Nordea

Annual Report 2016
Nordea Mortgage Bank Plc

Nordea Mortage Bank 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.

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Nordea Mortgage Bank Plc

Overview of the Directors' Report

Income statement

EURm	Oct-Dec 2016
Net interest income	51.4
Net fee and commission income	0.2
Net result from items at fair value	-4.8
Other operating income	0.0
Total operating income	**46.8**
General administrative expenses:	
Staff costs	-0.3
Other expenses	-11.5
Total operating expenses	**-11.8**
Profit before loan losses	**35.0**
Net loan losses	0.4
Operating profit	**35.4**
Income tax expense	-7.1
Net profit for the year	**28.3**

Balance sheet

EURm	31 Dec 2016
Cash and balances with central banks	200.0
Loans to central banks and credit institutions	494.2
Loans to the public	23,912.4
Derivatives	789.8
Other assets	189.8
Total assets	**25,586.2**
Deposits by credit institutions	7,200.0
Debt securities in issue	16,299.9
Derivatives	127.4
Subordinated liabilities	200.6
Other liabilities	679.8
Equity	1,078.5
Total liabilities and equity	**25,586.2**

Ratios and key figures[2]

	2016
Return on equity, %	10.6
Return on total assets, %	0.4
Cost/income ratio, %	25
Loan loss ratio, basis points	-1
Common Equity Tier 1 capital ratio, incl. Basel I floor[1, 2], %	9.8
Tier 1 capital ratio, incl. Basel I floor [1, 2], %	9.8
Total capital ratio, incl. Basel I floor [1, 2], %	11.7
Common Equity Tier 1 capital, incl. Basel I floor[1, 2], EURm	1,049.0
Tier 1 capital[1, 2], EURm	1,049,0
Risk exposure amount, incl. Basel I floor[1], EURm	10,928.8
Number of employees (full-time equivalents)[1]	12
Average number of employees	6
Salaries and remuneration Oct-Dec, EURm	-0.2
Equity to total assets, %	4.2

[1] End of the year

[2] 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

The 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

Nordea Mortgage Bank Plc

Directors' Report

Introduction
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.

As part of the merger process a new Mortgage Credit Institution, Nordea Mortgage Bank Plc, was established via a demerger from Nordea Bank Finland Plc on 1 October 2016.

In connection with the demerger all the assets, liabilities and reserves relating to the covered bond funding business of Nordea Bank Finland Plc were transferred to Nordea Mortgage Bank Plc. Nordea Mortgage Bank Plc continues the covered bonds operations performed earlier by Nordea Bank Finland Plc.

Nordea Mortgage Bank Plc is domiciled in Helsinki and its business identity code is 2743219-6.

Throughout this report the terms "Nordea Mortgage Bank Finland" and "NMB" refer to Nordea Mortgage Bank Plc. Nordea Mortgage Bank 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 "Group".

Operations
Nordea Mortgage Bank Plc operates as an issuer of Covered Bonds. Bonds issued by NMB are covered by a pool of loans consisting of Finnish loans, mainly household mortgages. NMB does not act as originator of housing loans, but instead purchases loans from Nordea Bank Finland and going forward from Nordea Bank AB, Finnish branch. Loans in NMB's balance sheet are generally long term loans, mainly to Finnish households, with Residential real estate as collateral.

Simplifying the legal structure
The cross border mergers between Nordea Bank AB (publ) and its subsidiary banks in Denmark, Finland and Norway were executed on 2 January 2017. The banking business in Denmark, Finland and Norway is now carried out in branches of Nordea Bank AB (publ).

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.

In Finland, where NMB operates, the economic picture remained muted, with growth swaying between positive and negative territory over the four quarters.

Comments on the income statement

The income statement figures refer to the period October-December 2016.

Operating Profit amounted to EUR 35.4 m.

- *Net interest income* totalled EUR 51.4 m. Lending to the public relates mainly to housing loans and totalled 23.9bn.
- *Net result from items at fair value* is mainly attributable to financial instruments under hedge accounting and was -4.8m.
- *Total operating expenses* were 11.8m.
- *Net loan losses* amounted to EUR -0.4m and the loan loss ratio was -1 basis points.
- *Income tax* expenses were EUR 7.1m. The effective tax rate amounted to 20%.

Net profit for the year amounted to EUR 28.3m. Return on equity was 10.6 %.

No comparison figures are disclosed as the company was established 1 October 2016.

Comments on the balance sheet

Lending

Lending to the public was 23.9bn at year-end 2016.

Assets

Total assets amounted to EUR 25.6bn at year-end.

Loans to central banks and credit institutions amounted to EUR 0.5bn.

Loans to the public, consisting mainly of housing loans amounted to EUR 23.9 bn.

The share of mortgage lending was 90% and totalled EUR 21.6bn. Corporate lending totalled EUR 2.1bn.

Positive market values of *derivatives* amounted to 0.8bn .

Liabilities

Total liabilities amounted to EUR 24.5bn.

Deposits by credit institutions and central banks totalled 7.2bn.

Debt securities in issue amounted to EUR 16.3bn. The amount of covered bonds issued by NMB was at year-end EUR 16.3bn.

Negative market values of *derivatives* totalled EUR 0.1bn.

Appropriation of distributable funds

NMB's distributable funds on 31 December 2016 were EUR 828.3m of which the profit for the year is EUR 28.3m. It is proposed that the profit for the year be transferred to retained earnings and that no dividend be distributed.

Off-balance sheet commitments

NMB's off-balance sheet items mainly consist of credit commitments. Credit commitments amounted to EUR 5.2m.

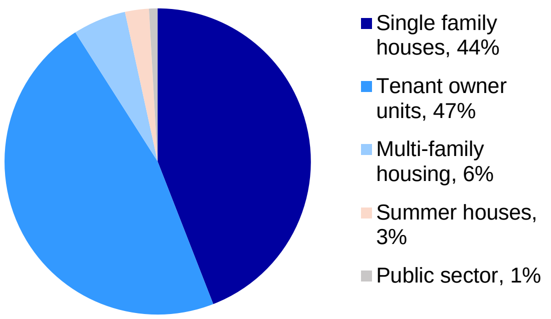
NMB's derivatives mainly pertain to interest rate swaps and forward currency exchange contracts (Fx swaps). The nominal value of derivatives was EUR 36 bn.

Capital adequacy and rating

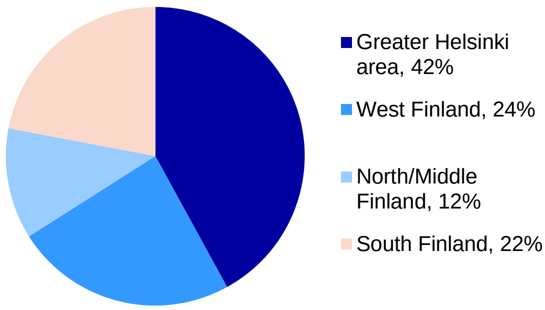
At year-end, NMB' total capital ratio was 11.7% and the Tier 1 ratio 9.8%. Risk exposure amount totalled EUR 10.9bn.

Moody's rating for Nordea Mortgage Bank's covered bonds was at year-end Aaa.

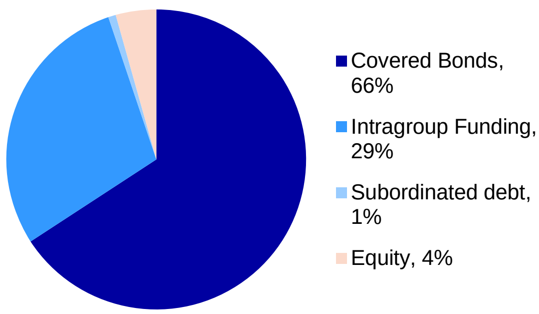
Breakdown of lending in cover pool



Geographical distribution of loans in cover pool



Nordea Mortgage Bank's funding structure



Risk, Liquidity and Capital management

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

Nordea Mortgage Bank's Board of Directors has the the responsibility for limiting and monitoring the risk exposure in Nordea Mortgage Bank as well as for setting the targets for the capital ratios.

Maintaining risk awareness in the organisation is ingrained in the business strategies. Nordea Group has defined clear risk, liquidity and capital management frameworks, including policies and instructions for different risk types, capital adequacy and capital structure. Nordea Mortgage Bank is fully integrated into Nordea Group's risk and capital management, where appropriate.

Management principles and control

Board of Directors and Board Risk Committee

The Group 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 Group 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 Group 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 Group Board of Directors furthermore decides on the limits for market and liquidity risk in the Group.

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

Responsibility of CEO and GEM

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

The Group 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 Group Chief Operating Officer (COO), prepares issues of major importance concerning the Group's financial operations and balance sheet risks either for decision by the Group CEO in GEM or for recommendation by the Group 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 Group 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 Group 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 Group 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 Group 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 Group Board of Directors passes through Risk Committee and Board Risk Committee (BRIC). Reporting from Group Compliance is presented directly to the Group 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 Group 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 Group 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 Group 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 Group's Board Risk Committee assists the Group's 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 Group's risk appetite.

Groups's risk appetite framework is based on explicit top-down risk appetite statements covering all key risks faced by the Group. These statements, approved by the Group Board of Directors, collectively define the boundaries for Group'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 Group's Risk Appetite is the available own funds and overall business strategy. The Risk Appetite framework considers key risks relevant to Group'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 Group 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.

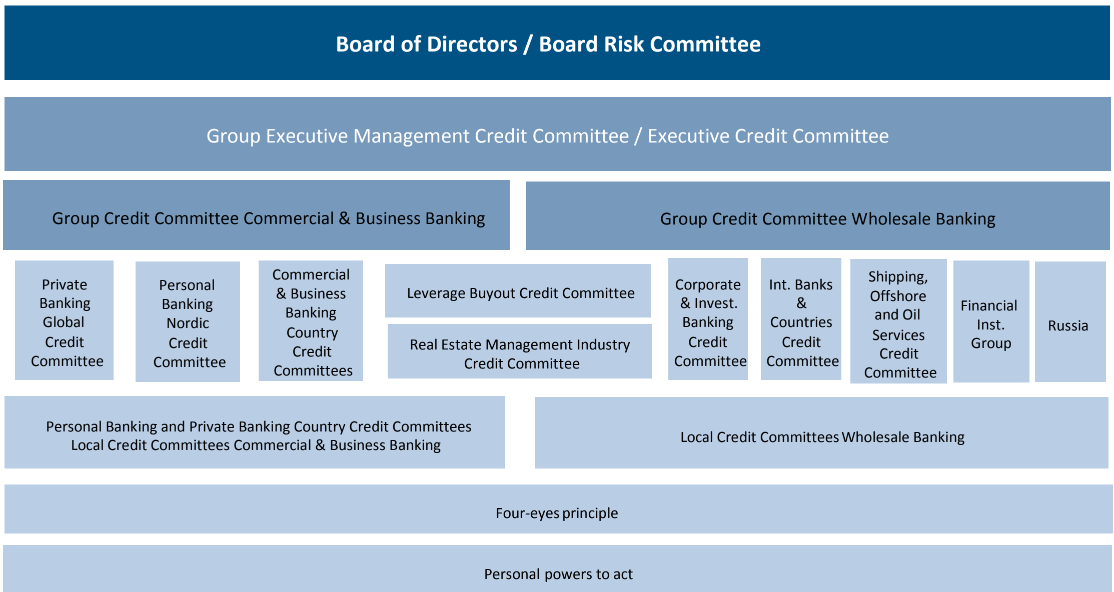
The control environment is, among other things, based on the principles for segregation of duties and independence. Monitoring and reporting of risk is conducted on a daily basis for market risk, counterparty credit risk, liquidity risk and on a monthly and quarterly basis for credit risk, operational risk, IT risk and overall capital adequacy. Detailed risk information, covering all risks as well as capital adequacy is regularly reported to the Group's Risk Committee, GEM and the Group's Board of Directors. In addition to this Nordea Group's compliance with regulatory requirements is reported to GEM and Group's Board of Directors. The Board of Directors and CEO in each legal entity regularly receive 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
Group 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 Group 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.

Credit Committee Structure



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 Group'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 the Group 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.

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 Mortgage bank 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 Group's model for collective provisions uses a statistical model as a base-line for assessing the amount of provisions needed for the parts of Group'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.

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 27 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.

NMB’s total lending amounted to EUR 23.9bn. Out of lending to the public, corporate customers accounted for 9% and household customers 91% Loans to credit institutions totalled EUR 0.5bn.

Loans to corporate customers

Loans to corporate customers at the end of 2016 amounted to EUR 2.1bn. Real estate sector is the largest sector in NMB’s corporate lending portfolio.

Loans to household customers

Lending to household customers amounted to 21.9bn. The proportion of mortgage loans of total household loans was 99%.

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 90% of the corporate exposure is rated 4- or higher and about 89% of the retail exposures are scored C- or higher.

Impaired loans

Impaired loans gross amounted to EUR 67m corresponding to 27bp of total loans. Allowances for collectively assessed loans amounted to 12m. The provisioning ratio was 18%.

Past due loans (6 days or more) totalled EUR 165m.

Net loan losses

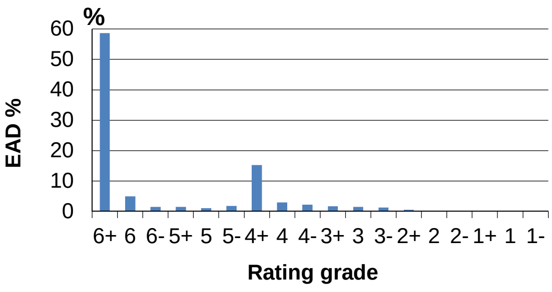
Net loan losses amounted to EUR -0,4m. This corresponded to a loan loss ratio of -1bps.

Counterparty credit risk

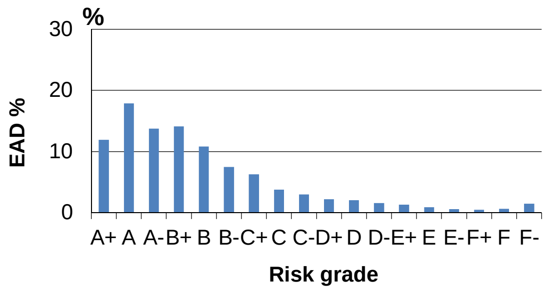
Counterparty credit risk is the risk that Nordea Mortgage Bank’s counterpart in a FX or interest derivative contract defaults prior to maturity of the contract and that Nordea Mortgage Bank at that time has a claim on the counterpart. Nordea Mortgage Bank enters into derivatives only with other Nordea Group companies.

For information about financial instruments subject to master netting agreement, see Note 24.

Rating distribution, IRB Corporate customers



Risk grade distribution IRB Retail customers



Market risk
Market risk is defined as the risk of loss in Nordea Mortgage Bank'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 Mortgage Bank has outsourced market risk management to Group Treasury and Asset and Liability Management (TALM). Interest rate risk in the banking book is measured by Structural Interest Income Risk (SIIR).

Structural Interest Income Risk (SIIR)
SIIR is the amount by which Nordea Mortgage Bank'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 Group'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 Mortgage Bank'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 NMB'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 -29m and SIIR for decreasing market rates was EUR 135m. NMB's liquid assets consist of Central bank deposits.

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 Group 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.

Reporting of the outcomes is done to Nordea Mortgage Bank's board. Furthermore, reporting is done to Group Risk Management (GRM), Group Executive Management (GEM) and Group's Board of Directors (BOD) or relevant Board committee.

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

Liquidity risk management
Management principles and control
Group Treasury & ALM is responsible for pursuing Nordea Group's liquidity strategy, managing the liquidity in the Group and for compliance with the group-wide limits set by the Group's Board of Directors and the Risk Committee. Furthermore, TALM is responsible for managing the liquidity in Nordea Mortgage Bank and for compliance with the limits set by NMB's Board of Directors. 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 one month 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 Group's liquidity management reflects a conservative attitude towards liquidity risk. The Group strives to diversify the 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. Group's 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 Group'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 group'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 Group 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 Group's Board of Directors.

To ensure funding in situations where Nordea Group is in urgent need of cash and the normal funding sources do not suffice, the Group holds a liquidity buffer. 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 expresses the excess liquidity after a 90-day period without access to market funding.

The structural liquidity risk of Nordea Group is measured by 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.

Liquidity risk analysis
The Liquidity Coverage Ratio (LCR) for Nordea Mortgage Bank was according to EBA Delegated Act 2076% at the end of the year. The yearly average for the NBSF was EUR -1.4bn. NMB's liquid assets consist of Central bank deposits.

Capital management
Nordea Group 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 Group's Board of Directors decides ultimately on the targets for capital ratios and the capital policy in Nordea Group, while the CEO in GEM decides on the overall framework of capital management. Nordea Mortgage Bank's Board of Directors decides on the targets for capital ratios and the capital policy in NMB. 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 21 for details.

Minimum capital requirements
Risk exposure amount (REA) is calculated in accordance with the requirements in the CRD. Nordea Mortgage Bank had 88,2 % of its credit risk REA covered by internal rating based (IRB) approaches by the end of 2016. Nordea Group 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. For operational risk the standardised approach is applied.

Internal capital requirement
Nordea Group 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 Group'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, the Group's 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 Group's internal capital requirements as buffers for economic stress. The internal capital requirement is a key component of Nordea Group's capital ratio target setting.

The ICAAP also describes Nordea Group'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 Group 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 the Group. 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 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 21 Capital adequacy and the Capital and Risk Management Report 2016
Further information on capital adequacy is presented in Note 21 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.

Summary of items included in own funds

EURm	31 Dec 2016[1]
Calculation of own funds	
Equity in the consolidated situation	1,078.5
Proposed/actual dividend	-
Common Equity Tier 1 capital before regulatory adjustments	1,078.5
Deferred tax assets	-
Intangible assets	-
IRB provisions shortfall (-)	-27.2
Deduction for investments in credit institutions (50%)	-
Pension assets in excess of related liabilities	-
Other items, net	-2.2
Total regulatory adjustments to Common Equity Tier 1 capital	-29.4
Common Equity Tier 1 capital (net after deduction)	**1,049.0**
Additional Tier 1 capital before regulatory adjustments	-
Total regulatory adjustments to Additional Tier 1 capital	-
Additional Tier 1 capital	-
Tier 1 capital (net after deduction)	**1,049.0**
Tier 2 capital before regulatory adjustments	200.0
IRB provisions excess (+)	2.6
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	2.6
Tier 2 capital	202.6
Own funds (net after deduction)[2]	**1,251.7**

[1] Including profit of the period
[2] Own funds adjusted for IRB provision, i.e. adjusted own funds equal EUR 1,279m by 31 Dec 2016.

Capital adequacy ratios

	31 Dec 2016
Excl. Basel 1 floor	
CET1 capital ratio (%)	37.9
Tier 1 capital ratio (%)	37.9
Total capital ratio (%)	45.2
Capital adequacy quotient (own funds/capital requirement)	5.6
Incl. Basel 1 floor	
CET1 capital ratio (%)	9.8
Tier 1 capital ratio (%)	9.8
Total capital ratio (%)	11.7
Capital adequacy quotient (own funds/capital requirement)	1.5

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 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.

On 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.

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 in Nordea Group

Our people have an opportunity to transform the industry
Financial industry is undergoing a significant transformation. We in the Nordea Group 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 in Nordea Group

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 Group 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 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

By end of 2016, Nordea Mortgage Bank has not faced any claims in civil lawsuits or disputes.

Subsequent events

No events have occurred after the balance sheet date that might affect the assessment of the annual financial statements.

Outlook 2017

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

However, we as a part of Nordea Group have good progress in building the bank our customers want us to be. Nordea Group is continuing doing large investments in transforming the bank. Our number one priority in the coming years will be on improving customer satisfaction. Generating value for our customers is the key to creating value for Nordea Group 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 Mortgage Bank Plc

Income statement

EURm	Note	Oct-Dec 2016
Operating income		
Interest income	3	69.1
Interest expense	3	-17.7
Net interest income	3	**51.4**
Fee and commission income	4	4.2
Fee and commission expense	4	-4.0
Net fee and commission income	4	**0.2**
Net result from items at fair value	5	-4.8
Other operating income		0.0
Total operating income		**46.8**
Operating expenses		
General administrative expenses:		
Staff costs	6	-0.3
Other expenses	7	-11.5
Total operating expenses		**-11.8**
Profit before loan losses		**35.0**
Net loan losses	8	0.4
Operating profit		**35.4**
Income tax expense	9	-7.1
Net profit for the year		**28.3**
Attributable to:		
Shareholders of Nordea Mortgage Bank Plc		28.3
Non-controlling interests		-
Total		**28.3**

Statement of comprehensive income

EURm	Oct-Dec 2016
Net profit for the year	**28.3**
Items that may be reclassified subsequently to the income statement	
Cash flow hedges:	
- Valuation gains/losses during the year	-1.5
- Tax on valuation gains/losses during the year	-0.1
Items that may not be reclassified subsequently to the income statement	
Defined benefit plans:	0.0
Remeasurement of defined benefit plans during the year	0.0
Other comprehensive income, net of tax	**-1.6**
Total comprehensive income	**26.7**
Attributable to:	
Shareholders of Nordea Bank Finland Plc	26.7
Non-controlling interests	-
Total	**26.7**

Balance sheet

EURm	Note	31 Dec 2016
Assets		
Cash and balances with central banks		200.0
Loans to credit institutions	10	494.2
Loans to the public	10	23,912.4
Derivatives	11	789.8
Fair value changes of the hedged items in portfolio hedge of interest rate risk		99.1
Deferred tax assets	9	13.9
Prepaid expenses and accrued income	12	76.8
Total assets		**25,586.2**
Liabilities		
Deposits by credit institutions	13	7,200.0
Debt securities in issue	14	16,299.9
Derivatives	11	127.4
Fair value changes of the hedged items in portfolio hedge of interest rate risk		583.8
Current tax liabilities	9	6.6
Other liabilities	15	0.2
Accrued expenses and prepaid income	16	89.2
Retirement benefit liabilities	20	0.0
Subordinated liabilities	17	200.6
Total liabilities		**24,507.7**
Equity		
Share capital		250.0
Other reserves		800.2
Retained earnings		28.3
Total equity		**1,078.5**
Total liabilities and equity		**25,586.2**
Assets pledged as security for own liabilities	18	21,978.1
Credit commitments	19	5.2

Other notes

Note 1	Accounting policies
Note 2	Segment reporting
Note 21	Capital adequacy
Note 22	Classification of financial instruments
Note 23	Assets and liabilities at fair value
Note 24	Financial instruments set off on balance or subject to netting agreements
Note 25	Maturity analysis for assets and liabilities
Note 26	Related-party transactions
Note 27	Credit risk disclosures

Statement of changes in equity

EURm	Attributable to the shareholders of Nordea Mortgage Bank Plc					
		Other reserves				
	Share capital[1]	Cash flow hedges	Other reserves	Defined benefit plans	Retained earnings	**Total equity**
Balance at 1 Oct 2016	**250.0**	**1.8**	**800.0**	**-**	**-**	**1,051.8**
Net profit for the year	-	-	-	-	28.3	28.3
Items that may be reclassified subsequently to the income statement						
Cash flow hedges:						
- Valuation gains/losses during the year	-	-1.5	-	-	-	-1.5
- Tax on valuation gains/losses during the year	-	-0.1	-	-	-	-0.1
Items that may not be reclassified subsequently to the income statement						
Defined benefit plans:						
- Remeasurement of defined benefit plans during the year	-	-	-	0.0	-	0.0
- Tax on remeasurement of defined benefit plans during the year	-	-	-	0.0	-	-
Other comprehensive income, net of tax	-	-1.6	-	0.0	-	-1.6
Total comprehensive income	-	-1.6	0.0	0.0	28.3	26.7
Balance at 31 Dec 2016	**250.0**	**0.2**	**800.0**	**0.0**	**28.3**	**1,078.5**

[1] Total shares registered were 257.7 million. All the shares in Nordea Mortgage Bank Plc are held by Nordea Bank AB (publ). Pursuant to the Articles of Association the Bank's minimum share capital is EUR 5m and maximum share capital EUR 500m.

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

Cash flow statement

EURm	Oct-Dec 2016
Operating activities	
Operating profit	35.4
Adjustments for items not included in cash flow	-850.3
Cash flow from operating activities before changes in operating assets and liabilities	**-814.9**
Changes in operating assets	
Change in loans to the public	538.2
Change in derivatives, net	841.9
Changes in operating liabilities	
Change in deposits by credit institutions	-1,500.0
Change in debt securities in issue	1,037.4
Change in other liabilities	0.1
Cash flow from operating activities	**102.7**
Financing activities	
Issued subordinated liabilities	200.6
Cash flow from financing activities	**200.6**
Cash flow for the year	**303.3**
Cash and cash equivalents 1 Oct 2016	390.9
Cash and cash equivalents 31 Dec 2016	694.2
Change	**303.3**

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 Mortgage Bank'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 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 cash flow includes:

EURm	Oct-Dec 2016
Loan losses	-0.4
Unrealised gains/losses	-488.2
Change in accruals and provisions	-59.1
Translation differences	
Other	-302.6
Total	**-850.3**

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:

EURm	Oct-Dec 2016
Interest payments received	33.6
Interest expenses paid	-14.8

Cash flow statement, cont.

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:

EURm	31 Dec 2016
Cash and balances with central banks	200.0
Loans to credit institutions, payable on demand	494.2
	694.2

Cash comprises legal tender and bank notes in foreign currencies. Balances with central banks consist of deposits in accounts with central banks and postal giro systems under government authority, where the following conditions are fulfilled;
- the central bank or the postal giro system is domiciled in the country where the institution is established
- the balance on the account is readily available at any time.

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

Notes to the financial statements

Note 1 Accounting policies

1. Basis for presentation

NMB's 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 27 February 2017 NMB's Board of Directors approved the financial statements, subject to final approval of the Annual General Meeting on 9 March 2017.

2. Changed accounting policies and presentation

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

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

- 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

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 Group does not intend to early adopt the standard. The Group 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 Group 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, the Group has taken the current business area structure into account. When determining the business model for each portfolio the Group 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 Group'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 the Group'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 NMB 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 Group 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 Group 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. The Group 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, the Group 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 Group not yet determined the threshold for the change in rating, scoring and PDs when assessing whether it is significant or not.

Nordea Group'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, NMB 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 Group 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 Group generally uses macro (portfolio) hedge accounting Nordea Group's assessment is that the new requirements will not have any significant impact on Nordea Group's or Nordea Mortgage Bank's financial statements, capital adequacy, large exposures, risk management or alternative performance measures in the period of initial application.

Nordea Group'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. The Group does not currently intend to early adopt the standard. The standard does not apply to financial instruments, insurance contracts or lease contracts. Nordea Group 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 Group's or Nordea Mortgage Bank'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 Group does not currently intend to early adopt the amendments. The new requirements are not expected to have any effect on Nordea Group's financial statements, capital adequacy, or large exposures in the period of initial application as the new requirements are in line with the Group'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 Group does not currently intend to early adopt the amendments. The Group's current assessment is that the new standard will change the accounting of property leases which mainly affects Nordea Group'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 Group's or Nordea Mortgage Bank'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 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 Group's accounting policy for determining the fair value of financial instruments is described in section 9 "Determination of fair value of financial instruments" and Note 23 "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 Group'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 23 "Assets and liabilities at fair value".

Impairment testing of loans to the public/credit institutions

Nordea Group's accounting policy for impairment testing of loans is described in section 12 "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 10 "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 Mortgage Bank 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 Group's accounting policies for cash flow hedges are described in section 8 "Hedge accounting".

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

Where Nordea Group 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 Group's accounting policy for post-employment benefits is described in section 14 "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 20 "Retirement benefit obligations" together with a description of the sensitivity to changes in assumptions.

Translation of assets and liabilities denominated in foreign currencies
Nordea Group's accounting policies covering the translation of assets and liabilities denominated in foreign currencies is described in section 7"Translation of assets and liabilities denominated in foreign currencies".

5. 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 NMB's funding, where such components are classified as "Net interest income".

Net fee and commission income
NMB 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.

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

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:

- Interest-bearing securities and other interest-related instruments
- Foreign exchange gains/losses
- Other financial instruments.

The ineffective portion of cash flow hedges is 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. Impairment losses from instruments within other categories are recognised in the items "Net loan losses".

Net loan losses
Impairment losses from financial assets classified into the category Loans and receivables (see section 11 "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". Losses are reported net of any collateral and other credit enhancements. NMB's accounting policies for the calculation of impairment losses on loans can be found in section 12 "Loans to the public/credit institutions".

Counterparty losses on instruments classified into the category Financial assets at fair value through profit or loss, are reported under "Net result from items at fair value".

6. 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.

Financial liabilities are derecognised from the balance sheet when the liability is extinguished. Normally this occurs when NMB performs, for example when NMB 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.

7. Translation of assets and liabilities denominated in foreign currencies

The functional currency of NMB 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".

8. Hedge accounting

Nordea Group 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 Group 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.

NMB 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 NMB'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 Group consist of both individual assets or liabilities and portfolios of assets and/or liabilities.

Hedging instruments
The hedging instruments used in NMB 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. NMB 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 NMB 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 NMB 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.

9. 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.

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

- Interest-bearing securities
- 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 Group 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)
- 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, the Group 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 23 "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 Group 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 23 "Assets and liabilities at fair value".

10. 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.

11. Financial instruments

Classification of financial instruments

Financial assets are classified into the category Loans and receivables or into the category Financial assets at fair value through profit or loss. Financial liabilities are classified into the category Other financial liabilities. NMB also holds derivative instruments for hedge accounting.

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 22 "Classification of financial instruments"

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 12 "Loans to the public/credit institutions".

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 contains derivative instruments that are held for trading purposes.

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.

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
NMB 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.

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.

Issued debt and equity instruments
A financial instrument issued by NMB is either classified as a financial liability or equity. Issued financial instruments are classified as a financial liability if the contractual arrangement results in NMB 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.

12. 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 6 “Recognition and derecognition of financial instruments on the balance sheet” as well as Note 22”Classification of financial instruments”).

NMB 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.

Impairment test of individually assessed loans
NMB 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, NMB 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. NMB monitors its portfolio through rating migrations, the credit decision and annual review process supplemented by quarterly risk reviews. Through these processes NMB 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, NMB uses the existing rating system as a basis when assessing the credit risk. Nordea Group 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 5 “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 NMB forgives its claims either through a legal based or voluntary reconstruction or when NMB, 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 NMB has granted concessions to the obligor due to its deteriorated financial situation and where this concession has resulted in an impairment loss for NMB. 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 NMB 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.

13. 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.

14. Employee benefits

All forms of consideration given by NMB 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 NMB 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 Mortgage Bank. Nordea has also issued share-based payment programmes, which are further described in section 17 “Share-based payment”.

More information can be found in Note 6 “Staff costs”.

Post-employment benefits
Pension plans
The companies within Nordea Group 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 the Group 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 Group. All defined benefit pension plans are closed for new employees. The Group 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. NMB’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 20 “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 NMB 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 NMB 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 6 “Staff costs”.

15. Equity

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 and accumulated remeasurements of defined benefit pension plans, as well as a reserve for translation differences.

16. Credit commitments

The contractual amount of irrevocable credit commitments is recognised off-balance in the item “Commitments”.

17. Share-based payment

Cash-settled programmes

NMB 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 6 “Staff costs”.

18. Related party transactions

Nordea Mortgage Bank defines related parties as:

- Shareholders with significant influence
- Group 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 6 “Staff costs”.

Shareholders with significant influence

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

Group undertakings

Nordea Group undertakings means the subsidiaries of the parent company Nordea Bank AB (publ).

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.

Key management personnel

Key management personnel includes the following positions:

- The Board of Directors of Nordea Mortgage Bank Plc and Nordea Bank AB (publ)
- The Chief Executive Officer (CEO) of Nordea Mortgage Bank Plc and the deputy to the CEO

For information about compensation, pensions and other transactions with key management personnel, see Note 6 “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 NMB as well as companies significantly controlled by close family members to these key management personnel.

Information concerning transactions between NMB and other related parties is found in Note 26 “Related-party transactions”.

Note 2 Segment reporting

Measurement of Operating segments' performance
The measurement principles and allocation between operating segments follow the information reported to the Chief Operating Decision Maker (CODM). In NMB the CODM has been defined as Group Executive Management.

Operating segments
The financial results of Nordea Mortgage Bank are presented as a single entity. All the operations of Nordea Mortgage Bank relate to the issuance of covered bonds. All the material operative decisions of Nordea Mortgage Bank are prepared by the Chief Executive Officer and decided by the Board of Directors. Due to the business model of Nordea Mortgage Bank, the nature of its operations and its governance structure, the entity as a whole is the relevant operating segment to be reported.

Income statement

	Mortgage Banking
	Oct-Dec
EURm	2016
Net interest income	51.4
Net fee and commission income	0.2
Net result from items at fair value	-4.8
Other income	0.0
Total operating income	**46.8**
Staff costs	-0.3
Other expenses	-11.5
Total operating expenses	**-11.8**
Profit before loan losses	**35.0**
Net loan losses	0.4
Operating profit	**35.4**
Income tax expense	-7.1
Net profit for the year	**28.3**

Balance sheet, EURm	
Loans to the public	23,912.4
Deposits and borrowings from the public	16,299.9

Total operating income split on product groups

	Oct-Dec
EURm	2016
Mortgage Banking products	46.8
Total	**46.8**

Geographical information

	Total operating income	Assets
	Oct-Dec	31 Dec
EURm	2016	2016
Finland	46.8	25,586.2
Total	**46.8**	**25,586.2**

Note 3 Net interest income

EURm	Oct-Dec 2016
Interest income	
Loans to the public	66.5
Interest-bearing securities	-0.1
Other interest income	2.7
Interest income	**69.1**
Interest expense	
Deposits by credit institutions	-0.3
Debt securities in issue	-67.5
Subordinated liabilities	-0.6
Other interest expenses[1]	50.7
Interest expense	**-17.7**
Net interest income	**51.4**

[1] The net interest income from derivatives, measured at fair value, related to Nordea Mortgage Bank'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 69.1 m. Interest expenses from financial instruments not measured at fair value through profit and loss amounts to EUR -70.0 m.

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

Note 4 Net fee and commission income

EURm	Oct-Dec 2016
Custody and issuer services	0.0
- of which income	-
- of which expense	0.0
Lending Products	1.9
- of which income	1.9
- of which expense	-
Guarantees	-4.0
- of which income	0.0
- of which expense	-4.0
Other	2.3
- of which income	2.3
- of which expense	0.0
Total	**0.2**

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 1.9m.

Note 5 Net result from items at fair value

EURm	Oct-Dec 2016
Interest related instruments and foreign exchange gains/losses	-4.8
Total	**-4.8**

Net result from categories of financial instruments

EURm	2016
Financial instruments held for trading	-0.7
Financial instruments under fair value hedge accounting	-3.9
- of which net result on hedging instruments	-284.5
- of which net result on hedged items	280.6
Financial assets measured at amortised cost[1]	0.1
Foreign exchange gains/losses excl. currency hedges	-0.3
Total	**-4.8**

[1] Of which EUR 0.1m related to instruments classified into the category "Loans and receivables".

Note 6 Staff costs

EURm	Oct-Dec 2016
Salaries and remuneration	-0.2
Pension costs (specification below)	-0.1
Social security contributions	0.0
Allocation to profit-sharing foundation	0.0
Other staff costs	0.0
Total	**-0.3**

EURm	Oct-Dec 2016
Pension costs:	
Defined benefit plans (Note 20)	-
Defined contribution plans	-0.1
Total	**-0.1**

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, 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 Chief Executive Officer
As at 31 December 2016, four members of the Board of Directors of Nordea Mortgage Bank Plc were employed by Nordea Bank Finland Plc, one member was employed by by Nordea Bank AB (publ) and two members were external. No fees were paid to members of the Board during 2016. Salaries, fees, pensions and other staff related expenses paid to the Chief Executive Officer in 2016 are presented below.

Note 6 Staff costs, cont.

Remuneration to the Chief Executive Officer of Nordea Mortgage Bank Plc

	Fixed salary	Benefits	**Total**
EUR	2016	2016	**2016**
Chief Executive Officer of NMB:			
Thomas Miller (1 Oct - 31 Dec)	31,721	1,455	**33,176**

There was no pension obligation for the Chief Executive Officer of Nordea Mortgage Bank Plc at the year-end.

Loans granted to the Chief Executive Officer of Nordea Mortgage Bank Plc and members of the Board of Directors of Nordea Mortgage Bank Plc

	Loans in the balance sheet of Nordea Mortgage Bank Plc	Paid interest to Nordea Mortgage Bank Plc
EUR	31 Dec 2016	2016
Chief Executive Officer of NMB:		
Thomas Miller	410,611	4,210
To members of the Board of Directors of NMB	1,590,326	2,442
Total	**2,000,937**	**6,652**

Loans to key management personnel as defined in Note 1 section 18 amounted to EUR 2,000,937. Interest income on these loans amounted to EUR 6,652.

Loans to other related parties amounted to EUR 408,783. Interest on these loans amounted to EUR 2,184.

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
NMB 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 Mortgage Bank Plc.

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. As the allocation of variable compensation is not finally decided during the current year, the deferred amount during the year 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 direct impact on Nordea’s result, profitability and long term value growth. EIP reward 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. 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. 80% of the allocated amount will be subject to TSR-indexation.

Average number of employees

	31 Dec 2016
Full-time employees	6
Part-time employees	-
Total	**6**
Total number of employees (FTEs), end of period	**12**

Note 7 Other expenses

EURm	Oct-Dec 2016
Information technology	0.0
Other[1]	-11.5
Total	**-11.5**

[1] Relates mainly to services bought from Nordea Group companies.

Auditors' fees

EURm	Oct-Dec 2016
PricewaterhouseCoopers	
Audit-related services	-0.1
Total	**-0.1**

Note 8 Net loan losses

EURm	Oct-Dec 2016
Loan losses divided by class	
Loans to the public[1]	
Reversals of previous provisions	0.4
Net loan losses	**0.4**

[1] See Note 10 "Loans and impairment"

Key ratios

	31 Dec 2016
Loan loss ratio, basis points[2]	-1
- of which individual	-
- of which collective	-1

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

Note 9 Taxes

Income tax expense EURm	Oct-Dec 2016
Current tax	-6.6
Deferred tax	-0.4
Total	**-7.1**

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:

EURm	Oct-Dec 2016
Profit before tax	35.4
Tax calculated at a tax rate of 20 %	-7.1
Tax charge	**-7.1**
Average effective tax rate	20%

Note 9 Taxes, cont.

EURm	Deferred tax assets 31 Dec 2016	Deferred tax liabilities 31 Dec 2016
Deferred tax related to:		
Loans to the public	13.9	0.1
Retirement benefit assets/obligations	0.0	-
Netting between deferred tax assets and liabilities	-0.1	-0.1
Total	**13.9**	**0.0**

There were no unrecognised deferred tax assets in 2016.

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 10 Loans and impairment

EURm	Credit institutions 31 Dec 2016	The public 31 Dec 2016	Total 31 Dec 2016
Loans, not impaired	494.2	23,857.3	24,351.5
Impaired loans[1]	-	66.9	66.9
- Servicing	-	3.6	3.6
- Non-servicing	-	63.3	63.3
Loans before allowances	**494.2**	**23,924.2**	**24,418.4**
Allowances for individually assessed impaired loans	-	-	-
- Servicing	-	-	-
- Non-servicing	-	-	-
Allowances for collectively assessed impaired loans	-	-11.8	-11.8
Allowances	**-**	**-11.8**	**-11.8**
Loans, carrying amount	**494.2**	**23,912.4**	**24,406.6**

[1] Whole amount relates to household loans.

Movements of allowance accounts for impaired loans

EURm	The public Individually assessed	Collectively assessed	Total
Opening balance at 1 Oct 2016	**-**	**-12.2**	**-12.2**
Provisions	-	0.0	0.0
Reversals of previous provisions	-	0.4	0.4
Changes through the income statement	**-**	**0.4**	**0.4**
Allowances used to cover realised loan losses	-	-	-
Translation differences	-	-	-
Closing balance at 31 Dec 2016	**-**	**-11.8**	**-11.8**

Note 10 Loans and impairment, cont.

Allowances and provisions

EURm	Credit institutions 31 Dec 2016	The public 31 Dec 2016	Total 31 Dec 2016
Allowances for items in the balance sheet	-	-11.8	-11.8
Provisions for off balance sheet items	-	-	-
Total allowances and provisions	**-**	**-11.8**	**-11.8**

Key ratios

	31 Dec 2016
Impairment rate, gross[2], basis points	27
Impairment rate, net[3], basis points	27
Total allowance rate[4], basis points	5
Allowances in relation to impaired loans[5], %	-
Total allowances in relation to impaired loans [6], %	18
Non-performing loans, not impaired[7], EURm	8.1

[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 11 Derivatives and hedge accounting

31 Dec 2016, EURm	Fair value[1] Positive	Negative	Total nominal amount
Derivatives held for trading			
Interest rate derivatives			
Interest rate swaps	2.7	1.9	14,474.6
Total	**2.7**	**1.9**	**14,474.6**
Total derivatives held for trading	**2.7**	**1.9**	**14,474.6**

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

Derivatives used for hedge accounting			
Interest rate derivatives	742.7	125.5	21,362.5
Foreign exchange derivatives	44.4	-	123.9
Total derivatives used for hedge accounting	**787.1**	**125.5**	**21,486.4**
- of which cash flow hedges	55.2	10.7	1,954.1
- of which fair value hedges	731.9	114.8	19,532.3
Total derivatives	**789.8**	**127.4**	**35,960.9**

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

31 Dec 2016, EURm	<1 year	1-3 years	3-5 years	5-10 years	over 10 years
Cash inflows (assets)					
Cash outflows (liabilities)	13.0	6.7	146.3	-	-
Net cash outflows	**13.0**	**6.7**	**146.3**	**-**	**-**

Note 12 Prepaid expenses and accrued income

EURm	31 Dec 2016
Accrued interest income	16.5
Other accrued income[1]	60.3
Total	**76.8**

[1]Unsettled debt between Nordea Bank Finland and Nordea Mortgage Bank. Consists of customer's interest payments and amortisations.

Note 13 Deposits by credit institutions

EURm	31 Dec 2016
Banks	7,200.0
Total	**7,200.0**

Note 14 Debt securities in issue

EURm	31 Dec 2016
Covered bonds	16,299.9
Total	**16,299.9**

Note 15 Other liabilities

EURm	31 Dec 2016
Other	0.2
Total	**0.2**

Note 16 Accrued expenses and prepaid income

EURm	31 Dec 2016
Other accrued expenses	30.2
Prepaid income	59.0
Total	**89.2**

Note 17 Subordinated liabilities

EURm	31 Dec 2016
Dated subordinated debenture loans	200.6
Total	**200.6**

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.

Issued by	Year of issue / maturity	Nominal value	Carrying amount EURm	Interest rate (coupon)
Nordea Bank Finland Plc[1]	2016/2026	MEUR 200,0	200.6	Floating 3-month EURIBOR +1,42%

[1] Call date 1 October 2021

Note 18 Assets pledged as security for own liabilities

EURm	31 Dec 2016
Assets pledged for own liabilities	
Loans to the public	21,978.1
Total	**21,978.1**
The above pledges pertain to the following liabilities	
Debt securities in issue	16,299.9
Total	**16,299.9**

Loans to the public amounting to EUR 21,978.1 m have been registered as collateral for issued Finnish covered bonds amounting to EUR 16,299.9 m. In the event of the company's insolvency, the holders of these bonds have priority to the assets registered as collateral. Collaterals are valuated up to the first 70% of the market value of the property.

Note 19 Commitments

EURm	31 Dec 2016
Loan commitments	5.2
Total	**5.2**

Note 20 Retirement benefit obligations

EURm	31 Dec 2016
Defined benefit plans, net	0.0
Total	**0.0**

NMB has both defined benefit plans and as defined contribution plans. IAS 19 secures that the pension obligations net of plan assets backing these obligations are reflected on the company's balance sheet. The defined benefit plans are closed to new employees and instead, pensions for new employees are based on defined contribution (DCP) arrangements. 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 requirement 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
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 employee’s 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 NMB 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 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.

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%

[1] The assumptions disclosed for 2016 have an impact on the liability calculation by year-end 2016.

[2] More information on the discount rate can be found in Note 1, section 14. The sensitivities to changes in discount rate can be found in the table below.

Sensitivities - Impact on Defined Benefit Obligation (DBO) %	2016
Discount rate - Increase 50bps	-12.2%
Discount rate - Decrease 50bps	14.3 %
Salary increase - Increase 50bps	5.7%
Salary increase - Decrease 50bps	-5.4%
Inflation - Increase 50bps	12.8%
Inflation - Decrease 50bps	-11.2%
Mortality - Increase 1 year	3.1%
Mortality - Decrease 1 year	-3.1%

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.

Note 20 Retirement benefit obligations, cont.

Net retirement benefit liabilities/assets

EURm	31 Dec 2016
Obligations	0.2
Plan assets	0.2
Net liability(-)/asset (+)	**0.0**
- of which retirement benefit liabilities	0.0
- of which retirement benefit assets	-

Movements in the obligation

EURm	
Opening balance 1 Oct 2016	-
Plan inclusion	0.2
Remeasurement from changes in financial assumptions	0.0
Closing balance 31 Dec 2016	**0.2**

The average duration of the obligation is 15 years. The duration is based on discounted cash flows. The fact that the defined benefit plans are closed for new entrants leads to a lower duration.

Movements in the fair value of plan assets

EURm	
Opening balance 1 Oct 2016	-
Plan inclusion	0.2
Remeasurement (actual return less interest income)	0.0
Closing balance 31 Dec 2016	**0.2**

Asset composition

Asset composition in funded schemes, %	31 Dec 2016
Bonds	55%
- sovereign	33%
- covered bonds	-
- corporate bonds	22%
- issued by Nordea entities	-
- with quoted market price in an active market	55%
Equity	27%
- domestic	7%
- European	7%
- US	7%
- emerging	5%
- Nordea shares	0%
- with quoted market price in an active market	27%
Real Estate[1]	14%
- occupied by Nordea	4%
Cash and cash equivalents	5%

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

The company is not expected to pay contribution to its defined benefit plans in 2017.

Note 20 Retirement benefit obligations, cont.

Defined benefit pension cost
No pension cost related to defined benefit plans has been recognised in the income statement (as staff costs) in 2016. Total pension costs comprise defined benefit pension costs as well as costs related to defined contribution plans (see specification in Note 6).

Recognised in other comprehensive income, EURm	Oct-Dec 2016
Remeasurement from changes in financial assumptions	0.0
Remeasurement of plan assets (actual return less interest income)	0.0
Pension cost on defined benefit plans (expense+, income-)	**0.0**

Net retirement benefit asset//liability	31 Dec 2016
Opening balance	-
Plan inclusion	0.0
Remeasurements in other comprehensive income	0.0
Closing balance	**0.0**

Key management personnel
As at 31 December 2016, four members of the Board of Directors of Nordea Mortgage Bank Plc were employed by Nordea Bank Finland Plc, one member was employed by by Nordea Bank AB (publ) and two members were external.

Information on salaries, loans and pension liabilities regarding the members of the Board and the Chief Executive Officer is presented in Note 6.

Note 21 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 NMB 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.

Note 21 Capital adequacy, cont.

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.

Common Equity Tier 1 capital: instruments and reserves

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	250.0	
	of which: Share capital	250.0	
2	Retained earnings	800.0	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	0.2	
5	Minority Interests (amount allowed in consolidated CET1)	-	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	28.3	
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	1,078.5	
Common Equity Tier 1 (CET1) capital: regulatory adjustments			
7	Additional value adjustments (negative amount)	-	
8	Intangible assets (net of related tax liability) (negative amount)	-	
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	-0.2	
12	Negative amounts resulting from the calculation of expected loss amounts	-27.2	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	-2.0	
15	Defined-benefit pension fund assets (negative amount)	-	
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	-	
	Of which: …filter for unrealised gain on AFS debt instruments	-	
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	-29.4	
29	**Common Equity Tier 1 (CET1) capital**	1,049.0	
Additional Tier 1 (AT1) capital: instruments			
30	Capital instruments and the related share premium accounts	-	
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	-	
Additional Tier 1 (AT1) capital: regulatory adjustments			
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	-	
44	**Additional Tier 1 (AT1) capital**	-	
45	**Tier 1 capital (T1 = CET1 + AT1)**	1,049.0	
Tier 2 (T2) capital: instruments and provisions			
46	Capital instruments and the related share premium accounts	200.0	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	-	
50	Credit risk adjustments	2.6	
51	**Tier 2 (T2) capital before regulatory adjustments**	202.6	
Tier 2 (T2) capital: regulatory adjustments			

Note 21 Capital adequacy, cont.

57	**Total regulatory adjustments to Tier 2 (T2) capital**	-
58	**Tier 2 (T2) capital**	202.6
59	**Total capital (TC = T1 + T2)**	1,251.7
60	**Total risk weighted assets**	2,770.3
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	37.9%
62	Tier 1 (as a percentage of risk exposure amount)	37.9%
63	Total capital (as a percentage of risk exposure amount)	45.2%
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	2.5%
65	of which: capital conservation buffer requirement	2.5%
66	of which: countercyclical buffer requirement	-
67	of which: systemic risk buffer requirement	-
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	-
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	31.9%
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)	-
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)	-
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)	2,168.0
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	13.0
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	-
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	-

Note 21 Capital adequacy, cont.

Minimum capital requirement and REA

	31 Dec 2016	
EURm	Minimum capital requirement	REA
Credit risk	**196.8**	**2,459.4**
- of which counterparty credit risk	14.3	180.5
IRB	173.5	2,168.0
- corporate	14.0	174.9
- advanced	14.0	174.9
- retail	159.5	1,993.1
- secured by immovable property collateral	120.5	1,506.9
- other retail	38.9	486.3
Standardised	23.3	291.3
- central governments or central banks	1.1	13.9
- institutions	22.2	277.5
Operational risk	**23.8**	**298.1**
Standardised	23.8	298.1
Additional risk exposure amount, Article 3 CRR	**1.0**	**12.8**
Sub total	**221.6**	**2,770.3**
Adjustment for Basel I floor		
Additional capital requirement according to Basel I floor	652.5	8,158.5
Total	**874.1**	**10,928.8**

Leverage ratio

	31 Dec 2016
Tier 1 capital, transitional definition, EURm[1]	1,049.0
Leverage ratio exposure, EURm	25,673.9
Leverage ratio, percentage	4.1

[1] Including profit of the period

Note 22 Classification of financial instruments

31 Dec 2016, EURm	Loans and receivables	Financial assets at fair value through profit or loss: Held for trading	Derivatives used for hedging	Non-financial assets and associates	Total
Assets					
Cash and balances with central banks	200.0	-	-	-	200.0
Loans to credit institutions	494.2	-	-	-	494.2
Loans to the public	23,912.4	-	-	-	23,912.4
Derivatives	-	2.7	787.1	-	789.8
Fair value changes of the hedged items in portfolio hedge of interest rate risk	99.1	-	-	-	99.1
Deferred tax assets	-	-	-	13.9	13.9
Prepaid expenses and accrued income	16.5	-	-	60.3	76.8
Total	**24,722.2**	**2.7**	**787.1**	**74.2**	**25,586.2**

31 Dec 2016, EURm	Financial liabilities at fair value through profit or loss: Held for trading	Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Total
Liabilities					
Deposits by credit institutions	-	-	7,200.0	-	7,200.0
Debt securities in issue	-	-	16,299.9	-	16,299.9
Derivatives	1.9	125.5	-	-	127.4
Fair value changes of the hedged items in portfolio hedge of interest rate risk	-	-	583.8	-	583.8
Current tax liabilities	-	-	-	6.6	6.6
Other liabilities	-	-	-	0.2	0.2
Accrued expenses and prepaid income	-	-	59.0	30.2	89.2
Retirement benefit liabilities	-	-	-	0.0	0.0
Subordinated liabilities	-	-	200.6	-	200.6
Total	**1.9**	**125.5**	**24,343.3**	**37.0**	**24,507.7**

Note 23 Assets and liabilities at fair value

Fair value of financial assets and liabilities

	31 Dec 2016	
EURm	Carrying amount	Fair value
Financial assets		
Cash and balances with central banks	200.0	200.0
Loans	24,505.7	24,608.2
Derivatives	789.8	789.8
Prepaid expenses and accrued income	16.5	16.5
Total financial assets	**25,512.0**	**25,614.5**
Financial liabilities		
Deposits and debt instruments	24,284.3	24,385.6
Derivatives	127.4	127.4
Accrued expenses and prepaid income	59.0	59.0
Total financial liabilities	**24,470.7**	**24,572.0**

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.

Assets and liabilities held at fair value on the balance sheet

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]				
Derivatives	-	789.8	-	789.8
Total	**-**	**789.8**	**-**	**789.8**
Liabilities at fair value on the balance sheet[1]				
Derivatives	-	127.4	-	127.4
Total	**-**	**127.4**	**-**	**127.4**

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

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. NMB does not have any Level 1 instruments.

Note 23 Assets and liabilities at fair value, cont.

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 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. NMB does not have any Level 3 instruments.

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 most 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 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.

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.

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

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

31 Dec 2016, EURm	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	200.0	200.0	3
Loans	24,505.7	24,608.2	3
Prepaid expenses and accrued income	16.5	16.5	3
Total	**24,722.2**	**24,824.7**	
Liabilities not held at fair value on the balance sheet			
Deposits and debt instruments	24,284.3	24,385.6	3
Accrued expenses and prepaid income	59.0	59.0	3
Total	**24,343.3**	**24,444.6**	

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.

Note 23 Assets and liabilities at fair value, cont.

Prepaid expenses and accrued income
The balance sheet items "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”.

Accrued expenses and prepaid income
The balance sheet items "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 24 Financial instruments set off on balance or subject to netting agreements

				Amounts not set off but subject to master netting agreements and similar agreements			
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	Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	789.8	-	789.8	-30.4	-	-	759.3
Total	**789.8**	**-**	**789.8**	**-30.4**	**-**	**-**	**759.3**

				Amounts not set off but subject to master netting agreements and similar agreements			
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	Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	127.4	-	127.4	-30.4	-	-	97.0
Total	**127.4**	**-**	**127.4**	**-30.4**	**-**	**-**	**97.0**

[1] All amounts are measured at fair value.

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 25 Maturity analysis for assets and liabilities

Expected maturity

EURm	Note	31 Dec 2016 Expected to be recovered or settled: Within 12 months	After 12 months	Total
Cash and balances with central banks		200.0	-	200.0
Loans to credit institutions	10	494.2	-	494.2
Loans to the public	10	212.8	23,699.6	23,912.4
Derivatives	11	49.4	740.4	789.8
Fair value changes of the hedged items in portfolio hedge of interest rate risk		6.2	92.9	99.1
Deferred tax assets	9	13.9	-	13.9
Prepaid expenses and accrued income	12	76.8	-	76.8
Total assets		**1,053.3**	**24,532.9**	**25,586.2**
Deposits by credit institutions	13	-	7,200.0	7,200.0
Debt securities in issue	14	2,289.3	14,010.6	16,299.9
Derivatives	11	1.6	125.8	127.4
Fair value changes of the hedged items in portfolio hedge of interest rate risk		8.1	575.7	583.8
Current tax liabilities	9	6.6	-	6.6
Other liabilities	15	0.2	-	0.2
Accrued expenses and prepaid income	16	88.9	0.3	89.2
Retirement benefit liabilities	20	-	0,0	0,0
Subordinated liabilities	17	-	200.6	200.6
Total liabilities		**2,394.7**	**22,113.0**	**24,507.7**

Contractual undiscounted cash flows

31 Dec 2016, EURm	On demand	0-3 months	3-12 months	1-5 years	>5 years	**Total**
Interest bearing financial assets	694.2	525.8	1,680.2	7,784.0	18,116.0	**28,800.2**
Non interest bearing assets		22.7			92.9	**115.6**
Non financial assets					74.0	**74.0**
Total assets	**694.2**	**548.5**	**1,680.2**	**7,784.0**	**18 282,9**	**28 989,8**
Interest bearing financial liabilities		96.6	2,465.7	16,647.6	5,445.0	**24,654.9**
Non interest bearing liabilities		67.1			575.7	**642.8**
Non financial liabilities and equity		37.0			1,078.5	**1,115.5**
Total liabilities and equity		**200,7**	**2,465.7**	**16,647.6**	**7,099.2**	**26,413.2**
Derivatives, cash inflow		3.0	18.5	39.4	24.8	**85.7**
Derivatives, cash outflow		7.5	23.9	150.0	7.1	**188.5**
Net exposure		**-4.5**	**-5.4**	**-110.6**	**17.7**	**-102.8**
Exposure	**694.2**	**343,3**	**-790,9**	**-8,974,2**	**11,201,4**	**2,473,8**
Cumulative exposure	**694.2**	**1,037,5**	**246,6**	**-8,727,6**	**2,473,8**	

The table is based on contractual maturities for on balance sheet instruments. 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 on balance sheet and derivative instruments, Nordea has credit commitments amounting to EUR 5.2m, which could be drawn on at any time.

Note 26 Related-party transactions

EURm	Group undertakings 31 Dec 2016
Assets	
Loans	494.2
Derivatives	791.8
Other assets	0.0
Prepaid expenses and accrued income	60.4
Total assets	**1,346.4**
Liabilities	
Deposits	7,200.0
Debt securities in issue	1.4
Derivatives	118.9
Subordinated liabilities	200.6
Other liabilities	0.2
Accrued expenses and deferred income	64.8
Total liabilities	**7,585.8**
Off balance[1]	**32,398.7**

[1] Including nominal values on derivatives.

Income statement

EURm	Oct-Dec 2016
Net interest income	47.9
Net fee and commission income	-4.0
Net result from items at fair value	-273.9
Other operating income	0.0
Total operating expenses	-11.4
Profit before loan losses	**-241.4**

Note 27 Credit risk disclosures

Past due loans, excl. impaired loans

The table below shows past due loans not impaired split by corporate and household customers. Past due loans to corporate customers that are not considered impaired were at end of 2016 EUR 16m. Past due loans for household were at the end of 2016 EUR 149m.

	31 Dec 2016	
EURm	Corporate customers	Household customers
6-30 days	6.5	96.4
31-60 days	7.2	33.4
61-90 days	1.4	12.8
>90 days	0.7	6.9
Total	**15.8**	**149.4**
Past due not impaired loans divided by loans to the public after allowances, %	0.8	0.7

Rating and risk grade distribution 31 December 2016

IRB Corporate portfolio

Rating grade	EAD amount, EURm
6+	903.3
6	76.3
6-	22.7
5+	23.4
5	17.5
5-	27.6
4+	235.6
4	46.2
4-	34.8
3+	26.4
3	23.0
3-	20.6
2+	8.5
2	3.4
2-	1.0
1+	4.5
1	2.3
1-	1.7
Unrated	62.5
Total	**1,541.1**

IRB Retail portfolio

Risk grade	EAD amount, EURm
A+	2,630.2
A	3,948.3
A-	3,033.7
B+	3,124.2
B	2,390.9
B-	1,654.7
C+	1,388.3
C	831.5
C-	658.4
D+	488.8
D	445.2
D-	343.0
E+	290.9
E	189.8
E-	129.2
F+	101.6
F	140.3
F-	317.3
Unrated	-
Total	**22,106.1**

Collateral distribution

The table below presents the distribution of collateral used in the capital adequacy calculation process. The table shows residential real estate to constitute a major share of eligible collateral items.

EURm	31 Dec 2016
Financial Collateral	0.4%
Residential Real Estate	99.3%
Commercial Real Estate	0.2%
Other Physical Collateral	0.1%
Total	**100.0%**

Forborne loans

At the end of 2016 forborne loans amounted to EUR 114m of which EUR 108m related to households

The proposal of the Board of Directors to the Annual General Meeting

The distributable funds on 31 December 2016 were EUR 828,281,448.90 of which the profit for the year was EUR 28,281,448.90. 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, 27 February 2017

Topi Manner	Hanna-Maria Heikkinen
Riikka Laine-Tolonen	Ola Littorin
Nina Luomanen	Jussi Mekkonen
Markku Pehkonen	Thomas Miller Toimitusjohtaja

The Auditor's Note

Our auditors' report has been issued today.

Helsinki, 27 February 2017

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant

Auditor’s Report (Translation from the Finnish Original)

To the Annual General Meeting of Nordea Mortgage Bank Plc

Report on the Audit of the Financial Statements

Opinion
In our opinion the financial statements, which are prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, give a true and fair view of the company’s financial position, financial performance and cash flows and comply with statutory requirements.

What we have audited
We have audited the financial statements of Nordea Mortgage Bank Plc (business identity code 2743219-6) for the year ended 31 December 2016. The financial statements comprise the 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 company 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 materiality was € 20 million, which represents 0,08 % of total assets

- Key audit matters:

  - Impairment of loans to customers
  - Valuation of certain Level II financial instruments held at fair value
  - IT systems supporting processes 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 materiality for the 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	€ 20 million
How we determined it	0,08 % of total assets
Specific materiality	€ 4 million
How we determined it	3 % of adjusted profit (estimated annualized profit) before tax
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 interest income. The benchmarks determined are within the range of acceptable quantitative materiality thresholds in auditing standards.

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 company	How our audit addressed the key audit matter
Impairment of loans to customers	
Refer to the Note 1 Accounting policies (Critical judgements and estimation uncertainty), Note 8 Net loan losses and Note 10 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 Mortgage Bank 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 • 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.	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 also assessed the appropriateness of relevant parameters in the collective impairment models.

Key audit matter in the audit of the company	How our audit addressed the key audit matter
Valuation of certain Level II financial instruments held at fair value	
Refer to the Note 1 Accounting policies (Critical judgements and estimation uncertainty), Note 11 Derivatives and hedge accounting, Note 22 Classification of financial instruments and Note 23 Assets and liabilities at fair value to the financial statements. 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. 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.

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 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 company'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 company 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 company’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 company 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.

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 Mortgage Bank Plc comprises seven members.
Thomas Miller acts as the CEO of Nordea Mortgage Bank Plc and Tomi Ylöstalo as his deputy.

Board of Directors as from 4 February 2016 (date of approval of the demerger plan of Nordea Bank Finland Plc) until 31 September 2016

Topi Manner, Chairman
Born 1974. Member since 4 February 2016.
Head of Personal Banking

Ola Littorin
Born 1962. Member since 4 February 2016.
Head of Long Term Funding

Jussi Mekkonen
Born 1972. Member since 4 February 2016.
Head of Personal Banking Finland

Riikka Laine-Tolonen
Born 1966. Member since 4 February 2016.
Deputy Head of Personal Banking Finland

Nina Luomanen
Born 1969. Member since 4 February 2016.
Head of Personal Banking Strategy and Development Finland

Board of Directors as from 1 October 2016 until 31 October 2016

Topi Manner, Chairman
Born 1974. Member since 4 February 2016.
Head of Personal Banking

Riikka Laine-Tolonen
Born 1966. Member since 4 February 2016.
Deputy Head of Long Term Funding

Nina Luomanen
Born 1969. Member since 4 February 2016.
Head of Personal Banking Strategy and Development Finland

Hanna-Maria Heikkinen
Born 1979. Member since 1 October 2016.
Vice president, Investor Relations, Cargotec

Ola Littorin
Born 1962. Member since 4 February 2016.
Head of Long Term Funding

Jussi Mekkonen
Born 1972. Member since 4 February 2016.
Head of Personal Banking Finland

Board of Directors as from 1 November 2016

Topi Manner, Chairman
Born 1974. Member since 4 February 2016.
Head of Personal Banking

Riikka Laine-Tolonen
Born 1966. Member since 4 February 2016.
Deputy Head of Long Term Funding

Nina Luomanen
Born 1969. Member since 4 February 2016.
Head of Personal Banking Strategy and Development Finland

Markku Pehkonen
Born 1962. Member since 1 November 2016.
Group CRO, Sampo Group

Hanna-Maria Heikkinen
Born 1979. Member since 1 October 2016.
Vice president, Investor Relations, Cargotec

Ola Littorin
Born 1962. Member since 4 February 2016.
Head of Long Term Funding

Jussi Mekkonen
Born 1972. Member since 4 February 2016.
Head of Personal Banking Finland

Auditors
The company's auditors were elected by the shareholder's meeting of Nordea Bank Finland Plc by the approval of the demerger plan on 4 February 2016.

The Annual General Meeting of Nordea Mortgage Bank Plc elects going forward 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 Mortgage Bank Plc

Nordea Mortgage Bank Plc was registered as a Finnish public limited liability company following the completion of the demerger of the allocated balance sheet from Nordea Bank Finland 1 October 2016 and it commenced its mortgage bank operations on the same day. Nordea Mortgage Bank 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. All the operations of Nordea Mortgage Bank 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 Mortgage Bank 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 Mortgage Bank 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 and the Board Audit Committee of Nordea Mortgage Bank Plc have reviewed this Corporate Governance Report.

On Internal Governance in Nordea Mortgage Bank Plc

General Meeting
Nordea Mortgage Bank Plc (“Bank”) is the wholly-owned subsidiary of Nordea Bank AB (publ). The General Meeting is the highest decision-making body.

The Board of Directors
The Board of Directors of Nordea Mortgage Bank 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 of Nordea Mortgage Bank Plc consists of seven members, two of which are external board members. According to the Articles of Association, the Board of Directors shall consist of not less than three and not more than seven members. The Board of Directors shall appoint the Chairman and the Deputy Chairman of the Board.

Members of the Board of Directors of Nordea Mortgage Bank Plc until 31 September 2016 were Topi Manner (Chairman), Riikka Laine-Tolonen, Ola Littorin, Nina Luomanen and Jussi Mekkonen.

As from 1 October 2016 until 31 October 2016 the members of the Board were Topi Manner (Chairman), Hanna-Maria Heikkinen, Riikka Laine-Tolonen, Ola Littorin, Nina Luomanen and Jussi Mekkonen.

As from 1 November 2016 the members of the Board are Topi Manner (Chairman), Hanna-Maria Heikkinen, Riikka Laine-Tolonen, Ola Littorin, Nina Luomanen, Jussi Mekkonen and Markku Pehkonen.

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 Nordea Mortgage Bank Plc and on www.nordea.com.

The term of office of the members of the Board of Directors employed by the Nordea Group shall expire at the end of the ordinary general meeting which next follows the election as stated in the demerger plan. The term of office of the external 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 Hanna-Maria Heikkinen and Markku Pehkonen are independent of Nordea Mortgage Bank Plc and its shareholders. Topi Manner (Chairman), Riikka Laine-Tolonen, Ola Littorin, Nina Luomanen and Jussi Mekkonen are all employees in the Nordea Group. Topi Manner is as from 1 July 2016 a member of Nordea Group Executive Management. None of the members of the Board of Directors take part in the day-to-day management of Nordea Mortgage Bank Plc.

The Board of Directors shall, in the Charter for the Board of Directors of Nordea Mortgage Bank Plc 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 Chief Executive Officer ("CEO").

According to the Charter for the Board of Directors of Nordea Mortgage Bank Plc, 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 Charter 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 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 Chief Executive Officer and Deputy Chief Executive Officer and exercise supervision to ensure that the Bank's CEO fulfils his or her obligations,
e. determine matters relating to the funding operations,
f. resolve on and submit annual reports and interim reports for the Bank,
g. regularly monitor and assess the Bank's and the bank group's financial situation and risks,
h. 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.

The work of the Board of Directors

In 2016, the Board held 6 meetings. One meeting was held in Helsinki while 5 meetings were held per capsulam. All board members except Ola Littorin were present in the physical board meeting. The Board regularly follows up on the strategy, financial position and development as well as risks. The financial targets and the strategy will be reviewed on an annual basis. In 2016, the Board dealt with for example issues related to commencement of its activities, AML, internal control and compliance, recovery planning details and housing loan and covered bond market.

The Secretary of the Board of Directors is Tarja Ikonen, Chief Operating Officer of Nordea Mortgage Bank Plc.

Board committees

The Board of Directors of Nordea Mortgage Bank Plc has one Board committee: the Audit Committee. The Audit Committee has tasks set out to it in the Act on Credit Institutions and in the Charter for the Audit Committee approved by the Board of Directors of Nordea Mortgage Bank Plc.

The composition of the Audit Committee is:

Hanna-Maria Heikkinen (Chairman)
Markku Pehkonen
Satu Vartiainen

The Audit Committee assists the Board in ensuring the quality of NMB's financial reporting process and in that connection review and monitor NMB's quarterly financial reporting and the external auditors' reports on key matters arising from their audit of NMB's financial statements and to review of NMB's annual and interim reports. The Audit Committee assesses 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 NMB'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 NMB, 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 assessment and audit plan 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.

Chief Executive Officer (CEO), Deputy CEO and Management Group
Nordea Mortgage Bank Plc has a Chief Executive Officer (CEO) and a Deputy CEO.

The CEO of Nordea Mortgage Bank is Thomas Miller and Tomi Ylöstalo acts as his deputy.

The CEO of Nordea Mortgage Bank Plc has established a Management Group to assist and support him in the management of the daily operations of the Bank. The Management Group consists of the CEO, the Chief Financial Officer ("CFO") of the Company, the Chief Risk Officer ("CRO") of the Company, the Chief Operating Officer ("COO") of the Company and the Compliance Officer.

Chief Risk Officer
Nordea Mortgage Bank has a Chief Risk Officer (CRO). The CRO is an independent 2nd line of defence risk management function within the Nordea Mortgage Bank. The CRO shall provide a complete view of whole range of risks in the Nordea Mortgage Bank to the Board of Directors, 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 Charter for Group Compliance, 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 the Board of Directors of Nordea Mortgage Bank Plc.

Insider Administration
The Nordea Group and Nordea Mortgage Bank 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 CEO and the Deputy CEO, external auditors and deputy external auditors as well as management group members 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 leading officials and other relevant persons may not engage in short time 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 Mortgage Bank Plc reports on governance and follow-up of rules regarding 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 Mortgage Bank 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 Mortgage Bank Plc monitors financial and risk reporting at Nordea Mortgage Bank Plc level and has dealt with the risk reports at Nordea Mortgage Bank Plc level. Nordea Mortgage Bank Plc complies with the Group directives and supporting instructions to the extent applicable.

Internal Control Process

The Internal Control Framework is established by the Group Board of Directors, carried out by 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 Framework 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 (GIA), 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

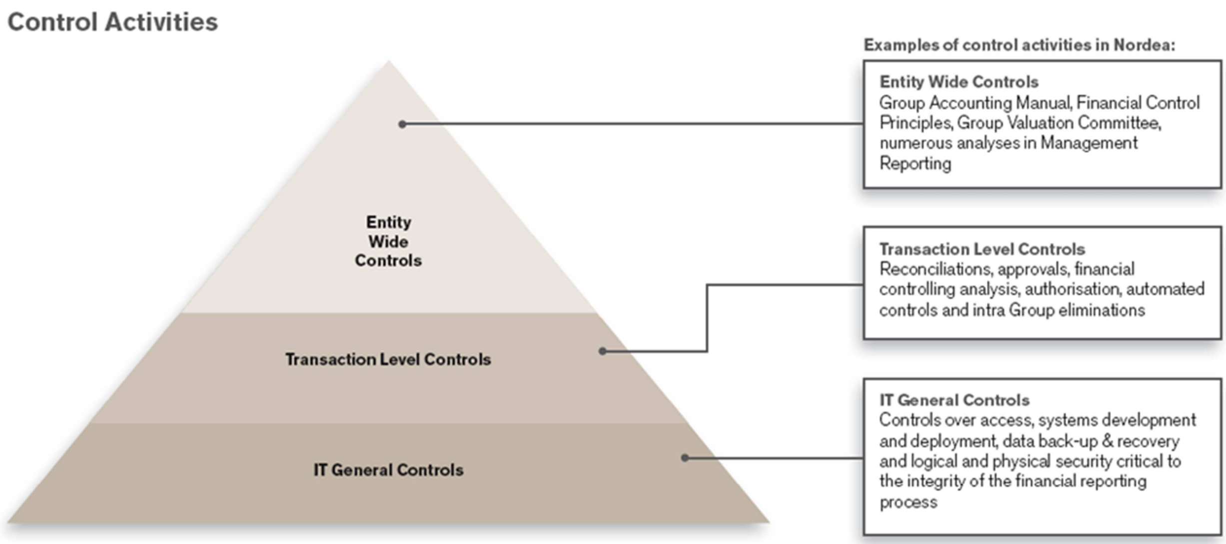
The control environment constitutes the basis for Nordea's internal control and contains the culture and values established by the Board of Directors and Group Executive Management of Nordea Bank AB (publ).

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 Group 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 Group 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 Accounting Key Control 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 (TLC'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.

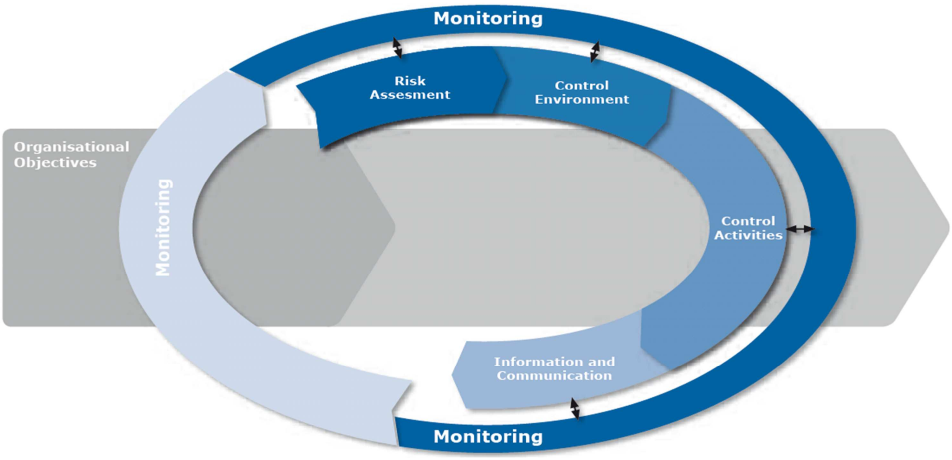
The quality assurance vested in the management reporting process, where a detailed analysis of the financial outcome is performed, constitutes one of the most important control mechanisms associated with the reporting process. The reconciliations constitute another set of important controls in which 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 Accounting Key Control 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 NMB 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 NMB’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 Board Audit Committee of Nordea Mortgage Bank Plc within Nordea Mortgage Bank. 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 Board Audit Committee of Nordea Mortgage Bank Plc handles and the Board of Directors of Nordea Mortgage Bank Plc approves GIA's Internal Audit Annual Plan for Nordea Mortgage Bank Plc and reviews GIA's semi-annual Internal Audit Report on Nordea Mortgage Bank Plc. The same material is also presented to the Management Group of Nordea Mortgage Bank Plc, before it is submitted to the Board Audit Committee and the Board of Directors of Nordea Mortgage Bank Plc.

The Board Audit Committee of Nordea Mortgage Bank Plc also assists the Board of Directors of Nordea Mortgage Bank Plc in fulfilling its oversight responsibilities by, for instance, monitoring the financial reporting process, and in relation thereto, the effectiveness of the internal control and risk management systems established by the Group Board of Directors, the CEO of Nordea Bank AB (publ) and Group Executive Management (GEM), as well as the Board of Directors of Nordea Mortgage Bank Plc, including the effectiveness of GIA. The Board Audit Committee of Nordea Mortgage Bank Plc is further accountable for keeping itself informed as to the statutory audit of the annual accounts and reviewing and monitoring the impartiality and independence of the external auditors, and in particular the provision of additional services to Nordea Mortgage Bank .

Auditors
The company's auditors were elected by the shareholder's meeting of Nordea Bank Finland Plc by the approval of the demerger plan on 4 February 2016. The Annual General Meeting of Nordea Mortgage Bank Plc elects the company's auditors going forward 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.

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