets, carrying amount		
Shares	245	245
Total assets	**245**	**245**
Liabilities		
Derivatives	198	198
Total liabilities	**198**	**198**

NBF has not sponsored any unconsolidated structured entity in which NBF does not currently have an interest.

Note 45 Country by country reporting

In accordance with the requirements under the Act on Credit Institutions, the table below presents for each country where NBF is established, i.e. where NBF has a physical presence, information about the businesses, the geographical area, average number of employees, total operating income, operating profit and income tax expense. NBF is considered to have physical presence in a country if NBF has a subsidiary, associated undertaking or branch in that country. NBF has not received any significant government subsidies.

Group

			2016			
Country	Business[1]	Geographical area	Average number of employees	Total operating income[2], EURm	Operating profit, EURm	Income tax expense, EURm
Denmark	WB	Denmark	-	246	216	-58
Finland	RB, WB	Finland	7,135	1,540	653	-112
Sweden	WB	Sweden	-	120	108	-28
Norway	WB	Norway	-	82	75	0
Estonia	WB	Estonia	-	25	19	-3
Latvia	WB	Latvia	-	15	12	-2
Lithuania	WB	Lithuania	-	14	11	-1
United Kingdom	WB	London	-	16	15	-3
United States	RB, WB	New York	117	142	82	-24
Singapore	RB, WB	Singapore	74	45	2	0
Total			**7,326**	**2,245**	**1,194**	**-232**

			2015			
Country	Business[1]	Geographical area	Average number of employees	Total operating income[2], EURm	Operating profit, EURm	Income tax expense, EURm
Denmark	WB	Denmark	-	281	250	-59
Finland	RB, WB	Finland	7,096	1,692	751	-184
Sweden	WB	Sweden	-	152	131	-29
Norway	WB	Norway	-	108	101	-27
Estonia	WB	Estonia	-	24	12	-3
Latvia	WB	Latvia	-	15	12	-2
Lithuania	WB	Lithuania	-	14	12	-1
United Kingdom	WB	London	-	9	9	-2
United States	RB, WB	New York	116	140	93	-37
Singapore	RB, WB	Singapore	73	50	31	-3
Total			**7,285**	**2,485**	**1,402**	**-347**

[1] RB= Retail banking, WB=Wholesale banking

[2] Total operating income presented in this table is split on countries based on where Nordea has a physical presence, i.e. where Nordea has a subsidiary, associated undertaking or branch, while total operating profit presented in Note 2 is split on countries based on the location of the customers´ operations.

Note 46 Nordea shares

Nordea Bank Finland Plc does not possess its own shares. During the year, Nordea Bank Finland has bought and sold shares in its parent company Nordea Bank AB (publ) as part of its normal trading and market making activities. The trades are specified in the table enclosed. The increased volumes are explained by higher trading activity in NBF.

	Acquisitions			Sales		
Month	Quantity	Average acq.price	Amount, EUR	Quantity	Average price	Amount, EUR
January	7,106,582	9.41	66,903,409.39	-7,975,376	9.46	-75,418,337.72
February	4,339,833	8.84	38,383,082.41	-4,912,800	9.00	-44,223,697.95
March	2,993,935	9.09	27,229,516.38	-3,221,795	9.10	-29,309,587.21
April	5,319,476	8.31	44,193,969.34	-7,441,548	8.28	-61,644,296.67
May	5,290,702	7.93	41,938,003.37	-6,390,574	7.94	-50,743,074.93
June	10,622,465	7.95	84,496,584.17	-9,090,035	7.73	-70,296,541.85
July	3,363,864	7.64	25,695,597.78	-4,053,130	7.69	-31,181,885.41
August	4,109,844	8.41	34,551,023.33	-4,558,211	8.51	-38,785,659.06
September	15,647,683	9.07	141,962,889.32	-16,070,678	9.05	-145,493,560.31
October	4,946,664	9.31	46,076,076.94	-5,113,017	9.26	-47,356,511.23
November	5,122,126	9.67	49,508,060.81	-4,810,151	9.75	-46,876,951.00
December	8,683,076	10.48	91,028,567.11	-8,383,789	10.45	-87,578,144.73
	77,546,250		691,966,780.35	-82,021,104		-728,908,248.08

The quota value of the Nordea Bank AB (publ) share is EUR 1.00. The trades had an insignificant effect on the shareholding and voting-power in Nordea Bank AB (publ). At year-end 2016 NBF owned 1,996,094 shares of the parent company.

Note 47 Operations to be transferred

Baltic subsidiaries[1]

	Group	
EURm	2016	2015
Net interest income	31	37
Net fee and commission income	5	5
Net result from items at fair value	0	0
Profit from companies accounted for under the equity method	1	1
Other operating income	1	2
Total operating income	**38**	**45**
Staff costs	-6	-6
Other expenses	-3	-4
Depreciation of tangible and intangible assets	0	0
Total operating expenses	**-9**	**-10**
Profit before loan losses	**29**	**35**
Net loan losses	-2	-9
Operating profit	**27**	**26**
Income tax expense	-5	-4
Net profit for the period	**22**	**22**

[1] The operations of Nordea Finance Finland Plc's Baltic subsidiaries will be combined with DNB Baltic operations. The transaction is conditional on regulatory approvals and is expected to close in the second quarter of 2017.

The proposal of the Board of Directors to the Final Shareholders' Meeting

The parent company's distributable funds on 31 December 2016 were EUR 7,686,697,438.34 of which the profit for the year was EUR 850,991,437.83. The Board of Directors proposes that the profit for the year be transferred to retained earnings, and that no dividend be distributed.

Signatures of the Directors' report and of the Financial Statements:

Helsinki, 28 February 2017

Heikki Ilkka

Erik Ekman

Tom Johannessen

Carl-Johan Granvik

Topi Manner
President

The Auditor's Note

Our auditors' report has been issued today.

Helsinki, 28 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant

Auditor's Report (Translation of the Finnish Original)

To the Shareholders' Meeting of Nordea Bank Finland Plc (merged on 2 January 2017)

Report on the Audit of the Financial Statements

Opinion

In our opinion the financial statements give a true and fair view of the group's and parent company's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements.

What we have audited

We have audited the financial statements of Nordea Bank Finland Plc (business identity code 1680235-8) for the year ended 31 December 2016. The financial statements comprise the group's and the parent company's balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

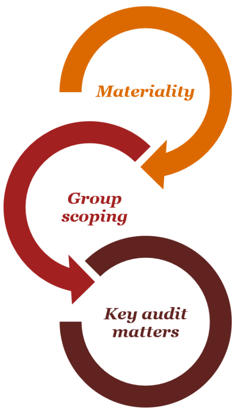
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our Audit Approach

Overview



- Overall group materiality is € 210 million, which represents 0,09 % of total assets
- Group audit includes the parent company and Nordea Finance Finland Ltd
- Key audit matters were:
  - Impairment of loans to customers
  - Valuation of certain Level II and Level III financial instruments held at fair value
  - IT-systems supporting process over financial reporting

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 210 million
How we determined it	0,09 % of total assets
Specific materiality	€ 60 million
How we determined it	5 % profit before taxes
Rationale for the materiality benchmark applied	We chose total assets as the benchmark because, in our view, key driver of the business and determinants of the bank's profit potential are best reflected in the balance sheet. A number of key performance indicator of the bank are driven by income statement items, therefore we have applied a specific materiality to all income statement items after Net result from items at fair value. The benchmarks determined are within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the Nordea Bank Finland group, the accounting processes and controls, and the industry in which the group operates.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	**Key audit matter in the audit of the group**
Impairment of loans to customers	
Refer to the Note 1 Accounting policies (Critical judgements and estimation uncertainty), Note 11 Net loan losses and Note 13 Loans and impairment to the financial statements Accounting for impairment of loans to customers require management's judgment over timing of recognition of impairment and the size of any such impairment allowance. Nordea Bank Finland Plc makes allowances for incurred credit losses both on an individual and on a collective basis. Important areas of impairment of loans to customers relate to: • Identification of impaired loans including completeness of the customer accounts that are included in the impairment calculation	Our audit included a combination of testing of internal controls over financial reporting and substantive testing. We assessed and tested the design and operating effectiveness of the controls over: • Rating and scoring of customers • Individually assessed loan impairment calculations • Collectively assessed loan impairment calculations. We performed detailed testing on a sample of loans to ascertain whether we concur with the risk assessment as expressed by the internal rating or scoring. We tested impairment calculations on a sample of significant impaired loans including assessment of expected future cash flows. In addition, we examined a sample of loans and advances which had not been identified by management as impaired.

• Assumptions and estimates made by management underlying the calculation of individual and collective impairment allowances. Examples of these relate to the probability to default and loss given default calculations.	We also assessed the appropriateness of relevant parameters in the collective impairment models.

Valuation of certain Level II and Level III financial instruments held at fair value

Refer to the Note 1 Accounting policies (Critical judgements and estimation uncertainty), Note 17 Derivatives and hedge accounting, Note 37 Classification of financial instruments and Note 38 Assets and liabilities at fair value to the financial statements. The valuation of Level II and Level III financial instruments utilise unobservable inputs for recurring fair value measurements. Significant portfolios of financial instruments are valued based on models and certain assumptions that are not observable by third parties. Important areas in valuation of financial instruments held at fair value relate to: • Framework and policies relating to models and valuation; • Internal controls relating to fair value hierarchy, fair value adjustments, price testing and model control & governance; and • Levelling and disclosures of financial instruments.	In our audit, we assessed and tested the design and operating effectiveness of the controls over: • the identification, measurement and oversight of valuation of financial instruments • fair value hierarchy, fair value adjustments and independent price verification • model control and governance We examined the Company's independent price verification processes, model validation and approval processes, controls over data feeds and inputs to valuation and the Company's governance and reporting processes and controls. For the valuations dependent on unobservable inputs or which involve a higher degree of judgement, we assessed the assumptions, methodologies and models used by the Company. We performed an independent valuation of a sample of positions. In respect of fair value adjustments, specifically CVA and DVA for derivatives, we assessed the methodology applied.

IT systems supporting processes over financial reporting

The Company's financial reporting is highly dependent on IT systems supporting automated accounting and reconciliation procedures. To ensure complete and accurate financial records it is important that the IT general controls are designed properly and they operates effectively.	For relevant IT systems and controls relating to financial reporting we assessed and tested the design and operating effectiveness. We examined the framework of governance over the Company's IT organisation and the controls over program development and changes, access to program and data and IT operations. • For logical access to program and data, audit activities included testing that new access, removal of access rights and that access rights were periodically monitored for appropriateness. Other areas tested included security configurations, controls over changes to IT-systems including appropriate segregation of duties.

We have no key audit matters to report with respect to our audit of the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance on whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises information included in the report of the Board of Directors and in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki 27 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant (KHT)

Management and auditors

Management

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

Topi Manner acts as the President of Nordea Bank Finland Plc and Jukka Perttula as his deputy.

Board of Directors until 26 January 2016

Torsten Hagen Jørgensen, Chairman
Born 1965. Member during 2013-26 Jan 2016.
Deputy CEO and Group Chief Operating Officer (COO)

Casper von Koskull, Vice Chairman
Born 1960. Member during 2010-26 Jan 2016.
President and Group Chief Executive Officer (CEO) in the Nordea Group

Carl-Johan Granvik
Born 1949. Member since 2012.
Former positions in Nordea: President of Nordea Bank Finland Plc, Head of Group Risk Management, Chief Risk Officer and Country Senior Executive in Finland

Gunn Wærsted
Born 1955. Member during 2010-26 Jan 2016.
Chief Executive Officer in Nordea Bank Norge ASA, Head of Wealth Management and Country Senior Executive in Norway

Board of Directors as from 27 January until 11 February 2016

Heikki Ilkka, Chairman
Born 1970. Member since 27 Jan 2016.
Group Chief Financial Officer (CFO), Head of Group Finance and Business Control

Erik Ekman, Vice Chairman
Born 1969. Member since 27 Jan 2016.
Head of Wholesale Banking

Johan Ekwall
Born 1963. Member during 27 Jan -11 Feb 2016.
Deputy Head of Chief of Staff Office

Carl-Johan Granvik
Born 1949. Member since 2012.
Former positions in Nordea: President of Nordea Bank Finland Plc, Head of Group Risk Management, Chief Risk Officer and Country Senior Executive in Finland

Board of Directors as from 12 February 2016 until 30 June 2016

Heikki Ilkka, Chairman
Born 1970. Member since 27 Jan 2016.
Group Chief Financial Officer (CFO), Head of Group Finance and Business Control

Erik Ekman, Vice Chairman
Born 1969. Member since 27 Jan 2016.
Head of Wholesale Banking

Carl-Johan Granvik
Born 1949. Member since 2012.
Former positions in Nordea: President of Nordea Bank Finland Plc, Head of Group Risk Management, Chief Risk Officer and Country Senior Executive in Finland

Lennart Jacobsen
Born 1966. Member since 12 Feb 2016- 30 June 2016. Head of Retail Banking, Country Senior Executive in Sweden.

Board of Directors as from 1 July 2016

Heikki Ilkka, Chairman
Born 1970. Member since 27 Jan 2016.
Group Chief Financial Officer (CFO), Head of Group Finance and Business Control

Erik Ekman, Vice Chairman
Born 1969. Member since 27 Jan 2016.
Head of Wholesale Banking

Carl-Johan Granvik
Born 1949. Member since 2012.
Former positions in Nordea: President of Nordea Bank Finland Plc, Head of Group Risk Management, Chief Risk Officer and Country Senior Executive in Finland

Tom Johannessen
Born 1970. Member since 1 July 2016.
Head of Group Treasury and Asset Liability Management

Auditors

The Annual General Meeting of Nordea Bank Finland Plc elects the company's auditors for a period of one year at a time. The auditor must be an audit firm authorised by the Finnish Chamber of Commerce.

PricewaterhouseCoopers Oy
Authorised Public Accountants

Auditor with main responsibility
Juha Wahlroos
Authorised Public Accountant

Corporate Governance Report 2016

Application by Nordea Bank Finland Plc

Nordea Bank Finland Plc is a wholly-owned subsidiary of Nordea Bank AB (publ), the listed parent company of the whole Nordea Group. The Nordea Group is referred to as "Nordea". A description of corporate governance in Nordea during the most recent financial year is included in the 2016 Annual Report of Nordea Bank AB (publ). All the operations of Nordea Bank Finland Plc are integrated into the operations of the Nordea Group. Nordea has established the corporate governance framework at group level and the framework is reviewed on a continuous basis. Information on corporate governance in Nordea and this report are available on www.nordea.com. Nordea Bank Finland Plc has given a description of governance arrangements in accordance with the Act on Credit Institutions available on www.nordea.com.

Strong corporate governance is about companies having clear and systematic decision-making processes, thus providing clarity about responsibilities, avoiding conflicts of interest and ensuring satisfactory internal control, risk management and transparency. Commitment to Nordea's mission and vision requires the integration of sound corporate governance practices into regular business activities to attain – as far as possible – a company that is both well governed and well managed.

Nordea follows generally adopted principles of corporate governance including the rules and principles set forth in the Swedish Code of Corporate Governance. Although the codes differ in details between the countries, they are all based on the general international development and common Nordic approach within this field and thus show a fundamental resemblance to one another.

Nordea Bank Finland Plc submits this Corporate Governance report as an issuer of bonds. This report has been prepared following the guideline on Corporate Governance Statement in the Finnish Corporate Governance Code 2015. This report is submitted as a separate report from the Annual Report 2016 and it is available on www.nordea.com.

The Board of Directors has reviewed this Corporate Governance Report.

On Internal Governance in Nordea Bank Finland Plc

General Meeting
Nordea Bank Finland Plc (referred as to "NBF" or "Bank") is the wholly-owned subsidiary of Nordea Bank AB (publ). The General Meeting is the highest decision-making body.

The Board of Directors of Nordea Bank Finland Plc shall be responsible for the administration of the Bank and the appropriate organisation of its operations, and for representing the Bank.

The Board of Directors
The Board of Directors of Nordea Bank Finland Plc consists at the moment of four members, one of which is an external board member. According to the Articles of Association, the Board of Directors shall consist of not less than four and not more than seven members. The Board of Directors shall appoint the Chairman and the Deputy Chairman of the Board.

During 2016 the Board of Directors had 28 meetings.

Members of the Board of Directors and attendance:

As from 1 January 2016 until 26 January 2016

Torsten Hagen Jørgensen, Chairman	1/1
Casper von Koskull, Deputy Chairman	1/1
Carl-Johan Granvik	1/1
Gunn Wærsted	1/1

As from 27 January 2016 until 11 February 2016

Heikki Ilkka, Chairman	4/4
Erik Ekman, Deputy Chairman	4/4
Johan Ekwall	4/4
Carl-Johan Granvik	4/4

As from 12 February 2016 until 30 June 2016

Heikki Ilkka, Chairman	13/13
Erik Ekman, Deputy Chairman	13/13
Carl-Johan Granvik	13/13
Lennart Jacobsen	13/13

As from 1 July 2016

Heikki Ilkka, Chairman	10/10
Erik Ekman, Deputy Chairman	10/10
Carl-Johan Granvik	10/10
Tom Johannessen	10/10

Biographical details of the board members as well as their shareholding in Nordea on 31 December 2016:

- Heikki Ilkka, Nordea Group Chief Financial Officer, MSc (Econ), born 1970, shareholding in Nordea: 0
- Erik Ekman, Nordea Group Head of Commercial & Business Banking, PhD (Econ), born 1969, shareholding in Nordea: 0
- Carl-Johan Granvik, MSc (Econ), born 1949, shareholding in Nordea: 18,047
- Tom Johannessen, Nordea Group Head of Group Treasury & ALM, BSc (Hons), born 1970, shareholding in Nordea: 0

Biographical details of former board members:

- Johan Ekwall, Nordea Group Chief of Staff, MSc (Econ), born 1963
- Lennart Jacobsen, Nordea Group Head of Retail Banking until 30 June 2016, MSc (Tech), born 1966
- Torsten Hagen Jørgensen, Nordea Group COO and Deputy Group CEO, MSc (Econ), born 1965
- Casper von Koskull, President of NBAB and Nordea Group CEO, MSc (Econ), born 1960
- Gunn Wærsted, Nordea Group Head of Wealth Management until 31 January 2016, MSc (Econ), born 1955

Further information on the members of the Board of Directors can be found in the section of "Management and auditors" in the Annual Report 2016 of NBF.

The term of office of the members of the Board of Directors shall continue until further notice. The retirement age for members of the Board of Directors shall be 70.

Of the members of the Board of Directors Carl-Johan Granvik is independent of Nordea Bank Finland Plc and its shareholders. Torsten Hagen Jørgensen and Casper von Koskull (board members until 26 January 2016), Heikki Ilkka and Erik Ekman (board members as from 27 January 2016), are all members of Nordea Group Executive Management and employees in the Nordea Group. Gunn Wærsted (board member until 26 January 2016) and Lennart Jacobsen (board member as from 12 February 2016 until 30 June) were members of Nordea Group Executive Management and employees in the Nordea Group. Johan Ekwall (board member as from 27 January 2016 until 11 February 2016) and Tom Johannessen (board member as from 1 July 2016) are both employees in the Nordea Group. None of the members of the Board of Directors take part in the day-to-day management of Nordea Bank Finland Plc.

The Board of Directors shall, in the work schedule approved by it, confirm the authorisation to act for and on behalf of the Bank and the distribution between the members of the Board of Directors and the President.

According to the work schedule, the Board of Directors is responsible for the organisation and administration of the Bank and its business.

The Board shall manage the Bank's affairs with due expertise and care in accordance with legislation, the Articles of Association, the present work schedule and observing Group management's decisions and instructions.

The Board shall ensure that it has requisite knowledge of the Bank's affairs in accordance with legislation and the Articles of Association.

The Board shall ensure that it has requisite knowledge of the Bank's position, business development and risks as well as other circumstances of material significance to the Bank's operations.

The Bank's operations are fully integrated into the Nordea Group.

It is particularly incumbent upon the Board of Directors to:

a. establish the Bank's and the Bank Group's overall organisation,
b. ensure that the Bank's organisation with respect to accounting, management of funds and the Bank's financial circumstances generally includes satisfactory controls,
c. approve the risk strategy and other strategic goals as well as see to it that the surveillance of the goals and strategy is reliable
d. appoint and discharge the Bank's President and Deputy President and exercise supervision to ensure that the Bank's President fulfils his or her obligations,
e. where needed, in accordance with the Nordea Group credit instructions, prepare supplementary credit instructions for issuing credit at Nordea Bank Finland Plc,
f. determine matters relating to the funding operations,
g. resolve on and submit annual reports and interim reports for the Bank,
h. regularly monitor and assess the Bank's and the Bank Group's financial situation and risks,
i. convene and prepare items for the Annual General Meeting.

The Board has approved a policy for the Bank in order to advance diversity in the composition of the Board. The gender balance shall be promoted when appointing members of the Board of Directors. The Bank shall strive for equal gender distribution between the genders and shall actively scout for suitable board member candidates of both genders in order to ensure that the equal representation of the genders in the board will be achieved and maintained.

Board committees

The Board of Directors of Nordea Bank Finland Plc has four Board committees: the Nomination Committee, the Remuneration Committee, the Risk Committee and the Audit Committee. Each committee has tasks set out to it in the Act on Credit Institutions.

During 2016 the Nomination Committee had 4 meetings, the Remuneration Committee had 1 meeting, the Risk Committee had 6 meetings and the Audit Committee had 4 meetings.

The composition of the committees and attendance:

As from 1 January until 26 January 2016

Nomination Committee	Torsten Hagen Jørgensen, Chairman	1/1
	Gunn Wærsted	1/1
Remuneration Committee	Casper von Koskull, Chairman	0/0
	Gunn Wærsted	0/0
Risk Committee	Carl-Johan Granvik, Chairman	0/0
	Casper von Koskull	0/0
Audit Committee	Carl-Johan Granvik, Chairman	0/0
	Torsten Hagen Jørgensen	0/0

As from 27 January 2016 until 11 February 2016

Nomination Committee	Heikki Ilkka, Chairman	1/1
	Johan Ekwall	1/1
Remuneration Committee	Johan Ekwall, Chairman	0/0
	Erik Ekman	0/0
Risk Committee	Carl-Johan Granvik, Chairman	1/1
	Erik Ekman	1/1
Audit Committee	Carl-Johan Granvik, Chairman	1/1
	Heikki Ilkka	1/1

As from 12 February until 30 June 2016

Nomination Committee	Heikki Ilkka, Chairman	2/2
	Lennart Jacobsen	2/2
Remuneration Committee	Lennart Jacobsen, Chairman	1/1
	Erik Ekman	1/1
Risk Committee	Carl-Johan Granvik, Chairman	2/2
	Erik Ekman	2/2
Audit Committee	Carl-Johan Granvik, Chairman	1/1
	Heikki Ilkka	1/1

As from 1 July 2016

Nomination Committee	Heikki Ilkka, Chairman	0/0
	Tom Johannessen	0/0
Remuneration Committee	Tom Johannessen, Chairman	0/0
	Erik Ekman	0/0
Risk Committee	Carl-Johan Granvik, Chairman	3/3
	Erik Ekman	3/3
Audit Committee	Carl-Johan Granvik, Chairman	2/2
	Heikki Ilkka	2/2

The Nomination Committee shall evaluate the balance of knowledge, skills, diversity and experience of the Board and prepare a description of the roles and capabilities for a particular appointment, and assess the required competence and time commitment expected and assist in finding candidates for board members. The Nomination Committee shall periodically, and at least annually, assess the composition and performance of the Board collectively as well as the individual members as well as periodically assess the basis for selection and appointment of the senior management and promote the targets on diversity of the Board and equal gender representation in the Board.

The Remuneration Committee shall assist the Board in decisions regarding administration and governance of NBF's remuneration system as well as prepare instructions for Bonus Schemes and Executive Incentives Programmes in NBF at the request of the Board, prepare other issues of principle for the consideration of the Board. The Remuneration Committee shall at least annually follow-up on the application of the Nordea Remuneration Policy and underlying instructions through an independent review by Group Internal Audit (GIA), and see to that the outcome of the independent review is reported by GIA to the Board without delay, if necessary, or at least annually in connection with the resolvement of the annual report and at least annually exercise an assessment of the Nordea Remuneration Policy and remuneration system, with participation of appropriate Control Functions, and present proposal to the Board regarding the Nordea Remuneration Policy and underlying instructions.

The Risk Committee shall assist the Board on matters regarding Nordea Bank Finland Plc's risk strategy and risk taking. The Risk Committee shall further assistant the Board in monitoring that senior management complies with the risk strategy the Board has decided. Further the Risk Committee shall evaluate if the prices on NBF's capital binding services are equivalent to NBF's business model and risk strategy and if not put forward an action plan to be decided by the Board. The Risk Committee shall review and make recommendations regarding limits for market and liquidity risks as well as review NBF's risk profile and key risk issues, significant development of credit, market, liquidity, business and operational risks, also in relation to key risk limits, risk concentrations and large exposures, forward looking risk assessments, risk weighted assets and other risk types captured in pillar II, outcome from stress testing. The Risk Committee shall approve changes to members of Executive Credit Committee. Further the Risk Committee shall review credit risk Industry Policies approved by the Risk Committee of NBAB and shall assist the Board's remuneration committee with establishing a sound remuneration system and assess if the incentives in the remuneration system take into account risk, capital adequacy, and liquidity requirements as well as the probability for and the timing when the revenue is earned.

The Audit Committee assists the Board in ensuring the quality of NBF's financial reporting process and in that connection review and monitor NBF's quarterly financial reporting and the external auditors' reports on key matters arising from their audit of NBF's financial statements and to review of NBF's annual and interim reports. The Audit Committee assess that the management takes necessary corrective actions in a timely manner to address control weaknesses in relation to the financial reporting, non-compliance with laws, regulations and policies, and other problems identified by the internal and external auditors. The Audit Committee shall receive update on NBF's risk management issues. The Audit Committee shall review the external audit plan. Further the Audit Committee shall assess in discussions with the external auditors the threats to their independence and the safeguards applied to mitigate those threats as documented by them, to monitor and establish guidelines on the provision of other services in addition to audit that the external auditors are allowed to provide to the Group, and annually review the external auditors' disclosure of such other services and shall assess and ensure that the internal and external auditors annually confirm in writing their impartiality and independence. The Audit Committee shall review GIA's annual risk assessments and audit plans as well as GIA's periodic reports, including the audit log. The Audit Committee shall prepare election of the external auditor prior to the Annual General Meeting and shall annually review the Audit Committee Charter.

President, Deputy President and Management Group
Nordea Bank Finland Plc has a President and a Deputy President.

The President of Nordea Bank Finland is Topi Manner and Jukka Perttula acts as his deputy. Further information on the President can be found at www.nordea.com.

The President of NBF has established a management group to support him in his decision making and to assist him in the management of the daily operations of NBF and in monitoring its operation and risks.

The management group consists of

- Topi Manner, President, MSc (Econ), born 1974, shareholding in Nordea 49,671
- Juha Vuopio, CFO of NBF, MSc (Econ), born 1962, shareholding in Nordea 3,255
- Sari Lindqvist, CRO of NBF, MSc (Econ) born 1967, shareholding in Nordea 0
- Petteri Änkilä, Head of Wholesale Banking Finland, MSc (Econ), born 1971, shareholding in Nordea 20,000
- Jukka Perttula, Head of Wealth Management Finland, MSc (Econ), born 1961, shareholding in Nordea 2,379

Member until 30 June 2016:

- Sanna Niinikoski-Sandberg, Secretary of the Board of NBF until 31 July 2016, LL.M. born 1974

The duties of the management group include, but are not limited to, the following:

- Preparation, review, implementation and follow-up of the main business area strategies for NBF Board decision;
- Preparation, review and implementation of the risk strategy of NBF;
- Reviewing internal policies and guidelines of NBF;
- Reviewing risk assessments and quality statements of NBF;
- Reviewing the financial performance, funding position and capital position of NBF;
- Reviewing capital and liquidity capital management processes (ICAAP, ILAAP) of NBF;
- Reviewing compliance report of NBF;
- Reviewing Group Internal Audit's reports;
- Reviewing the reports and other disclosures of NBF's supervisor(s); and
- Review of authorities log and projects based on supervisors findings.

Chief Risk Officer
Nordea Bank Finland has a Chief Risk Officer (CRO). The CRO of Nordea Bank Finland is subordinated to the President of Nordea Bank Finland Plc. The corresponding CRO function has been established to sub-groups in Denmark, Finland and Norway. The CRO forms an integral part of the Group Risk Management function in Nordea.

The CRO is an independent 2nd line of defence risk management function within the Nordea Bank Finland Group. The CRO shall provide a complete view of whole range of risks in the Nordea Bank Finland Group to the relevant governing bodies, ensure coordination of risk management activities and adequate risk management set-up in the legal entity.

Compliance
According to the Nordea Operational Risk Policy and the Instructions for the Nordea Compliance Function, Group Compliance is a unit organisationally placed under the CEO in Nordea Bank AB (publ) and is responsible for developing and maintaining the framework for managing compliance risks. The network of Compliance Officers (COs) with reporting lines within the Compliance function is independently managing compliance risk and reporting and therefore providing the Group Compliance Officer with independent reports. These reports provide input to the Group Compliance Officer's quarterly compliance report to the Chief Executive Officer, the Board of Directors of Nordea Bank AB (publ) and its subsidiaries including Nordea Bank Finland Plc.

Insider Administration
The Nordea Group and Nordea Bank Finland Plc have in accordance with laws and regulations in the role of issuer and broker established insider registers and adopted insider guidelines applicable to the whole bank. According to the guidelines, members of the Board of Directors, the President and the Deputy President, external auditors and deputy external auditors as well as executive management and other relevant persons following separate decision and notification procedures are restricted from trading in Nordea shares and related instruments during other period than two weeks following publication of the Group's interim reports. Regarding other financial instruments the above mentioned top management and other relevant persons may not engage in short term trading where the time between acquisition of ownership of certain securities, and the intended or actual disposal or execution of the securities is shorter than one month ("the one-month rule"). Nordea Bank Finland Plc reports on governance and follow-up of rules regarding public insider registers and trading in financial instruments to the Finnish FSA on an annual basis.

Report on the key aspects of the systems for internal control and risk management regarding financial reports for the Financial Year 2016
Nordea Bank Finland Plc belongs to the Nordea Group and the internal control and risk management systems in relation to the financial reporting process are organised at Nordea level. Financial reporting processes are fully integrated within Nordea. The Board of Directors of Nordea Bank Finland Plc monitors financial and risk reporting at Nordea Bank Finland Plc level and has dealt with the risk reports at Nordea Bank Finland Plc level. Nordea Bank Finland Plc complies with the Group directives and supporting instructions to the extent applicable.

Internal Control Process
The Internal Control Process is carried out by the Board of Directors, management and other staff at Nordea and is designed to provide reasonable assurance regarding objective fulfilment in terms of effectiveness and efficiency of operations, reliability of financial and non-financial reporting, compliance with external and internal regulations, safeguarding of assets as well as sufficient management of risks in the operations. The Internal Control Process is based on five main components: Control Environment, Risk Assessment, Control Activities, Information & Communication and Monitoring.

The framework for the Internal Control Process aims to create the necessary fundamentals for the entire organisation to contribute to the effectiveness and high quality of internal control through, for instance, clear definitions, assignments of roles and responsibilities and common tools and procedures.

Roles and responsibilities with respect to internal control and risk management are divided into three lines of defence. In the 1st line of defence, the business organisation and Group Functions are risk owners, and thus responsible for conducting their business within risk exposure limits and the risk appetite and in accordance with the decided internal control and risk management framework. As the 2nd line of defence, the centralised risk control functions are responsible for activities such as, identifying, assessing, monitoring, controlling and reporting of issues related to all key risks including compliance with internal and external frameworks. Group Internal Audit, which is the 3rd line of defence, performs audits and provides assurance to stakeholders regarding governance, risk management, and control processes.

The systems for internal control and risk management of financial reporting are designed to provide reasonable assurance about the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, applicable laws and regulations, and other requirements for listed companies and issuers of bonds. The internal control and risk management activities are included in Nordea's planning and resource allocation processes. Internal control and risk management of financial reporting in Nordea can be described in accordance with the original COSO framework as follows below.

Control Environment

The control environment constitutes the basis for Nordea's internal control and contains the culture and values established by the Board of Directors and Group Executive Management of Nordea Bank AB (publ).

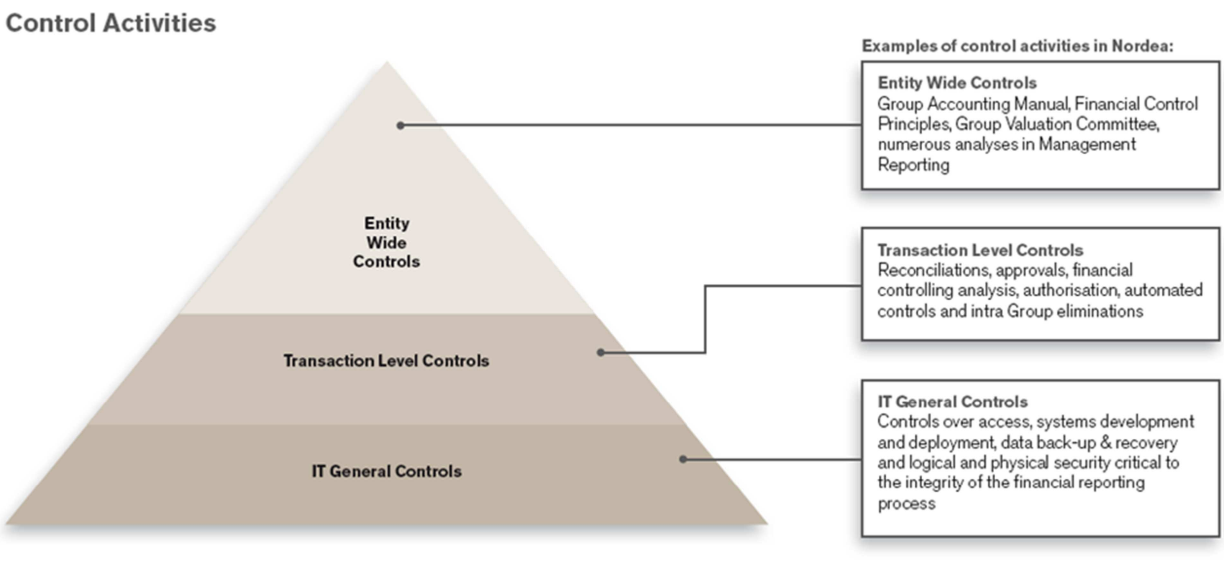
A clear and transparent organisational structure is of importance for the control environment. Nordea's business structure aims to support the overall strategy, with strong business momentum and increased requirements on capital and liquidity. The business and the organisation are under continuous development.

Clear roles and responsibilities are critical in the governance of Internal Control over Financial reporting where the risk owners in the business areas and the Group Finance & Business Control are responsible for the risk management activities. A risk management function supports the CFO in maintaining a Group wide set of controls (defined as Accounting Key Controls (AKC)), in line with the risk framework, which covers the controlling of risks and the risk identification process, that to a large extent is based on the actual business and financial closing processes in place. An independent risk control function that is responsible for identifying, controlling and reporting on financial reporting risk has been established in Group Risk Management (GRM). GIA is assessing whether all significant risks are identified and appropriately reported by management and the risk functions to the Board and its committees and whether all significant risks are adequately controlled. GIA is also challenging management to improve the effectiveness of governance, risk management and internal controls.

Risk Assessment

The Board of Directors bears the ultimate responsibility for limiting and monitoring Nordea's risk exposure.Risk management is considered to be an integral part of running the business. The main responsibility for performing risk assessments regarding financial reporting risks lies with the business organisation. Performing risk assessments close to the business increases the possibility of identifying the most relevant risks. In order to govern the quality, central functions stipulate in governing documents when and how these assessments are to be performed. Examples of risk assessments, performed at least annually, are Quality and Risk Analysis for changes and Risk and Control Self Assessments.

Risk assessment in relation to reliable financial reporting involves the identification and analysis of risks of material misstatements. Financial risk control work in Nordea focuses on risks and processes which could lead to material financial misstatements, i.e. if, in the light of surrounding circumstances, the magnitude of the item is such that it is probable that the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the item. Risk assessment procedures determine in which divisions, locations and/ or processes risks for material financial misstatements exist and therefore will need to be monitored under the AKC framework to ensure reasonable assurance of the reliability of Nordea's external financial reporting.



The heads of the respective units are primarily responsible for managing the risks, associated with the units' operations and financial reporting processes. This responsibility is primarily supported by the Group Accounting Manual (GAM), the Financial Control Principles and various governing bodies, such as the Group Valuation Committee. The GAM includes a standard reporting package used by all entities to ensure consistent use of Nordea's principles and coordinated financial reporting. Fundamental internal control principles at Nordea are the segregation of duties and the four-eye principle when approving, for instance, transactions and authorisations.

AKC control structure is based on that Transaction Level Controls (TKC's) are identified through analysing risks based on high level processes with an end-to-end product focus. After deciding on the TLCs, an analysis is performed to decide what systems/applications are in scope for AKC. The analysis aims at scoping in the major systems where there is a risk that data becomes corrupt without being detected in the TLC control structure.

The quality assurance vested in the management reporting process, where a detailed analysis of the financial outcome is performed, constitutes one of the most important control mechanisms associated with the reporting process. The reconciliations constitute another set of important controls in which Nordea works continuously to further strengthen the quality.

Information & Communication

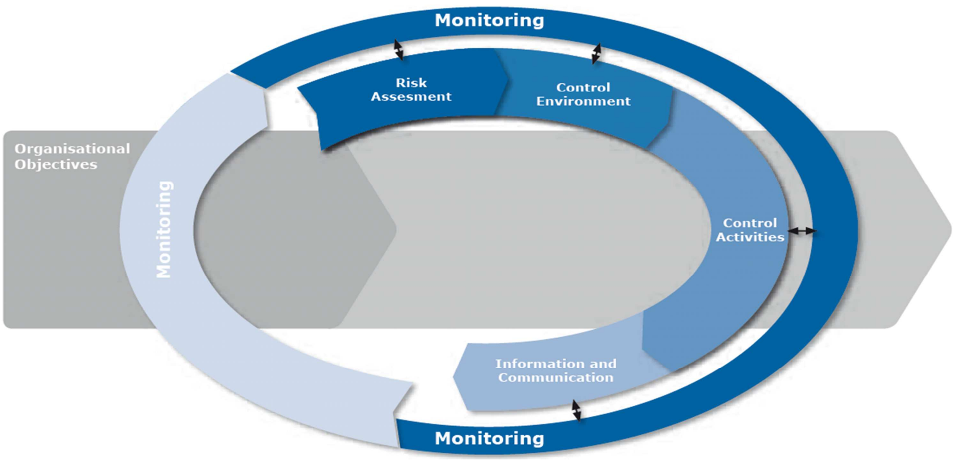
Group Finance & Business Control is responsible for ensuring that the Group Accounting Manual and the Financial Control Principles are up-to-date and that changes are communicated with the responsible units. These governing documents are broken down into instructions and standard operating procedures in the responsible units. Accounting specialists from Group Finance & Business Control continuously provide accountants and controllers with information on changes in existing and updated rules and regulations with an impact on Nordea.

Matters having an impact on the fulfilment of financial reporting objectives are communicated with external parties, with Nordea actively participating in relevant national forums, for example, forums established by the Financial Supervisory Authorities, central banks and associations for financial institutions.

The AKC reporting procedures provide management with information related to the performance and assessment of the identified AKCs in the form of Process Owner reports and Management Dashboard reports with summary of assessment outcome and high risk areas.

Monitoring

Nordea has established a process with the purpose of ensuring proper monitoring of the quality of the financial reporting and the follow-up regarding possible deficiencies. This interactive process aims to cover all COSO-components in the Framework and is illustrated with the diagram below:



The Risk and Control Self-Assessment process includes monitoring the quality of internal control for financial reporting. The assessment is presented in the annual Group Operational and Compliance Risk Map, which is submitted to the CEO in Group Executive Management, the Board Risk Committee of and the Board of Directors of Nordea Bank AB (publ).

The Board of Directors, the Board Audit Committee and the Board Risk Committee of Nordea Bank AB (publ), as well as Group Internal Audit have important roles with respect to monitoring the internal control of financial reporting in the whole Nordea Group. The Board of Directors of NBF is ultimately responsible for ensuring that an adequate and effective system of internal control is established and maintained. The Board Audit Committee (BAC) has the responsibility to assist the Board of Directors in fulfilling its oversight responsibilities by *inter alia* monitoring NBF Group's financial reporting process.

Group Finance & Business Control has also established specific quarterly reporting regarding Internal Control over Financial Reporting to the Group CFO covering risk management and high risk areas. The independent risk control function within GRM reports specifically on financial reporting risk to the Board Audit Committee and the CEO in Group Executive Management on a quarterly basis.

GIA is an independent function commissioned by the Board of Directors of Nordea Bank AB (publ). The Board Audit Committee of Nordea Bank AB (publ) is responsible for guidance on and evaluation of GIA within the Nordea Group and the Audit Committee of Nordea Bank Finland Plc within the Nordea Bank Finland Group. GIA does not engage in consulting activities unless the Board Audit Committee of Nordea Bank AB (publ) gives it special assignments. The objective of GIA is, on the basis of its audits and continuous monitoring, to provide the Board of Directors with an assessment of the effectiveness of the governance, risk management and control processes.

The Audit Committee of Nordea Bank Finland Plc handles and the Board of Directors of Nordea Bank Finland Plc approves GIA's Internal Audit Annual Plan for Nordea Bank Finland Plc and inspects GIA's semi-annual Internal Audit Report on Nordea Bank Finland Plc. The same material is also presented to the Management Group of Nordea Bank Finland Plc, before it is submitted to the Audit Committee and the Board of Directors of Nordea Bank Finland Plc.

The Audit Committee of Nordea Bank Finland Plc also assists the Board of Directors of Nordea Bank Finland Plc in fulfilling its oversight responsibilities by, for instance, monitoring the Nordea Bank Finland Group's financial reporting process, and in relation thereto, the effectiveness of the internal control and risk management systems established by the Board of Directors, the CEO and Group Executive Management (GEM), as well as the Board of Directors of Nordea Bank Finland Plc, including the effectiveness of GIA. The Audit Committee of Nordea Bank Finland Plc is further accountable for keeping itself informed as to the statutory audit of the annual and consolidated accounts and reviewing and monitoring the impartiality and independence of the external auditors, and in particular the provision of additional services to the Nordea Bank Finland Group.

Auditors
The Annual General Meeting of Nordea Bank Finland Plc elects the company's auditors for a period of one year at a time. The auditor must be an audit firm authorised by the Finnish Chamber of Commerce.

The current auditor:

PricewaterhouseCoopers Oy
Authorised Public Accountants

Auditor with main responsibility
Juha Wahlroos
Authorised Public Accountant

This Corporate Governance Report has not been reviewed by the external auditors and the report is not part of the formal financial statements.

Nordea Bank Finland Plc
Satamaradankatu 5, Helsinki
FI-00020 NORDEA
Tel: +358 9 1651

www.nordea.fi