Annual Report 2018

CEO Letter

Casper von Koskull, President and Group CEO, and Torsten Hagen Jørgensen, Group COO and Deputy CEO.
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Best and most accessible advisory, with an easy daily banking experience, delivered at scale. **Page 13**

No.1 relationship bank in the Nordics with operational excellence. **Page 21**

Our vision is to become the leading Asset & Wealth Manager in the Nordic market by 2020. **Page 25**

Best-in-class advisory and digital experience, efficiency and scale with future capabilities in a disruptive market. **Page 17**

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This Annual Report contains forward-looking statements that reflect management's current views with respect to certain future events and potential financial performance. Although Nordea believes that the expectations reflected in such forward-looking statements are reasonable, no assurance can be given that such expectations will prove to have been correct. Accordingly, results could differ materially from those set out in the forward-looking statements as a result of various factors. Important factors that may cause such a difference for Nordea include, but are not limited to: **(i)** the macroeconomic development, **(ii)** change in the competitive climate, **(iii)** change in the regulatory environment and other government actions and **(iv)** change in interest rate level and foreign exchange rate levels. This report does not imply that Nordea has undertaken to revise these forward-looking statements, beyond what is required by applicable law or applicable stock exchange regulations if and when circumstances arise that will lead to changes compared to the date when these statements were provided.

Our priorities for 2019 are very clear

– It is now all about execution

Dear shareholder,
Last year was a historical year for Nordea when we finalized our re-domiciliation into the Banking Union and Finland. This move is part of Nordea´s overall strategic direction, enabling us to operate in an environment that offers stability, predictability and a leveled playing field.

I am happy to say that Nordea is now repositioned to be a truly Nordic focused bank in the heart of the banking union, with a very clear and simple structure, a record strong balance sheet and a much more improved risk and compliance platform, enabling us to be an even better bank for our customers, while at the same time structurally bring down costs and increase efficiency.

Since 2016 Nordea has conducted a significant transformation of the bank, in line with the strategic priorities communicated during the second half of 2015. The transformation consists of four key elements.

The first key element – **the risk and compliance setup** – has gone through a radical transformation in recent years. During the last three years we have invested more than EUR 730m within risk and compliance and resilience and recruited approximately 1,300 compliance professionals. These investments have significantly strengthened the risk and compliance platform and provide vital support to our financial crime prevention efforts with more rigorous standards, KYC quality assurance processes and sanctions screening capability, making Nordea a safer and more trusted bank.

The second key element of the transformation – **simplification** – has been conducted through a large range of actions during the last five years. In 2013 we divested our Polish operations, followed by a reduction of our Russian exposure and non-Nordic Shipping, Oil and Offshore lending during 2013–2017. Last year, we performed several transactions that continued to reduce risks and increase our operational focus on the Nordics. The divestment of parts of our Luxembourg-based private banking business was completed in October and in September, we announced the divestment of our Baltic operations with the sale of Luminor. The acquisition of Gjensidige Bank including a partnership with Gjensidige Forsikring was made public in July and is expected to be closed in the first quarter of 2019. Finally, as of 1 October 2018, Nordea is domiciled in Finland creating a streamlined legal structure with a Finnish parent company, with fully owned product companies and significant branches in the other Nordic countries.

Another part of the simplification project is a significant investment in building modern platforms that will enable end-to-end digital solutions for customers and future development. This involves the replacement of our legacy banking systems, where over 400 systems are being converged into a new core banking platform, a payment platform, a customer and counterparty master solution and a common data warehouse. We have made significant progress towards our ambitions. Since early 2018, household customers in Finland have been able to open new savings accounts and fixed term deposits on the new Core Banking Platform. In spring, close to 750,000 Finnish customers savings accounts were successfully moved onto the platform. In autumn, a stepwise implementation of loans commenced. Today, applying for a loan via Nordea Mobile involves just a few easy steps, with instant access to funds for eligible customers in Finland. Furthermore, all Single Euro Payments area (SEPA) payments are now running on the new Payment Platform and Nordea has a completely new Group Common Data Platform.

Our digital strategy – the third key element – has resulted in a significant number of new digital offerings to our customers. In 2016–2018 Nordea has invested above EUR 200m in digital solutions. Our customers are expecting smart tools and easy digital ways of handling their everyday banking. One of our latest solutions is a digital savings robot that we have called Nora which has been introduced in all Nordic countries in 2018 and has conducted more than 115,000 advisory meetings. To fulfill our customer vision, we are seeking new partners and collaborations. Last year we launched the blockchain-based platform we.trade in collaboration with eight European banks, that will allow companies to trade in a fast, easy and transparent way. Furthermore, we expanded our digital payment offering by adding Google Pay, a mobile payment solution for Android phones.

Cost and capital efficiency is the fourth key element in our strategy. Our transformation and heavy investments in digital development and compliance has undoubtedly led to cost increases in 2016–2017, however Nordea has now a foundation for a long-term improvement in cost efficiency. We are well on track to reach our 2021 target to reduce costs by 3 percent compared to 2018 (excluding EUR 141m in goodwill impairment in 2018 related to Russia). There is also potential to reduce costs beyond 2021 when the new Core Banking Platform is implemented, and we can start decommissioning the legacy systems.

With the transformation of the bank we are finding new ways of working. We are creating a flatter organisation, which will result in increased empowerment for employees. This will also ensure a quicker decision making and more agile ways of working.

2018 was a year characterized by challenges in terms of revenues; driven by margin pressure in household lending, muted volume growth and pressure on savings and market making revenues. On the other hand, I am pleased to see that we were delivering on our cost efficiency plans, our credit quality remains strong and the balance sheet is robust. Thus, we are prepared to manage the bank successfully through the cycle. We delivered the following results for full-year 2018 (excluding items affecting comparability): Income, EUR 8,435m, Costs, EUR 4,738m, Loan loss ratio, 7 bps, Return on equity, 8,5%.

I am proud of all the awards and top rankings that we have received during the year, in many ways proving that we are on the right track on our transformation journey. At this year's Paytech Awards ceremony in London, Nordea Wallet was awarded "Best Mobile Payments Initiative", whilst there was further success for Open Banking, winning "IT Team of the Year". And for the third year running, Nordea was awarded the prestigious title of "Best Bank in the Nordics" in The Banker's annual Transaction Banking Awards.

Personal Banking

During 2018, we have launched an array of new services and solutions for our customers, in addition to improving availability and accessibility.

As an example, we improved our digital daily banking experience for our customers via the launch of the completely redesigned mobile banking app in both Finland and Sweden in 2018. Via the new app the bank is available anywhere at any time and personalized to the preferences of the customer.

In 2018, we also expanded our digital payment offering by adding Google Pay. Nordea is the first bank in the Nordics to offer the Google Pay contactless payment app to Android device users in Denmark, Sweden, Norway and Finland.

We aim at serving our customer faster and more efficiently. Besides the launch of our financial roboadvisor Nora, our service robot Nova is now live in all markets, helping our customers to chat with their bank. In Norway, robotics is now used so that loan promises are given to customers within minutes.

Commercial & Business Banking

Last year we launched an enhanced Corporate Netbank, Nordea Business, which will be our primary channel to serve our corporate customers remotely, enabling easy access to an ecosystem of products and services for self-service. More than 50,000 customers in Sweden have been invited and we maintain the Nordic momentum in 2019.

Another example is the establishment of dedicated Start-up and growth units in all countries, strengthening our advisory capacity towards entrepreneurs and start-ups with scaling opportunities for global reach.

The development of Nordea's Open Banking platform is progressing and is now live in Denmark, Sweden and Finland, where approximately 2,500 external developers are forming part of our digital ecosystem, creating ideas and solutions for our customers.

Wholesale Banking

A subject for rejoicing in 2018 was that Nordea Corporate & Investment Banking (C&IB) was chosen as the best corporate bank among large Nordic corporates with an all-time high customer satisfaction score in the 2018 Prospera survey. In both Finland and Denmark, Nordea was ranked as number one among peers, with all-time high customer satisfaction scores.

2018 was a very successful year for C&IB, with top ranking in the league tables for both Nordic M&A and Nordic ECM. This is the first time ever that Nordea has been positioned as the number 1 M&A and ECM house across the Nordics, and a major achievement. The strong M&A performance was underpinned by Nordea´s key roles in various deals e.g. the merger of Tele2/Com Hem and public takeover for TDC. We continued to be the leading bank in Nordic ECM and successfully executed multiple IPOs, including BetterCollective in Sweden, Elkem in Norway and the largest Finnish IPO in over a decade in Kojamo.

Asset & Wealth Management

In 2018, we continued to substantially invest in responsible investments to ensure future strength within active ownership, ESG research and integration. In December, Nordea Asset Management was rewarded as Best ESG investment process in Europe for the fifth year in a row by the European magazine Capital Finance International.

Furthermore, Nordea Funds was recognised as the best Nordic Fund House in 2018 by Thomson Lipper, also awarding 12 Nordea funds sold in the Nordics for their long-term performance. Life & Pensions has scaled up the use of robots across the Group, automating processes and tasks in the back office, increasing efficiency. Life & Pensions has also taken the first steps in the field of artificial intelligence (A.I.) by introducing a chatbot in customer interaction. Several promising A.I. related projects are in the pipeline for 2019 and beyond.

Sustainable Finance

As an essential initiative, Nordea aims to take a leadership position within sustainable finance, enabling our customers to transition to a sustainable future. Nordea strongly supports this major shift by engaging actively to ensure that there is a market for these solutions, and that capital is allocated to them.

In 2018, we continued to take new initiatives within sustainable finance and participating in international sustainability forums. Together with the United Nations and 27 other banks from around the world, we were co-founder of the Principles for Responsible Bankin launched in Paris last autumn. The principles aim to align the financial sector with the UN Sustainable Development Goals and the Paris Climate Agreement. Another international commitment was when Nordea was selected in the European Commission's technical expert group on sustainable finance.

Sustainability and responsible banking is at the heart of what Nordea wants to be and we are integrating sustainability into our day-to-day business at an increasing pace. As an example, we were the first Nordic bank to introduce a Green corporate loan product to small and medium-sized enterprises. This is offered to customers undertaking initiatives that have a clear environmental impact. Additionally, in September we launched a green mortgage for our personal customers in Sweden – a discounted mortgage for all customers living in climate-smart homes. Furthermore, Nordea Life & Pensions has decided to improve the environmental profile of all its pension products and has already cut the carbon footprint of its traditionally managed equity portfolio by 70 %.

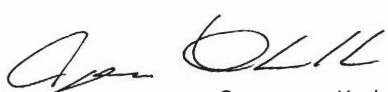
Our efforts within sustainability has been internationally acknowledged. For the second year in a row, Nordea was ranked as one of the top 100 most sustainable corporations in the world by the specialised media and investment research firm Corporate Knights and was the only Nordic bank to qualify among the top 100.

Going forward, our beacon will continue to be: Everything we do, we do for the benefit of the customer. With a financial industry going through the largest transformation in decades, Nordea has, by listening to our customers thoughts, worries and complaints, through dedicated projects, developed into a better and more accessible bank with easier services. Fortunately, our efforts are paying off. In 2018 we have made progress in Personal Banking in terms of increasing customer satisfaction particularly in Sweden. We also saw a continued positive trend in both Private Banking and Business Banking, and we retain our very strong position in the large corporate sector. We will continue to push more and better solutions and products to our customers fulfilling their banking needs – easy and the way they want it – with the clear ambition to further improve customer satisfaction.

Our employees are key in succeeding with this ambition. I would like to express my gratitude to all Nordea employees, who during the year have worked wholehearted to always put the customer first. I am confident that their efforts will continue to bear fruit, to the benefit of both our customers and our shareholders.

For 2019, our priorities are very clear. We are now placed to intensify our customer efforts and increase business momentum while at the same time continuing to drive structural cost efficiency We are now shifting into a more customer-oriented phase with more time and resources to spend on our customers. I am very excited going forward into this new environment.

Best regards,



Casper von Koskull
President and Group CEO

Leading platform

Total customer relationships and market position 2018

No. 1
Market position, Household customers and Corporates & Institutions

Household customers:
9.3 million

Corporates & Institutions:
572,000

Customer relationships and market position 2018 by country:

SWEDEN
4.1 million Household customers (#3–4)
197,000 Corporates & Institutions (#2–3)

DENMARK
1.6 million Household customers (#2)
64,000 Corporates & Institutions (#2–3)

FINLAND
2.7 million Household customers (#1–2)
244,000 Corporates & Institutions (#1)

NORWAY
0.9 million Household customers (#2)
67,000 Corporates & Institutions (#2)

Nordea has a superior customer franchise and a unique position in the Nordics

Nordea is the leading bank in the Nordic countries and a major European bank. We are proud to be a prominent Nordic retail bank, the number one wholesale bank and the largest private bank, asset manager and life and pensions provider in the Nordic region. Through our four business areas **Personal Banking**, **Commercial and Business Banking**, **Wholesale Banking** and **Asset & Wealth Management** we serve around 10 million customers. Nordea is a Nordic bank with a global reach, operating in **18 countries** worldwide, with operational support centres in both Poland and India.

Leading financial services platform in the Nordic region

75 percent of our customers get their questions solved first time by our virtual assistant NOVA* on our webpage.

*External chatbot available 24/7, helping our customers with questions to provide available and accessible customer service options.

122,000 customers used NORA, our Digital Savings Advisor, of these 60% had not previously saved with Nordea and 88% started regular monthly saving.

AWARDS

"No. 1 Corporate Banking in Nordics"
Prospera

"IT Innovation of the Year – Open Banking"
Retail Banker

"Nordics winner – Best Transaction Banking"
The Banker

Stable bank with strong capital generation

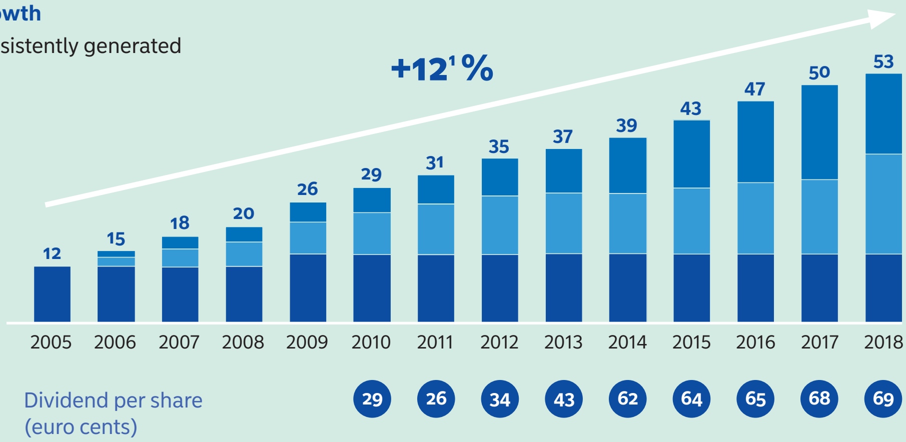
Nordea delivered strong capital generation over time

Capital generation and dividend growth

Over the past decade, Nordea has consistently generated new capital while growing dividends.

- Acc. dividend, EURbn
- Acc. equity, EURbn

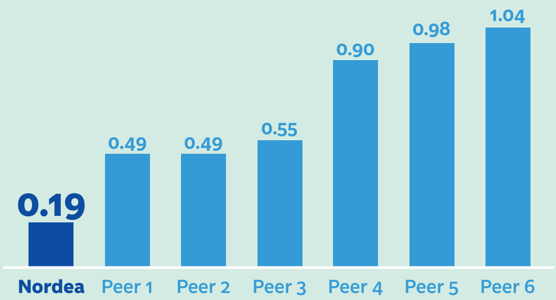
Nordea is the most diversified bank in the Nordics with strong capital generation



1) CAGR 2005–2018, adjusted for EUR 2.5bn rights issue in 2009. Equity columns represent end-of-period equity less dividends for the year. No assumption on reinvestment rate for paid out dividends.

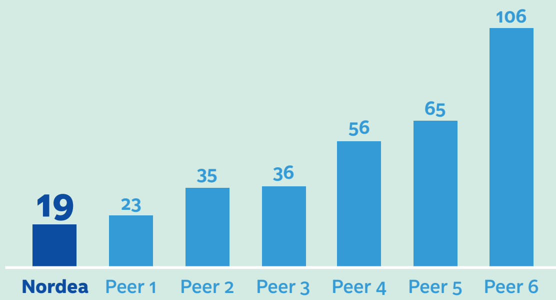
Nordea is the most stable bank in the Nordics

Quarterly CET1 ratio downside volatility[1], %



1) 2006–2018. Calculated as quarter-on-quarter volatility in CET1 ratio, adjusted so that the volatility effect of those instances in which the CET1 ratio increases between quarters is excluded. Excluding Q4 18 for all banks (due to Nordea move to SSM and for Swedish peers move of Pillar 2 mortgage risk weight add-ons into Pillar 1).

Quarterly net profit volatility[1], %



1) 2006–2018.

Since 2006 Nordea has generated the most stable fundamentals in the Nordics – both when it comes to earnings and capital ratios

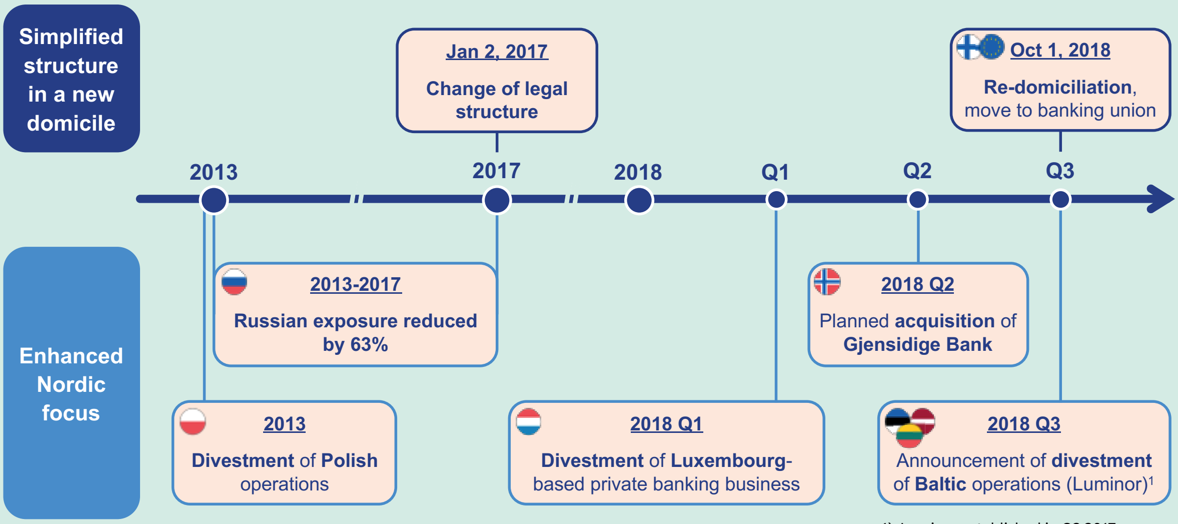
Nordea's CET1 ratio development has strenghtned year after year

CET1 ratio development, %

1) CET1 down to 15.5% due to Nordea move to SSM.

Nordea has further enhanced its Nordic focus with a simplified structure in a new domicile

We have increased our focus on our Nordic core markets during the last 5 years



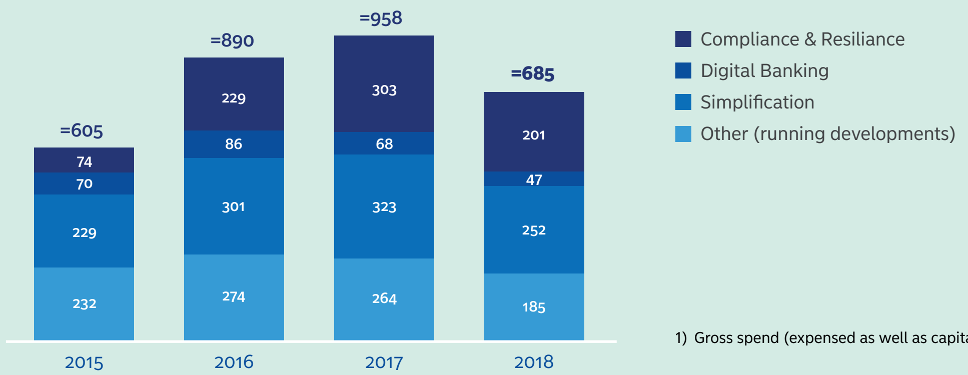
1) Luminor established in Q3 2017 as a joint venture with DNB.

- Divestment of our Polish operations
- Reduced our Russian exposure, including divestment of the Russian household portfolio
- Divestment of parts of our Luxembourg-based private banking business
- Closing of the acquisition of Gjensidige Bank will take place in Q1 2019 including also a partnership with Gjensidige Forsikring
- Divestment of our Baltic operations through the sale of Luminor, subject to receiving all necessary regulatory approvals

These transactions have reduced risks and increased our operational focus on the Nordics

Targeted investments to strenghten and simplify our way of working

Development spend (gross[1])

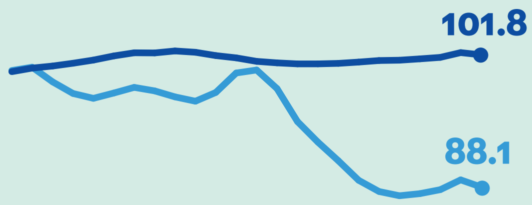


1) Gross spend (expensed as well as capitalised).

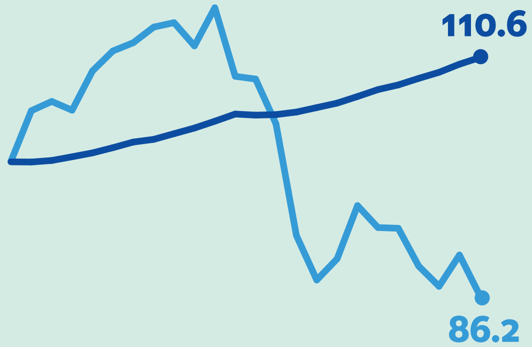
- Compliance & Operational risk – Capacity upgrade in 1st ,2nd and 3rd line. Improved crisis management capabilities
- Financial crime – Significant build-up of group-wide organisation
- Technology & Infrastructure – New operating model for IT. One platform for all units, One Nordea
- Enhanced information and cyber security. Integrated end-to-end technology operations
- IT remediation – Global control system for identity and access rights. Global fraud monitoring roll-out

Household lending margins under pressure

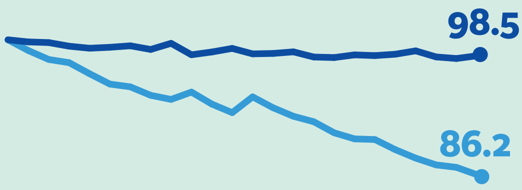
Household lending Sweden[1]
Q1 2017 – Q4 2018



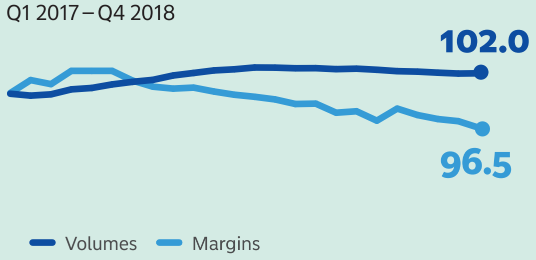
Household lending Norway[1]
Q1 2017 – Q4 2018



Household lending Denmark[1]
Q1 2017 – Q4 2018



Household lending Finland[1]
Q1 2017 – Q4 2018

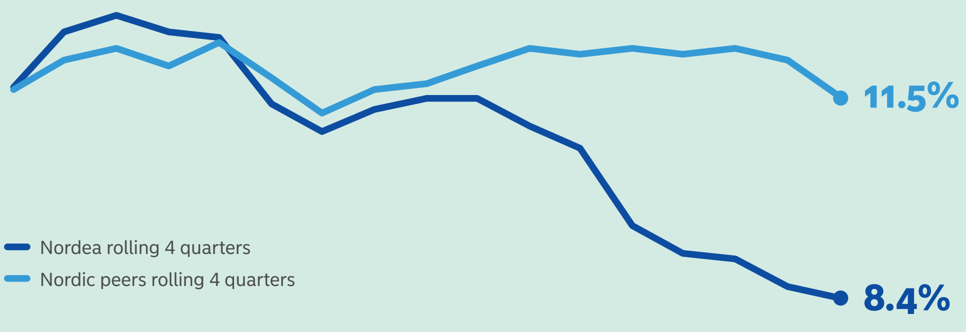


Margin pressure continues with subdued volume growth.

1) January 2017 = index 100.

Our Return on Equity has been impacted negatively

Relative RoE performance
Q4 2014–Q4 2018, Excl. items affecting comparability



Strategic vision:
Leveraging One Nordea

Nordea has embarked on a number of strategic initiatives to meet the customer vision and to drive cost efficiency, compliance and prudent capital management.

People in the Nordics are known for open thinking. In many ways, Nordic ideas have been at the forefront of building modern, open societies, focused on a greater good. As the consolidation of over 300 banks – several of which were pioneers of the banking industry – we in Nordea embody this mindset. We have re-invented ourselves many times over. And we will do it again, as One Nordea.

It all starts with our **customer vision** because we want to be an end-to-end personal and digital relationship bank that is easy to deal with, relevant and competent – available to customers anywhere and anytime. As a safe and trusted partner, we will help customers achieve their dreams and aspirations, every day and across generations.

How our customers experience us is driven by our **culture**, which attracts diversity and is what makes Nordea a great place to work. It points us back to our **purpose**, which leads our decisions and is the reason we exist; and our **values**, which guide us on how to get there with courage, collaboration, passion, and ownership.

Our culture is at the heart of our strategy because reinvention starts with all of us. As the leading Nordic bank, we are different, so we build on what we already do best. Our healthy balance sheet keeps us financially strong; our culture unites us and attracts and retains the best talent; our people are empowered to grow, contribute and enjoy their roles; and our data provides insights on 10 million customers – insights we can turn into new and better solutions.

To realise our full potential as One Nordea, we have prioritised the six capabilities we want to be really good at today. Creating great **customer experiences** is our number one priority and this takes strong **analytics**, skilled **IT management**, innovative **partnerships** and sound **risk management**. Our people who connect with customers every day are the face of Nordea, so we also want to be great at **people management**.

Our vision honours the tradition of Nordic ideas in a new era of banking. It is an era where we need to accelerate our reinvention to match the pace of change in society. It enables us to stay relevant as the local bank for local customers, the Nordic bank for global customers, and the global bank for Nordic customers. It is a privilege and a responsibility we take very seriously.

It is our vision to lead the way and reinvent banking – as One Nordea.

2019 Key priorities

For 2019, Nordea's key priorities are:

- **Increase business momentum**: we want to realise the potential of our business model momentum. We can do so when we, for example, evaluate our risk and return view, focus on customer acquisition and decreasing attrition, make use of our full potential by cross-selling and really utilising our specialists and competencies to create value for our customers.
- **Drive structural cost efficiency**: We want to achieve a healthy cost base on a long-term basis, while still delivering on our commitments. Hence, we want to reduce costs in a smart way, without jeopardising our business momentum.

A customer-centric organisation

To facilitate a sharp customer focus, and to reflect the unique needs of the different customer segments, Nordea is organised into four business areas – Personal Banking, Commercial & Business Banking, Wholesale Banking and Asset & Wealth Management. This ensures optimal delivery, while increasing the time spent with customers and reducing the time required to bring new products and services to market.

Digitalisation and distribution transformation

Digitalisation is one of the main drivers for change in banking and indeed in many other industries. Customer preferences and expectations on accessibility, ease and personalisation are key reasons for this trend. Nordea continues to see a rapid increase in customer demand for mobile solutions.

The Core Banking Programme is the no. 1 priority in Nordea's change portfolio, as it is the most critical enabler of Nordea's ambition to transform into a scalable, resilient, efficient and digital relationship bank by 2021. By simplifying its core, Nordea will be able to leverage the full scale of digital opportunities, build an efficient operating model and achieve our customer vision through:

- True digital end-to-end customer experiences
- Improved access to data analytics
- Improved product development and maintenance – at a lower cost
- Replacing multiple country-specific legacy systems with one Nordic banking platform.

The transition activities include the shift from physical to digital distribution and the establishment of e-branches, as well as the use of robotics and artificial intelligence – AI.

Building a resilient business for the future

Nordea, like other businesses, is constantly facing global challenges. In terms of our business, this means that we need to take responsibility when mitigating risks, managing our customers' money and in terms of environmental impact.

Sustainability is an important factor, and Nordea's Sustainability Policy sets out principles on investments, financing and advice. It is our guide for conduct in our day-to-day work and when making business decisions. We therefore integrate environmental, social and governance (ESG) issues into our investment analysis methodology, to ensure that investment and portfolio construction decisions are based on a full set of information. We also integrate ESG risk evaluation into our credit decision-making, and the customers' ESG risk category is included in credit memorandums.

Trust and responsibility

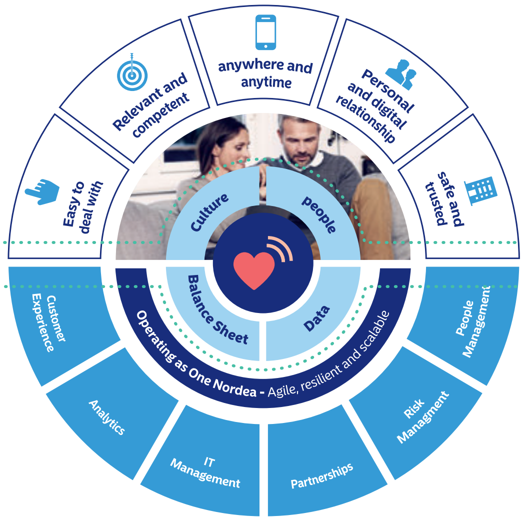
We have set an ambitious target to be best in class in terms of regulatory compliance. Emphasis on implementing new rules and regulation quickly and making it an integral part of our business model, is key to capturing the benefits of compliance-driven investments also in the form of a deeper understanding of our customers and risks.

Our strategic vision – Leveraging One Nordea

How our customers will experience us

What will differentiate us from others

What we want to be great at



Simplifying the bank

We have made good progress in building the capabilities and foundation for change

Success in 2018	Objectives in 2019–20
Basic modules delivered	**Large scale simplification**
First deliveries finalised in: • Deposits • Loans • Instant payments	Local implementations: • Deposits • Loans • Cross-border payments
Business to own the new capabilities and drive the simplification of the bank	Complex product migrations and de-commissioning of legacy to be continued 2020 and beyond
Closing local data warehouses	

We are making a significant investment in building modern platforms that will enable end-to-end digital solutions for customers and future development. This involves the replacement of our legacy banking systems, where over 400 systems are being converged into, 1) a new core banking platform; 2) a payment platform; 3) a customer and counterparty master solution, and; 4) a common data warehouse.

Since early 2018, household customers in Finland have been able to open new savings accounts and fixed term deposits on the new Core Banking Platform, via both Nordea Netbank and Mobile. In Spring, close to 750,000 Finnish customer savings accounts were successfully moved onto the platform.

In Autumn, a stepwise implementation of loans commenced, with an employee pilot for unsecured consumer loans available also in the Nordea mobile application. This pilot was later extended to a limited number of Finnish customers. Today, applying for a loan via Nordea Mobile involves just a few easy steps, with instant access to funds for eligible customers in Finland.

All Single Euro Payments area (SEPA) payments are now running on the new Payment Platform. Since June 2018, our customers in Finland have been able to receive instant Euro payments from several European banks in the SEPA region. Nordea was the first bank in the Nordics to offer this new service to customers.

The Customer and Counterparty Master solution is the future single source and provider of customer and counterparty information across the Nordea Group. Consolidation of data into a single platform will cater for increasing regulatory compliance and customer needs.

Group Common Data is replacing legacy local country data warehouses with a common Nordic Data Warehouse.

Financial targets towards 2021

Dividend policy	The ambition is a yearly increase in the dividend per share, while maintaining a strong capital position in line with the capital policy
Capital policy	A management buffer of 40–120bps above the regulatory CET1 capital ratio requirement
RoE	A continued improvement in Return on Equity, with the target of being above the weighted Nordic peer average
Costs	**For 2019:** Costs are expected to be lower in constant currencies compared to 2018 excluding items affecting comparability in 2018 and 2019. Total cash cost are expected to be lower in constant currencies over the same period. **For 2021:** Cost base in constant currencies to be approximately 3% below the 2018 cost base excluding items affecting comparability in 2018. Cash cost are expected to be down 5–10% in constant currencies over the same period.

Gradually improved Group return and cost efficiency, as business areas address and close their relative performance gaps.

Business areas and Group functions & other

The four main business areas are designed to support the relationship strategy for each specific customer segment. Having one operating model and an end-to-end value chain ensures optimal delivery, increasing the time spent with customers and reducing the time required to bring new products and services to market.

Personal Banking

- Leading Personal Banking in the Nordics – easy banking for our customers.
- Seamless through omni-channel set-up: anywhere – anytime, digital and in person.
- Safe and trusted, with most relevant and competent advisory.
- Efficiency and scale – One Nordic model.

Commercial & Business Banking

- Leading position in corporate banking in the Nordics.
- Ambition to be no. 1 in employee satisfaction.
- Nordea is the no.1 bank for start-ups in the Nordics.
- Best in class advisory – anywhere, anytime.
- Best in class digital experience – tailored customer preferences and needs.

Wholesale Banking

- No.1 Wholesale Banking position in the Nordics.
- Customer intensity and satisfaction.
- Attract, develop and retain the right people.
- Digital transformation.
- Social engagement and sustainable footprint.
- Business optimisation and efficiency.

Asset & Wealth Management

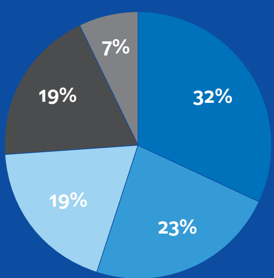
- Largest private bank, asset manager and life & pension provider in the Nordics.
- Strong investment Performance.
- Delivering advice and solutions of superior quality.
- Well-diversified and capital light business.
- Digital advisory and product capabilities.

Group Finance & Treasury / Group Corporate Centre

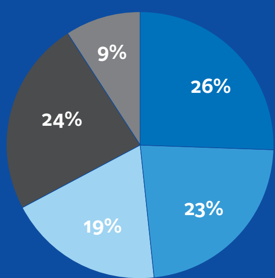
- Provide the Nordea Group with asset and liability management, treasury operations, group wide services, frameworks and risk management, compliance and common infrastructure.
- Leading the implementation of One Operating Model across the bank.
- Continue Nordea's focus to enhance Capital, Financial Crime Prevention and Data & Technology.

Business area contribution, 2018

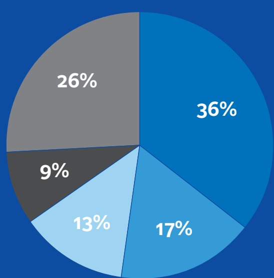
Operating income



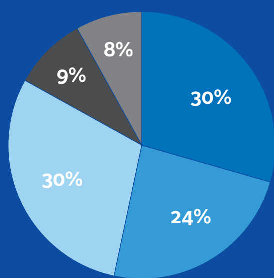
Operating profit



FTEs



Economic capital



Personal Banking · Commercial & Business Banking · Wholesale Banking · Asset & Wealth Management · Group Finance & Treasury / Group Corporate Centre

Business Areas

Personal Banking

Introduction

Frank Vang-Jensen
Head of Personal Banking.

Nordea has the largest customer base of any bank in the Nordic region. In Personal Banking around 10,000 people are working every day to deliver greater customer experiences to more than 9 million household customers. We do this through a combination of physical and digital channels offering a full range of financial services and solutions.

The Personal Banking business area includes advisory and service staff, channels, product units, back office, digital development and IT under a common strategy, operating model and governance across markets.

Through strong engagement and valuable advice, the aim is that Personal Banking customers entrust Nordea with all their banking business. Reflecting the rapid changes in customer preferences, Personal Banking's relationship banking concept also encapsulates and integrates digital channels through constantly expanding mobile offering.

In Personal Banking, we want to be the leading personal bank in the Nordics. We want to be known for being safe and trusted, by both our customers, our partners and the society around us. We leverage our Nordic presence and we continue to develop our agile ways of working.

Over 9 million Personal Banking customers in the Nordics are served by around 10,000 Nordea employees.

Business development

Personal Banking continues the significant transformation both in the distribution network and by means of an agile development operating model, in order to deliver on the customer expectations on digitalisation and service.

The influence of digitalisation changes what is expected from us, and we aim to deliver easy banking for our customers anywhere, anytime, through digital channels or in person – while providing the most relevant and competent advisory.

During 2018, we have launched an array of new services and solutions for our customers, in addition to improving availability and accessibility.

For instance, we have:

Improved our digital daily banking experience for our customers via the launch of the completely redesigned mobile banking app in Finland and in Sweden in 2018. Denmark and Norway will follow in 2019. With the new app, the bank is available anywhere at any time and personalised to the preferences of the customer. Within a month from the introduction in Sweden, 35% of the mobile users had migrated to the new app – in Finland, 100% all mobile users now have the new user experience.

Provided our customers with easy payment solutions; Our strong mobile payment suite now includes both Apple Pay and Google Pay – a Nordic first in the payment services landscape.

Our service robot Nova helps our customers to instantly chat with their bank now in all markets. Robotics are used widely also in our backend helping our customers to have a smoother experience, for example, loan promises are given to customers in Norway within minutes.

Leveraged our scale and quality of solutions; Seamless and fully digitalised customer experiences enabled by the new Core Banking Platform have been introduced, now with 800 000 Finnish savings accounts up and running on the new platform.

Continuously provided relevant and competent advisory in all channels – now also with our digital advisor Nora in all markets, allowing customers to receive investment advice on their own at any time. And we have developed digital and automated solutions to make it easier for our customers to manage their economy, for instance with a new finance calculator that allows a quick overview of the financial situation.

Within housing market, we continued to serve our customers actively and with increasing responsiveness, supported by more online meetings. We continued to have a balanced approach to reflect local market conditions and managed our lending risk profiles with actively managed pricing models.

The trend of increasing wealth among Nordic personal banking customers continues. During 2018, we implemented MiFID II and increased focus on compliance in investment advice for the benefit of our customers, who also witness further sustainable products being integrated into the advisory portfolios.

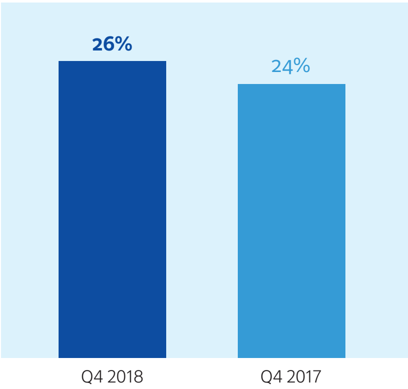
Alongside these improvements towards our customers, we implemented an agile development operating model, providing increased employee satisfaction, development efficiency and shorter lead times to new services.

As part of Nordea's strategy to focus its operations to the Nordic core markets, Nordea, together with DNB, has entered into an agreement to jointly sell 60% of Luminor to a consortium led by private equity funds managed by Blackstone. As a result of the transaction, Nordea will hold approx. 20% of Luminor and maintains ongoing representation on Luminor's Board of Directors. It is expected that the transaction – subject to regulatory approval – will be closed during the first half of 2019. Nordea and Blackstone have additionally entered into a forward sale agreement for the sale of Nordea's remaining 20% stake over the near to medium term.

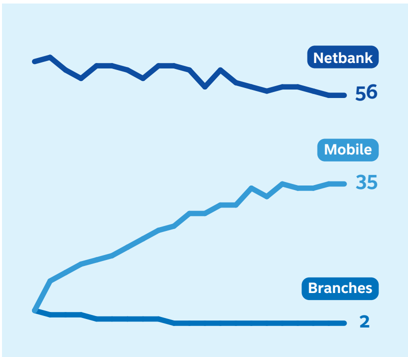
2018 in brief

Total income: **EUR 2,903m**
Costs: **EUR 1,794m**
Operating profit: **EUR 1,030m**
ROCAR: **10%**

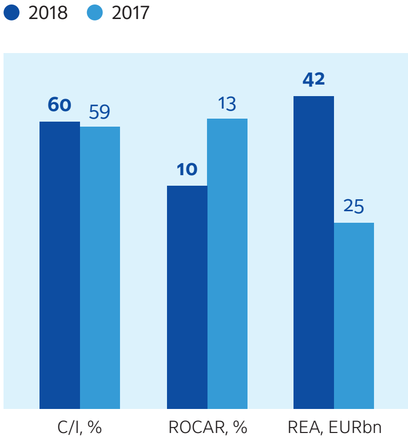
Online advisory meetings
Online meetings' share of total meetings excl. corporate customers.



Transactions, millions
Q1 2013 – Q4 2018



Key figures



Result

Personal Banking witnessed a year of significant pressure on both margins and volumes. As a result, income decreased 2% in local currencies compared to last year.

Net interest income came down by 6%, from both tighter lending margins across the markets, as well as significantly higher cost pertaining to the Swedish Deposit Guarantee Scheme. The negative development was slightly offset by growth in mortgage lending, especially in Norway.

Other income was adversely affected by a lower level of both lending and savings fees. The effect was mitigated, however, due to a revaluation of a loan portfolio in Denmark which generated a pre-tax gain.

Total expenses were up 1% in local currencies, as lower staff costs from less employees were off-set by costs of technology, risk and compliance.

Credit quality

Loan losses were low in all four countries and credit quality strong. Compared to 2017, the implementation of IFRS 9 and 13 has led to increasing loss provisions following from new statistical models in Finland and a fair value approach to a loan portfolio in Denmark.

Denmark

Total income increased 4% compared to 2017 primarily due to a gain from the revaluation of a loan portfolio in the beginning of the year. Furthermore, income was realised from the divestment of a portfolio of old debt claims.

Net interest income decreased primarily due to lower deposit margins primarily driven by higher deposit guarantee fees and reduced income from consumer lending.

Other income was down from last year following the divestment of Nordea Life & Pension as well as a generally lower savings income.

Total expenses increased due to transformation cost in rightsizing the organisation, as the number of FTEs were reduced by 11% over the year.

Loan loss provisions were realised at a higher level than 2017, following the revaluation approach to a loan portfolio. Actual loan losses remain at a low level.

Finland

Total income decreased 7% compared to 2017.

Net interest income was down from reduced lending margins 4% driven by both lower lending and deposit margins. Lending volumes decreased 1% while deposits volumes were up 2% from 2017.

Other income decreased mainly due to payments and savings income related to lower distribution fees.

Total expenses were down in line with a lower number of FTEs in 2018, for which transformation costs were booked in 2017.

Loan losses increased for 2018 due to changed statistical models under IFRS 9, and economic capital was up due to raised risk weight level of mortgage loans.

Norway

Total income increased by 4% in local currency compared to 2017.

Net interest income improved following the volume growth, under which lending volumes increased by 5% in local currency, with very strong momentum during second half of 2018.

Other income increased from both a higher level of payment commission income, as well as items at fair value.

Total expenses increased 3% in local currency compared to 2017 mainly on transformation costs booked in first and third quarters. Loan losses stayed at a low level.

Sweden

Total income decreased 4% in local currency compared to 2017. This was driven by lower net interest income, due to pressure on both deposit and lending margins, reflecting the general price pressure on the Swedish mortgage market. After months of lending volume outflow in the beginning of the year, the trend was reversed over the latter months, leaving a stable volume over the year.

Other income increased compared to 2017, driven by higher payment commission income and higher net result on item at fair value.

Loan losses remained stable and on a low level.

Strategic focus areas and value drivers

We aim to deliver easy banking for our customers anywhere – anytime, digital and in person. This shows as high availability of efficient daily banking services accessible through multiple channels and high-value advisory services for especially home-owners and premium customers. Our vision is to be known as safe and trusted, both by our customers, and also by our partners and the society around us.

The platforms we use and develop drive scale and Nordic efficiencies, with local market adaptability. This gives us further leverage in introducing further automation for service processing, and enables new faster cycles in service introduction, supported by the introduction of the Core Banking Platform. In addition, we continue to leverage our Nordic presence also for a retained and relevant risk profile.

The agile way of working has proven its merits both in employee satisfaction, and in getting better services out faster than ever. We are transitioning from many smaller branches into larger units increasing accessibility for our customers and upside for our employees to provide more specialised services to our customers and a new level of collaboration within our branch networks.

The importance of digital mobile services is increasing and will continue to be a key item in our transformation roadmap. We continue to develop customer driven services through both own and partner development, and the excitement on the key service introductions during the past few years has proven this approach, including several industry firsts for our customers.

Delivering a smooth omni-channel daily banking experience for our customers is in our core focus. Customers choose their channel depending on the complexity of their need, time, location, or personal preference – making the bank available anywhere, anytime.

In Personal Banking, we want to be the leading personal bank in the Nordics. We want to be known for being safe and trusted, by both our customers, our partners and the society around us. We leverage our Nordic presence and we continue to develop our agile ways of working.

2019 Priorities

We will increase business momentum through improved customer satisfaction, and by focusing on three key initiatives:

- Winning the homeowners in each market.
- Increasing savings business with our Premium customers.
- Accelerating the digitalisation and substantially increasing momentum within consumer finance.
- We will also drive structural cost efficiency through:
  - Leveraging cost efficient digital touchpoints for service and sales.
  - Further automating and simplifying processes.

Strategic focus areas for executing the transformation

Most relevant and competent advisory with high accessibility	• Focus on customers' needs with tailored value propositions and specialised advisors • Increased availability and smooth access to service
Smooth omni-channel daily banking experience	• Customers choose their preferred channels • Optimisation of the branch network, digital advisory and service increasing in importance
Safe and trusted by our customers, partners, and society	• Prudent risk management and compliance • Mastering cyber security and customer protection
Speed and quality in developing and scale in delivering our services	• Cost reduction through robotics and automation of processing • Synergies through Core Banking Platform and nearshoring • Best experiences via own and partnered development

Capturing value in Personal Banking

Relevant and easy services Scale Prudent risk management and compliance	**Our aim is to be the best among peers in:** Customer satisfaction Employee satisfaction Profitability

Business Areas

Commercial & Business Banking

Introduction

Erik Ekman
Head of Commercial & Business Banking.

Commercial & Business Banking consists of Business Banking, Transaction Banking and Nordea Finance and has a leading market position in the Nordic region. We employ 4,800 people and serve more than 550,000 corporate customers through a mix of physical and digital channels by bringing easy banking services from Nordea and partners to our corporate clients. We provide value and contribute to society by offering our ecosystem to entrepreneurs and scale-ups to make people and businesses succeed with their Nordic ideas and to make a sustainable impact.

In Business Banking, large and medium-sized corporates are served in a relationship-driven model securing high availability and ability to solve complex customer needs. Small corporates are served in a remote set-up in Business Banking Direct with increased flexibility in the organisation to ensure fast response to changes in customer demand and market development.

Transaction Banking is constituted by Cards, Trade Finance, Cash Management and Mobile- & E-Commerce & co-Innovation and serve all Nordea's customer segments, providing payment- and transaction services as well as driving Open Banking, and Blockchain/DLT initiatives across all platforms in the bank. Transaction Banking is an integral part of the Nordea ecosystem as a provider of the latest digital innovations to enable Business Beyond Banking.

Nordea Finance services all customer segments across Nordea spanning the simplest unsecured financing needs for household customers to complex supply chain financing solutions for large corporates. Nordea Finance is responsible for Sales Finance business and Asset based lending in Nordea covering three different product groups – Investment Credits, Working Capital and Consumer Credits.

Our ambition is to be #1 bank in customer satisfaction for our house bank customers, with the most engaged employees and the highest profitability in the segments where we choose to compete. To achieve this, we are transforming the way we service our customers, broadening self-service options and thereby enabling easy and more available banking for our customers.

550,000 corporate customers are served by around 4,800 Nordea employees.

Business development

Nordea is constantly developing its role as a business partner to corporations and entrepreneurs in the Nordics by continuously launching new digital services, products and partnerships thereby growing our ecosystem. Customer behaviours and demand patterns are rapidly changing, a development which we are meeting via digital innovations and our vision to deliver products and services that go beyond traditional banking, Business Beyond Banking.

We meet these new demands by using emerging technology to lead the way in adopting new innovative services by involving our business clients in our development. We stay close to our customers, let them test new solutions and integrate the customer feedback to innovate and improve. During 2018 we have affirmed our regular product as well as launched several services and solutions for our corporate customers, some highlights are:

Launch of an enhanced Corporate Netbank, Nordea Business. More than 50,000 customers in Sweden have been invited and we will maintain the Nordic momentum in 2019. Nordea Business will be the primary channel to serve our corporate customers remotely and will enable easy access to an eco-system of products and solutions for self-service.

Establishment of dedicated Start-up and Growth units in all countries, strengthening our advisory capacity towards entrepreneurs and start-ups with scaling opportunities for global reach.

Launch of Green loans in Sweden enabling customers to access sustainable financing. To be rolled out across all Nordic countries during 2019.

The development of Nordea's Open Banking platform is progressing and is now live in Denmark, Sweden and Finland.

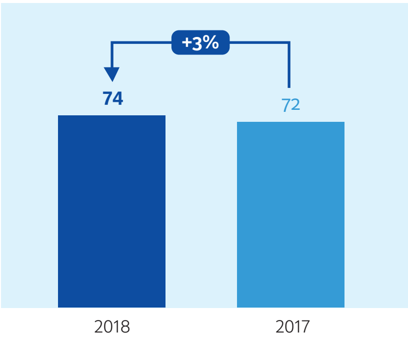
Nordea is a key player in the design and implementation of we.trade which creates a blockchain based platform that allows companies to make fast, easy, paperless trades.

Nordea Connect (payment service provider) was launched in Finland and Sweden which will improve the online buying experience for both consumers and merchants. This is a big step forward for Nordea in the e-commerce arena.

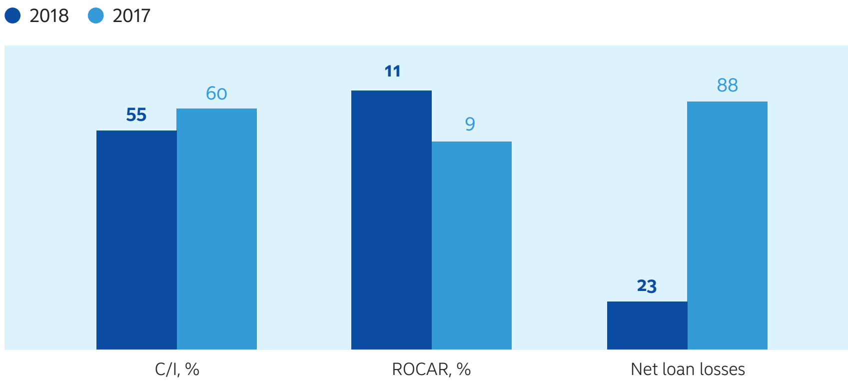
2018 in brief

Total income: **EUR 2,038m**
Costs: **EUR 1,119m**
Operating profit: **EUR 896m**
ROCAR: **12%**

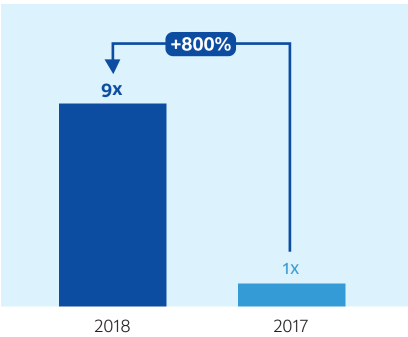
Customer satisfaction, relationship customers



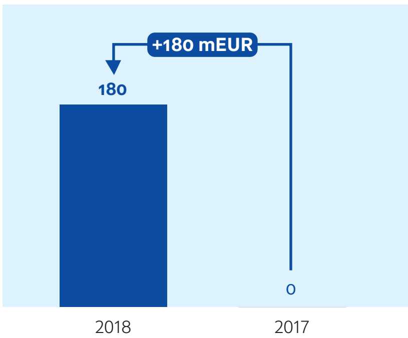
Key figures



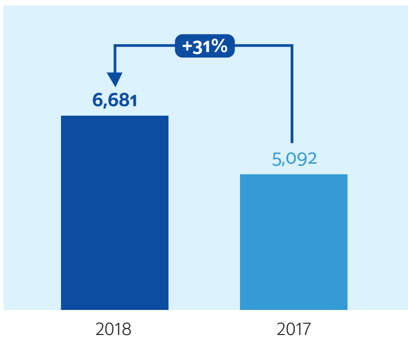
Mobile Payments, tokenized



Green Loans



Mobile bank logins, thousands



Google Pay was added in 2018 to the portfolio of mobile payment solutions that also includes Apple Pay and Nordea Wallet. These enable us to be the customer's first choice in the digital space and we are continuously improving these services to provide a seamless and secure mobile spending experience.

Launch of Alfa Nordea Finance Leasing platform in Finland, a new and improved system enabling the reduction of complexity by harmonising processes and products, focusing on Leasing, Hire Purchase and Loans. Nordic roll-out continues through 2019–2020.

Result

Total income was stable when comparing to 2017 and up 2% in local currencies.

Net interest income increased by 4% in local currencies. Interest rate environment remained challenging while both lending and deposit volumes increased by 3% in local currencies.

Net commission income decreased by 8% in local currencies , with some negative impact from IFRS15.

Net result from items at fair value increased by 17% in local currencies and included a model related fair value gain in the first quarter. Excluding this, net fair value decreased 10% as market activity was subdued and margins compressing. Customer activity picked up in the fourth quarter.

Total expenses decreased by 6% in local currencies driven by a reduction in FTEs of 9%. 2017 included transformation cost of EUR 51m. Operating profit increased by 23% in local currencies.

ROCAR increased from 9% to 11% for the full year driven by decrease in cost and loan losses.

Credit quality

Net loan losses decreased by 74% as new loan loss provisioning decreased although the second half of 2018 included provisions related to the summer drought. The loan loss ratio was 3 bps in 2018, down from 11bps in 2017.

Credit quality remains solid.

Strategic focus areas and value drivers

Our primary objective is to maintain our leading position in corporate banking in the Nordics, to be the most relevant business partner to our customers and to have the most engaged employees. We organise to meet our customers in all the different lifecycles of their business. Our strategic focus areas are:

1. **Business Partnership** – tailored to customer needs and preferences
2. **Easy Banking** – anywhere and anytime
3. **Efficiency and scale –** one Nordic model
4. **Future capabilities in a dynamic market** – sustainable competitiveness

One example of how we aim to deliver tailored advice is our establishment of Start-up and growth units across the Nordics to support entrepreneurs and business in early stages of growth. By specialising in a segment, we aim to be true bu ness partners, having the competence needed to help our customers succeed.

Through our Business Partner concept, digital innovation, utilisation and integration of existing solutions Commercial & Business Banking offers an interconnected set of services, delivered by us or 3rd parties. We contribute to the business ecosystem in the Nordic region by providing easy access to our full range of products and services driven by the vision to deliver Business Beyond Banking.

Payments is at the heart of the digital transformation affecting the banking industry. Nordea's transaction banking division is therefore continuously improving existing solutions as well as developing new innovations to stay on top of a market in constant change.

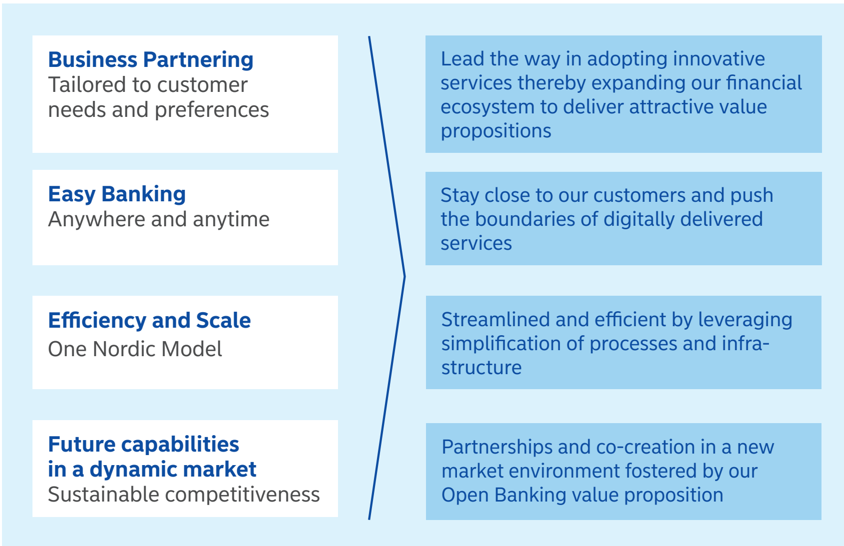
2019 Priorities

Develop and improve our business partner concept for Business Banking customers and our remote service offering to Business Banking Direct customers

- Further improve our compliance and credit processes.
- Digital development of scalable solutions such as the Nordea Business net bank and the Alfa leasing platform.
- Continuously improve and innovate in the payment- and mobile solutions space leveraging partnerships and customer co-creation.

Strategic focus areas for executing on the transformation

- The most satisfied customers in the segments, where we choose to compete
- Better profitability than peers
- The most engaged employees in the industry



Capturing value in Commercial & Business Banking

- Providing value through advisory tailored to customer preferences, keeping a sharp focus on efficiency and simplification, while at the same time ensuring risk prudency through diversification and a rigorous control framework.

Business Areas

Wholesale Banking

Introduction

Martin Persson
Head of Wholesale Banking.

Wholesale Banking is servicing Nordea's large corporate and institutional customers. Service offering includes a focused range of financing, cash management and payment services, investment banking, capital markets products and securities services.

Wholesale Banking is the Nordic leader within sustainable finance and has the leading Large Corporate and Institutional customer franchise in the Nordics. Through Nordea Markets, a broad range of Nordea customers in Commercial & Business Banking, Asset & Wealth Management and Personal Banking, are also serviced.

Customer satisfaction is our top priority and by combining the entire value chain from customer units through product units to operations, Wholesale Banking can leverage from the scale and quality of its franchise and create great customer experiences for Nordic as well as designated international customers. Value adding solutions provide our customers access to financing in the capital markets and with tailored financial tools to optimise their business and manage their risks.

3,000 Wholesale Banking customer groups are served by around 3,600 Nordea employees.

Business development

Wholesale Banking's focus areas remained unchanged with continued prioritisation within customer centric value-added services, business and capital efficient initiatives as well as leveraging our Nordic #1 position and client franchise. Wholesale Banking continued to invest in digital and automation initiatives and build on the sustainable agenda to be the leading Nordic bank in this field.

Corporate and Investment Banking

Large corporate lending increased compared to 2017 reflecting increased activity and ambition levels within our Corporate & Investment Banking (C&IB) service offering. Conscious de-risking of our large corporate lending portfolio now also coming to an end. C&IB scored all-time high in customer satisfaction for large corporates with Prospera No. 1 ranking in the Nordic region, Finland and Denmark, and in the Nordic Leveraged Finance area.

2018 was a very successful year for C&IB with a top ranking in the league tables for both Nordic M&A and Nordic ECM. A continued buoyant corporate bond market was seen, albeit not at the same record level as in 2017.

The strong M&A performance was underpinned by Nordea's key roles in various deals e.g. merger of Tele2/Com Hem and public takeover for TDC, for which Mergermarket Europe selected Nordea as M&A Financial Advisor of the Year 2018 in Denmark.

Nordea continues to be the leading bank in Nordic ECM and successfully executed multiple IPOs, including BetterCollective in Sweden, Elkem in Norway and the largest Finnish IPO in over a decade in Kojamo. Additionally, Wholesale Banking advised and supported several large corporate rights issues during the year.

Nordea held leading roles in numerous Nordic landmark Leverage Finance transactions and continues to build presence in the less volatile segments such as Private Equity backed infrastructure. Nordea was recognised for the value-added offering and voted the leading house for Acquisition Finance throughout the Nordic region by Prospera.

DCM performed strongly throughout the year as the Nordic market leader within both Investment Grade and High Yield issuance across all currencies. Loan syndication saw a pick up from last year. Corporate bond and Syndicated loans ends 2018 with top rankings in Nordic league tables.

Customer activity in the Shipping business increased during the second half of 2018 as a result of higher activity in the industry in general, whilst it remained relatively low for the offshore business. The Shipping, Offshore and Oil portfolio is well provisioned at a full 4% of total lending end of year

In Russia, customer activity remained moderate with further de-risking of corporate lending portfolio.

Capital Markets

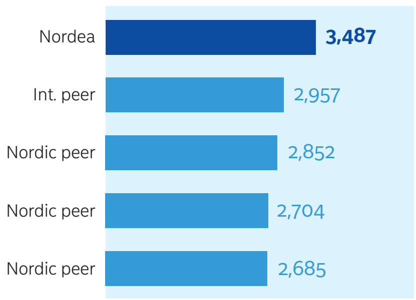
Customer activity in Markets related products picked up towards the end of the year and the fourth quarter represented the second strongest Wholesale banking customer-driven NFV income quarter in Markets for the year.

2018 has been characterised by challenging market environment for any trading-related activity with subdued activity and negative impact from new regulations, negative interest rates, fierce competition, geopolitical turbulence and low market volatility.

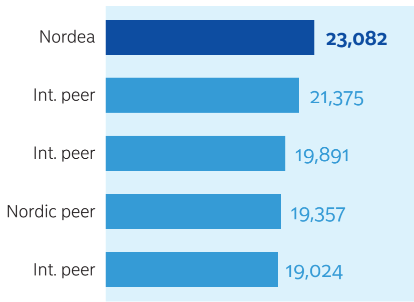
2018 in brief

Total income: **EUR 1,733m**
Costs: **EUR 901m**
Operating profit: **EUR 741m**
ROCAR: **7%**

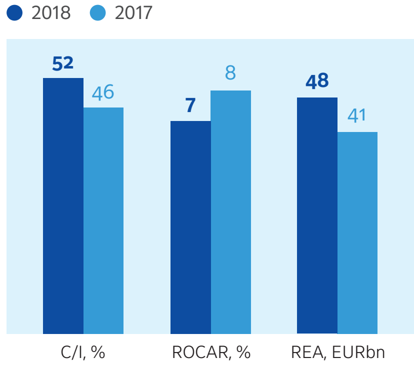
FY 2018 #2 on ECM, EURm[1]



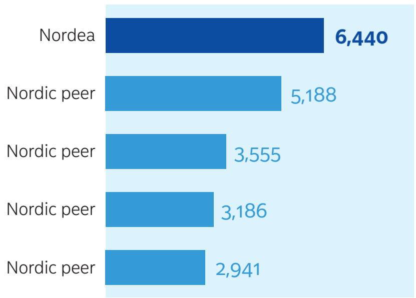
FY 2018 #1 on M&A, EURm[1]



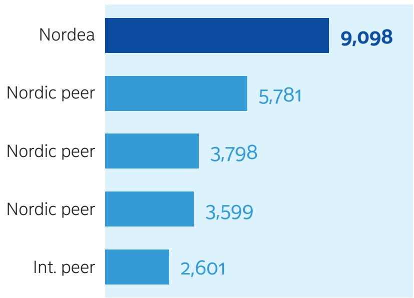
Key figures



FY 2018 #1 on Corp. Bonds, EURm[1]



FY 2018 #1 on Synd. Loans, EURm[1]



1) Nordic region.

Source: Dealogic.

Customer activity picked up in the FX area in last quarter of the year. Nordea FX execution algo offering was launched successfully with broad customer interest and growing activity. Nordea was awarded Best Foreign Exchange Provider in Norway and Finland 2018 by Global Finance Magazine.

Customer activity in interest rate derivatives was stable during the year. Somewhat lower demand for hedging products was seen and the competition in corporate derivatives has been strong.

Equities franchise improved during 2018 within both Equity Research, Sales, Finance and Trading. Total revenues were under some pressure as expected on the back of MIFID II effects.

Nordea Research was awarded the leading Nordic provider of ESG research in the Domestic Equity Prospera survey. Equity and Credit Research coverage of single securities increased during the year and now stands at a market leading 539 companies.

Result

Total income was EUR 1,733m, down 16% compared to 2017, mainly due to Net result from items at fair value. Net interest income was EUR 854m at par with 2017.

Net fee and commission income was down 18% and almost flat YoY for FY 2018 adjusted for the divestment of NLP Denmark and IFRS 15 (negative impact YoY)

Net result on items at fair value was down 35% from last year, reflecting moderate market activity and compressed margins.

Lending volume excluding repos increased slightly from 2017.

Total expenses decreased by 5% for FY 2018 compared with 2017 driven by continued focus on structural cost efficiency.

Operating profit was EUR 741m, down 15% from last year, with business area ROCAR at 7%, 1%-point lower than 2017.

Strategic focus areas and transformation initiatives

Wholesale Banking continues to develop and leverage its leading market position in the Nordics. Long-term customer relationships form the core of the franchise which is supporting both traditional and capital light solutions with a strong emphasis on managing for returns. Customer centricity is the starting point for Wholesale Banking to increase relevance, intensity and value as well as create a more sustainable bank for our customers and our employees. In this ambition, Wholesale Banking actively supports Nordea's business and cultural transformation.

As part of the transformation, Wholesale Banking increases the ambition level in areas such as digitalisation, diversity, sustainability and partnerships in line with the changing industry landscape. Diversity, well-being and sustainability are increasingly prioritised areas in Wholesale Banking to attract the best talents as well as delivering sustainable long-term returns. Automation and digitalisation are key to reach both best in class customer satisfaction and long-term structural cost efficiencies.

Wholesale Banking continues to focus on our dedicated people and through professional development, collaboration and empowerment embracing a winning culture.

A strong focus is on efficiency and simplification transformation initiatives to strengthen the customer experience, increase collaboration and leverage our pan-Nordic scale to reach satisfactory returns. Key priorities in 2018 have been ambitious de-layering of management, embedded usage and focus on automation and centres of excellence, as well as less travelling and other non-customer focused expenditures.

Wholesale Banking actively supports Nordea's increased ambition level in the sustainability area. This is underpinned by a significantly strengthened green bond offering, gradual integration of ESG in the credit process and several leadership events and focus on ESG in our Equity and Credit Research coverage.

2019 Priorities

As shown in the illustration below Wholesale Banking's four focus areas are Customer Centricity, People Dedication, Business Optimisation and Society Engagement. On that basis, Wholesale Banking's aim is to attain market-leading customer satisfaction through a high degree of cross-selling in a combination with a continued focus to retain and attract the best talents in the industry. Business optimisation will be driven by leveraging the digital and automation opportunities and relevant use of the balance sheet to drive structural cost efficiency throughout 2019. In addition, Wholesale Banking has a focus on the society engagement to be the Nordic leader within sustainable finance.

The 2021 ambitions will be along the same lines with an increasing emphasis to continue the digital transformation. Enhanced efficiency, collaboration as well as further development of in- and outsourcing, partnerships and industry utilities will support the journey as the leading wholesale bank in the Nordic region.

Strategic focus areas for executing the transformation

Wholesale Banking's target remains unchanged with a strong focus long-term customer relationships, pan-Nordic scale and leading expertise. All delivered through dedicated people, an integrated platform whilst contributing to society.

Customer Centricity	• Market leading customer satisfaction • Profitable growth • Excellent service and product delivery
People Dedication	• Attract and retain the best talents • Great collaboration – one operating model • Leadership at every level
Business Optimisation	• Managing for return • Stay relevant in terms of product, geography and segment • Performing while transforming
Society Engagement	• Social responsibility • Risk culture embedded in everything we do • Be the Nordic leader within sustainable banking

Capturing value in Wholesale Banking

Wholesale Banking maintains its leading position in the Nordics and will generate returns through all major levers.

Income	• No. 1 Wholesale Bank in the Nordics • Focus on customer satisfaction and returns
Cost	• Disciplined cost focus • Automation, optimization and efficiency
Capital	• Capital-smart product offerings • Disciplined capital management
Risk	• Risk and compliance embedded in everything we do • Maturing risk appetite framework

Maintain no. 1 position

Managing for return

Business Areas

Asset & Wealth Management

Introduction

Snorre Storset
Head of Asset & Wealth Management.

Asset & Wealth Management provides high quality investment, savings and risk management solutions to affluent and high net worth individuals and institutional investors.

Asset & Wealth Management is comprised of:

Private Banking – serving customers from 67 branches in the Nordics.

Asset Management – responsible for actively managed investment funds and discretionary mandates for institutional clients.

Life & Pensions – serving customers with a full range of pension, endowment and risk products.

Asset & Wealth Management is the largest Nordic private bank, life & pension provider and asset manager. Asset & Wealth Management has approximately 2700 employees, of whom approximately 380 are employed outside the Nordic region, primarily in Europe.

97,500 Private Banking customers are served by around 850 Nordea employees.

Business development

Volatility and uncertainty defined the financial markets in 2018, affecting performance across the savings industry this year. While the US showed strong economic growth, China and Europe adjusted expectations with an increasingly critical outlook. In addition, rising political uncertainties and looming trade wars made investors more cautious, affecting fee income.

To better navigate the uncertaintites of today and tomorrow, Asset & Wealth Management has been undergoing a fundamental transition, refocusing the organisation and building a digital and sustainable product pipeline. This includes strategic divestments of the Private Banking presence in Luxembourg and Life & Pensions in Denmark in 2018 which in turn affected overall netflows.

The new Asset & Wealth Management organisation was established in May 2018. Asset Management continues to operate as an arm's length institutional asset manager, while Wealth Management is now a separate division, bringing our Private Banking and Life & Pension units closer to become more customer centric and collaborative.

Nordea's Assets under Management (AuM) finished the year at EUR 282.6bn, down 47.8bn or 14% from 2017. The decrease was largely due to the strategic (re-)alignment divestments as well as the impact of the value tilt in our fund range.

Private Banking has undergone a significant transformation since last year, increasing its focus on higher net worth customers and entrepreneurs. In the process, several thousand customers have been transferred to other parts of the bank to allow for a more specialised value proposition. Private Banking continues to focus on customer acquisition as well as optimizing the service & advisory model to the needs of customers and regulatory changes in the market. Net flow amounted to EUR –2.7bn in 2018, as the threshold was aligned and increased across countries. Clients below the new threshold have been transferred to Premium in Personal Banking, leading to an adjusted net flow of EUR –1bn. Our Wealth Planning service continued to grow in importance due to greater regulatory complexity and increasingly sophisticated customer needs.

Following several years of high growth rates, Asset Management saw a slight decline in revenues during 2018, mainly as a consequence of lower AuM. This is in line with larger industry trends, where margins are under pressure as well as the effects of FX and changes in the asset mix. To better mitigate these factors, the already strong product offering in Asset Management has been further expanded. New product development initiatives have primarily been concentrated within liquid alternatives and ESG products, both categories with significant growth potential.

For many years, Nordea Asset Management has been at the forefront of Responsible Investments. In 2018, we continued to substantially invest in this area to ensure future strength within active ownership, ESG research and integration. In December 2018 Nordea Asset Management was rewarded the Best ESG investment process in Europe for the fifth year in a row by the European magazine Capital Finance International. Furthermore, Nordea funds was recognized as the best Nordic Fund House in 2018 by Thomson Lipper, also awarding 12 Nordea funds sold in the Nordics for their long-term performance, whereof 7 are within balanced offerings.

International third-party fund distribution experienced outflows of EUR 4.6bn. Gross inflows remained at a healthy level and the newly launched European Covered Bond Fund crossed the one EURbn mark in fund AuM a mere nine months after inception. However, inflows were not strong enough to offset outflows from the Stable Return Fund which was soft closed in the first half of 2018 due to its size. On the institutional side, the loss of selected large mandates, as several clients decided to insource the portfolio management, contributed to outflows.

Net flows in our Retail channels were negative for the year with net flows of EUR –1.8bn. This is in line with an overall decline in flow levels across the Nordic retail fund market (with the exception of Denmark). Internally, the implementation of MiFIDII into the advisory tools at the start of the year has had a temporary negative impact on our sales capacity in Retail channels.

2018 in brief

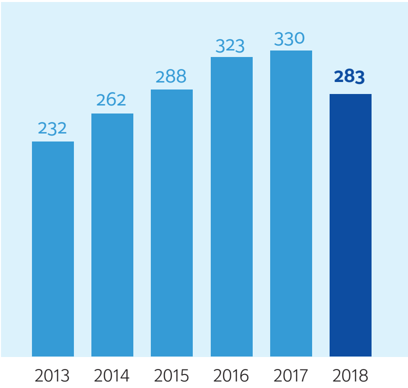
Total income: **EUR 1,708m**

Costs: **EUR 759m**

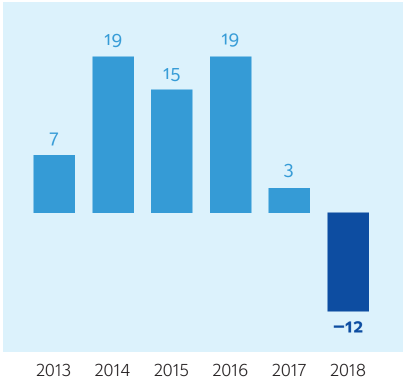
Operating profit: **EUR 945m**

ROCAR: **30%**

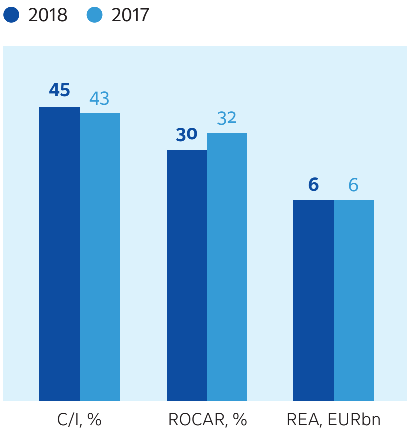
AuM development, EURbn



Net flow, EURbn



Key figures



Overall investment performance was lower in 2018 than previous years with 42% of composites outperforming benchmarks and negatively impacted by the high market volatility, especially in equities. On a 3-year basis, performance remained satisfactory with 65% of composites above benchmark and a continuous strong performance in Fixed Income products where 88% of composites outperformed benchmarks in 2018.

Life & Pensions' strong solvency capital position has enabled dividends of EUR 657m, transferred to Nordea Bank Abp in 2018. At the end of November 2018, the solvency capital position was 174%, supported by self-financing growth in market return products and capital release from the runoff of traditional insurance portfolios. Gross written premiums (GWP) have decreased by 35% in 2018 compared to 2017, primarily due to the divestment of the Danish Life and Pension business. The combined share of market return products (MRP) and risk products accounted for 96% of total GWP, leading to an increasingly capital-efficient AuM composition.

Life & Pensions has scaled up the use of robots across the Group, automating processes and tasks in the back office, increasing efficiency. Life & Pensions has also taken first steps in the field of artificial intelligence by introducing a chatbot in customer interaction. Several promising A.I. related projects are in the pipeline for 2019 and beyond.

Result

Total income was EUR 1,708m in 2018, down 13% in local currencies from last year.

Overall cost has decreased by 10% compared to 2017 as a consequence of strong cost initiatives, leading to operating profit of EUR 945m in 2018. Continued focus on capital efficiency has resulted in a ROCAR of 30%.

Private Banking

Total income was EUR 283m in 2018; a 5% decrease compared 2017. The decrease in income was caused by the increase of client thresholds across countries, reduced trading activities and declining margins, while underlying business growth remained satisfactory. The cost decrease by 7% as a result of our cost initiatives and divestments. Operating profit was EUR 66m, on par with 2017.

Asset Management

Total income was EUR 915m in 2018, a 7% decrease compared to 2017. The decreased income level was mainly driven by market depreciation. Compared to 2017, total expenses are up 6%. The C/I ratio has increased by 4%-points to 32%. Operating profit was EUR 619m, down 12% from 2017.

Life & Pensions

Total income was EUR 468m in 2018, a 25% decrease compared to 2017. Total expenses were EUR 151m, down 27% from 2017. The C/I ratio improved by 1% to 32%. Operating profit was EUR 317m, down 23% from 2017. Continued focus on capital efficiency has resulted in a Return on Equity of 18% in 2018, well on track to the 20% target by 2020.

Asset & Wealth Management other

The area consists of Asset & Wealth Management service operations which are not directly connected to any of the business units. It includes additional liquidity premium for long-term lending and deposits and net interest income related thereto.

Strategic focus areas and value drivers

Our strategy is to form strong client relationships, based on superior quality of advice and solutions, delivered efficiently through an integrated value chain. We aim to take advantage of digitalisation and operational streamlining to enhance efficiency across the organisation.

Asset & Wealth Management prioritises strategic investments in:
- Further building on leading digital offerings to enhance value propositions and improve advisor efficiency.
- New product offerings to meet client demands within sustainable savings. Product capabilities include leveraging our strong multi-asset investment process and expanding alternative investments capabilities.
- Building a strong and resilient operational platform meeting current regulations and adaptable to future regulatory demands.
- Establishing the leading sustainable pensions offering, targeting growth in occupational pensions, by developing new advisory and product capabilities as well as partnerships.
- Building Asset Management distribution footprint in select new market(s).
- Accelerating growth in (ultra) high net worth segment.

2019 Priorities

In 2019, Asset & Wealth Management has set out clear priorities to increase our presence in Norway and Sweden particularly in Private Banking and Life & Pensions. Asset Management is launching new products with a focus on building our presence in ESG, while exploring new partnerships to further strengthen international distribution channels. We are continuing our digital transformation and releasing new services such as sustainable pension advice through our robo advisor NORA and a new mobile savings offering across the Nordics. knowledge sharing to provide a superior savings and investment offering.

Strategic focus areas for executing the transformation

Our strategy is to form strong client relationships, based on superior quality of advice and solutions, delivered efficiently through an integrated value chain. We aim to take advantage of digitalisation and operational streamlining to enhance efficiency across the organisation. For 2019 we will continue on our cultural, digital and business transformation, strengthening our customer value.

Value proposition design and segmentation
Right services to right customers

- More focused service provision to private banking customers
- Increased thresholds for different service levels
- Ensure strong Nordic alignment and scale in service offerings
- New (digital) product offerings to meet shifting client demands
- Leading sustainable pensions offering

Optimisation of operations
Creation of global competence centre

- Increased cost efficiency and improved quality
- Client on-boarding, reporting and routine services centralised
- Accelerate implementation of robot process automation and cognitive robotics
- Productivity gains from rolling out Agile@scale

Capturing value in Asset & Wealth Management

Asset & Wealth Management continues to focus on prudent resource management and prioritisation by balancing new investments with efficiency gains and allocating resources to where most value is created. Enhanced collaboration across Nordea is key to these objectives, facilitating increased knowledge sharing to provide a superior savings and investment offering.

Income
- Track record of Nordic and international growth
- Accelerating digital savings capabilities
- Well positioned to capitalize on trends in customer preferences
- Building Asset Management distribution in selected new markets

Margins
- Focusing on higher margin business through development of discretionary and multi-asset solutions
- Leveraging advisory and solutions capabilities
- Expect moderate impact from regulatory challenges and digitalisation

Cost
- Scalable, cost-efficient platforms
- Ongoing operational streamlining and efficiency focus
- Robotic capabilities to improve efficiency

Capital
- Next-generation product offerings fuel growth
- Solvency II-optimised business model

Maintain no. 1 position

Group Finance & Treasury

Introduction

Christopher Rees
Group CFO.

Group Finance & Treasury (GF&T) in Nordea is responsible for Group-wide asset and liability management, treasury operations, financial reporting and controlling, procurement services as well as resource allocation and performance management. GF&T spans over four main areas; Finance, Group Treasury & ALM, Investor Relations, and Group Procurement.

Finance is responsible for financial performance management and for providing high-quality and efficient financial reporting and planning across the Group, including financial control and analysis, to meet business needs and regulatory requirements.

Group Treasury & ALM is responsible for prudent management and optimisation of Nordea's capital, liquidity, funding and market risks in the banking book within the defined risk appetite and limits, while ensuring compliance with regulation and to enable the Business Areas to serve our customers.

Investor Relations ensures a fair reflection of the bank's fundamental business drivers and financial performance, by providing transparent and relevant communication to the investor community, as well as channelling feedback from investors back to Nordea.

Group Procurement is responsible for optimising costs by providing procurement advisory and services with focus on all non-IT related expenses and contracts.

Business development

Group Finance & Treasury continued its transformation during 2018 by further integrating finance and treasury capabilities within Nordea. This enables optimisation of finance processes and value chains to improve efficiency and lowering operational risk.

Treasury & ALM has delivered on its core responsibilities, to manage Nordea's balance sheet and balance sheet risks risks through prudent and efficient management of capital, liquidity and funding. During 2018, one priority delivery has been to prepare and complete the re-domiciliation to Finland and to ensure a well-capitalised Group with a strong liquidity position during the transition into the Banking Union.

Nordea's structural liquidity risk is considered conservative, well balanced and appropriately adapted to the current economic and regulatory environment. The short-term liquidity risk is measured using several metrics including the Liquidity Coverage Ratio (LCR). The LCR for the Nordea Group was 185% at year end, and the LCR in EUR and USD was 257% and 214% at year end, respectively[1]. The liquidity buffer, which comprises highly liquid assets, amounted to EUR 104bn at year end.

Nordea issued approx. EUR 22.6bn in bonds across 11 benchmarks and private placements, across seven currencies and five products during 2018. Also, a new asset class of Senior Non-Preferred Notes was introduced.

Nordea was awarded the "Financial Issuer of the Year" by "International Financing Review" together with six other awards in 2018 for its issuance activities.

Notable public benchmark transactions during the year included:

- A multiple award-winning EUR 2bn dual tranche (5-year and 15-year tenor) fixed rate covered bond issued by Nordea Mortgage Bank
- An inaugural EUR 1bn 5-year senior non-preferred bond issued by Nordea Bank AB
- A Tier2 USD 500m 15y bond with a call opportunity after 10 years, issued by Nordea bank, the first ever callable 144A/RegS format from the Nordic region.

Through the management of the Group's balance sheet risks within the defined risk appetite and limits, Treasury & ALM has generated an annual profit in line with expectations and targets and despite a more challenging financial market environment with wider credit spreads and flatter yield curves. The main part of the profits has been redistributed to the business areas.

Results

The main reported income in Group Finance & Treasury originates from Treasury & ALM, after distribution to Business Areas.

Total operating income was EUR 112m for the full year 2018, down from EUR 165m in the previous year. Net interest income amounted to EUR 60m which is a decrease from EUR 85m compared to previous year. The net result from items at fair value decreased to EUR 62m compared to EUR 89m in 2017. Operating profit in 2018 was EUR 101m (EUR 176m in 2017).

Total operating expenses ended at EUR 162m in 2018 which is a slight decrease from EUR 163m in the previous year. The transformation costs were EUR 5m in 2018.

1) Liquidity Coverage Ratio definition as per the EBA Delgated Act.

Strategic focus areas and value drivers

During 2019 the transformation of GF&T towards a more integrated finance organisation will continue. The aim is to further optimize, simplify and enhance the finance processes by, for example, utilising integrated system infrastructure and data and leveraging one operating model.

GF&T Key priorities during 2019 to support an increased business momentum and drive structural cost efficiency:

- Proactive business partnering – provide business with data driven decision support, secure an efficient balance sheet and competitive funds transfer pricing
- Strong SSM & investor relationship – further improve relationships with SSM and investors based on trust in our ability to deliver on our commitments
- Efficient delivery model – create a delivery model based on a cost-efficient workforce and securing adequate data quality in a simplified solution environment

For GF&T, our people are our most important asset. To support our key priorities, we will therefore also in 2019 focus on sustainability and the development of our people.

Executing our transformation: Strategic focus areas

The role of Group Finance & Treasury is being reshaped with a stronger focus on the interlinkages with the Business Areas to strengthen the financial resource and performance management across the Group's income, cost and capital.

One Finance	• Consolidating financial planning and controlling capabilities across the Group and business areas creating common finance processes to enable greater efficiency.
Financial steering	• Increased focus on group wide performance management across income, cost & capital including an updated financial planning process.
Risk management	• Transparent, prudent and profitable management of Nordea's liquidity and banking book risks ensuring Nordea can offer competitive pricing
Supervision and regulatory environment	• Securing the Group will adhere to new requirements and priority areas on supervision e.g. capital and risk management policies.

Capturing value in Group Finance & Treasury

Group Finance & Treasury is responsible for securing prudent income generation through efficient balance sheet management while ensuring efficient cost management.

Income	• Support income and business momentum through competitive funding relative to peers, ensuring Nordea can offer competitive pricing in product offerings
Cost	• Ensure prudent and competitive cost management across all areas by streamlining activities and tasks to increase efficiency in the operating model
Capital/ Liquidity	• Efficient management and allocation of capital and liquidity, enabling optimal decision making and competitive product offerings in the business areas

Improved RoE

Group Corporate Centre

Introduction

Torsten Hagen Jørgensen
Deputy CEO, Group COO and Head of GCC

Group Corporate Centre (GCC) consist of the COO organisation including Group Technology, Group Data Management, Global Services, Group Digital, Group Security Office, Group Financial Crime Prevention and Global Business Risk Implementation & Support (BRIS).

The Group COO organisation is responsible for ensuring one operating model in Nordea by harmonising processes and services in accordance with the Group's priorities to leverage commonalities and realise synergies.

Business development

During 2018, GCC has continued to assume strong sponsorship for the Group's IT development portfolio by pushing for effective execution, the right prioritisation, transparency and to ensure business momentum across the Group. Through Nordea Ventures, fintech companies have signed agreements with Nordea. These collaborations across all business areas are in accordance with the strategic objectives and in alignment with the Group's priorities.

The Core Banking Programme (CBP) remains the highest priority in the Group's IT development portfolio, with continued focus to implement the new banking platform across all countries by the end of 2020. Year 2018 was a turning point for the programme, with implementations in two countries, covering four products across savings, deposits and loans, migration of over 750,000 customer savings accounts, activation of over 2,600 end users and successful migration of over EUR 30bn in collateral to the new platform. The platform is already supporting a volume of over 1,2 millions transactions per month.

To strengthen the value chain set up and delivery speed, the Group COO organisation has re-organised during 2018 to a simplified and delayered structure better supporting complex and high-demanding customers and product suites. Group wide processes has been gradually established, creating synergies and economies of scale through common ways of working benefitting the whole bank.

Several capabilities have been gathered and strengthened to drive optimisation and competitiveness across the Group. One of the key objectives has been to develop and enforce harmonised ways of working, including high focus on building Robotic Process Automation (RPA) capabilities and automating processes across the Group. As of today, more than 500 robots are up and running to gain continuous efficiency improvements.

The change in workforce composition between Nordic and nearshore locations has been one of the key priorities for 2018. Focus has been on retrieving the right competences outside the Nordics, where the labour market is more accessible. Several activities have resulted in a significant change in the workforce composition and has shown a decreased average cost per FTE.

Furthermore, to improve resilience, scalability, and cost efficiency, the usage of cloud computing has increased. Through advancing in cloud compliance and making Software as a Service (SaaS), unnecessary complexity, low agility and potential compliance breaches have been reduced.

Significant investments to improve resilience and continue the transformation towards ONE efficient operating model for the Group have continued during 2018. Centralised functions were established to support and manage the Group's IT development portfolio, supporting Nordeas strategic priorities. This enables effective execution of Nordea's transformation journey through commonality and transparency across COO areas supporting executive decision making.

Group wide architecture services has been established as a unified architecture capability to support delivering customer-centric products and services. This ensures optimal use of technology, and that the values of data strategy, security, risk and compliance and other functions where realised, and allows for faster and better decision making.

The prevention of financial crime continues to be a key focus, continuing to build up the capability by working with customers and authorities. This not only ensured understanding of customers behaviours, monitoring for suspicious activity and screening for sanctions exposure, but also supported the Group to handle even more complex financial crime activity that all banks are exposed to.

In the Know Your Customer (KYC) area, significant improvements have been made. Example of such is the new smart Know-Your-Customer Profile solution, which has reached over 1.4 million Personal Banking customers in 2018, enabling customers to complete a Due Diligence within a couple of minutes 24/7. Furthermore, a new and common Global Customer Risk Scoring Model has also been implemented in the Nordics, aligning the risk scoring for customers for all the business areas, and improving quality and efficiency of the due diligence processes.

Risk and Compliance Management remains a top priority to the Group as the bank is being confronted with the macro trends of cyber security, increased regulations and digitalisation. Nordea is responding to the changing environment with increased compliance and security measures along with efficient controls not jeopardising agility and speed which are key for supporting customer satisfaction. By 1 January 2019 all common first line of defence risk functions including Group Financial Crime Prevention and Global BRIS were moved to the division: Group Business Risk Management.

A strong focus on common and simplifying deliveries throughout the Group has resulted in several technology capabilities developed during 2018 to secure delivery of a better customer vision. Close engagement with all business areas has happened to broaden the use of data as insights, test new technological products and services digital concepts with customers prior to their full-scale launch.

Data is a very valuable and common asset to protect and capitalise upon. Deliveries during 2018 includes establishment and promotion of data governance, data quality, and architecture. In addition, data initiatives solving data driven compliance programmes, and supporting the delivery of great customer and employee experiences have been ongoing. The acceleration of the deployment of Artificial Intelligence use cases has optimised ways of working and enhance customer experience.

The technology strategy has focused on consolidation, simplification and IT management across the Group to provide consistency and to harness process synergies and efficiencies. Furthermore, infrastructure stability and IT operations were provided to support a resilience and efficient delivery of the product offerings. Information security and data leakage prevention initiatives have been running to meet increasing regulatory demands. From 1 January 2019, One Technology has been established where Banking Technology and Trading Technology have been transferred to GCC and consolidated with Group Technology to enable delivering higher value to customers.

GCC has continued to ensure the digital transformation across the Group. Various digital awareness sessions have been developed and shared to all employees like Digital Talks where knowledge sharing session with recognised thought leaders speak on topics like digitalisation, technological developments and disruption and Digital pop-up sessions held to influence, provoke and expose a digital mindset to the employees. Nordea positioned itself as a thought leader through industry wide digital engagements. Furthermore, digital capabilities have been included in the leadership development training for 4000+ leaders across the Group.

During 2018 there has been extensive work ongoing to embed a culture supporting new ways of working. Capability driven organisations have been implemented for capabilities like Architecture and Project/Programme Support which support the new ways of working. This has impacted many employees and leaders, hence personal development, training of competencies and skills have been in focus.

During 2018, GCC had a large focus on supporting the overall transformation journey and was able to end 2018 slightly below cost target.

Strategic focus areas and value drivers

During 2019, GCC will continue to focus on executing on the Groups strategic agenda and support the transformational journey to support Increasing Business Momentum and Drive Structural Cost Efficiency. Technology will continue to drive value from an enhanced digital journey that promotes innovation and creativity while reducing duplication and waste, continuing the consolidation effort.

To deliver more with less, will also be pivotal for 2019, which will be achieved through multiple levers like;

- Operating models and common ways of working to secure agility and scalability.
- Consolidations of tasks, streamlining of services and processes.
- Resource optimisation as well as transforming the workforce to meet new business requirements.
- Enhanced utilisation of new technologies such as automation and big data together with new partnerships within the Nordea Venture umbrella.

Strategic focus areas for executing the transformation

The services executed in Group Corporate Centre have increased in scope following Nordea's ambition to have more common processes and secure the most efficient operating model across the group.

Efficiency	• Resource optmisation, cost savings / avoidance further supporting frictionless delivery and lower structural costs.
Scalability	• Platforms with integrated deliveries that leverages the strengths of One Nordea, providing additional volume at close to zero marginal cost
Agility	• Fast and easy access to all secured data to reduce time to market and targeted offerings, while supporting an increased business momentum
Resilience	• Embed compliance and risk management in all processes to provide stable and predictable product and service deliveries

Engaged people drive performance and productivity

Karen Tobiasen
Chief People Officer

In 2018, we have continued our transformation journey to reinvent banking as one Nordea. A core belief driving our transformation is that there is no business transformation without a human transformation. Our focus in 2018 has been to increase our people engagement and motivate our people to drive performance, productivity and customer satisfaction. At the same time, we are undergoing a significant workforce shift to ensure we have the right competences for the future. We are redesigning our organisation to become flatter and more agile while building on more shared functions to drive execution with customer value and time to market.

Purpose-led and values-guided

Our objective remains the same: to be become a purpose-led and values-guided organisation. We have continued to focus on setting a clear tone from the top around the conduct and culture reflected in our Code of Conduct and our Leadership Principles and Behaviours. In 2018, 79% of our people feel that we act according to our values at Nordea.

Our Purpose and Values play a critical role in our quarterly performance conversations known as Performance and Learning Dialogues (PLD) where leaders discuss both the "what" and "how" of performance with each of their team members reflecting on few specific questions: How do you contribute, grow and enjoy? And how do I as a people leader support you? 85% of our people had a PLD during 2018.

As leaders, we commit to listening to our people via the People Pulse survey and in 2018, we are doing new team-based performance conversations to ensure actions are taken to increase engagement and wellbeing. Based on a simple tool, our teams have conversations around how they can remove impediments and barriers that hold us back from performing optimally and turning business challenges into opportunities. Therefore, we are constantly working on raising the bar for how we together contribute, grow and enjoy.

Equipping our people to make the right decision

An important part of our transformation includes being able to bring our full selves to work and allow ourselves to be guided by our Purpose and Values when making decisions. We want to always ask ourselves not only, "Can I do it?" but also "Should I do it? One focus area in 2018 was to strengthen our ability to prevent financial crime. Today, we have more than 1,500 people who work within the prevention of financial crime, and all our people must complete an annual mandatory training in financial crime prevention.

Creating a simpler structure with new ways of working

We are empowering our people by creating a simpler and flatter organisation with less hierarchy. In 2018 we reduced the management layers below the CEO by one layer and are well on our way to reducing one more meeting our target of six layers. This allows for better communication and faster decisions and helps us to take ownership and be more adaptable.

In alignment with a simpler structure, we are also rapidly moving into new ways of working. Approximately 5,500 people are now working agile and more will follow in 2019. In 2018 alone, approximately 1,200 people participated in Scaled Agile Framework (SAFe) trainings leading to more than 3,000 people certified in SAFe. In addition, approximately 250 people have been trained in Nordea's Operational Excellence (Lean) framework. These trainings are part of a fundamental shift in how we drive execution with customer value, collaboration and time to market in focus.

Supporting our people's employability

In 2017, we announced that we will be significantly less people in the years to come and in 2018, we have supported those of our people who will leave Nordea with the "My Next Step" programme. Whether it is with finding a new job internally or outside Nordea, returning to education, starting a new business or pursuing early retirement, we are happy to see that approximately 96% of the people who participated in the programme have found a solution for their next step.

We recognise that the world of work is changing and the relationship that people, companies and unions have with each other is changing. We want to take an active part in shaping future partnerships and ensuring collaboration and sustainable opportunities for our people as digitalisation, automation and robotics change many of our traditional roles in Nordea and in society.

Learning and growing to deliver value to customers

To differentiate Nordea in the market, we have identified six capabilities that we want to excel at: Customer Experience, Analytics, IT Management, Partnerships, Risk Management and People Management. We believe these capabilities will support our strategic business priorities and ensure we stay competitive also in the future. We want to support our people to grow these capabilities by focusing on their personal development.

We strive to become a continuous learning organisation. During 2018, we created an integrated learning function by adopting common learning principles and streamlining our learning teams into six aligned academies to support the building of our differentiating capabilities.

Leading the way in diversity and inclusion

At Nordea, we recognise our position as a responsible bank in the societies where we operate and see our opportunity to lead the way for inclusion. In 2018, our top executives established a Diversity and Inclusion committee as part of our Business Ethics and Values Committee to strengthen our commitment to offer equal opportunities to all customers and to provide a safe, inclusive and motivating place to work for all our people.

We believe diversity is key to broaden our perspectives of our challenges, stimulate innovation and development, and to help us to better understand and serve our diverse customers. Inclusion is our tool to embrace diversity.

FTEs, by area or function

	2018	2017
Personal Banking	10,342	11,093
Commercial & Business Banking	4,827	5,282
Wholesale Banking	3,633	3,727
Asset & Wealth Management	2,713	3,690
Group Functions & Other	7,472	6,607
Total	**28,987**	**30,399**

Board of Directors' report

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The Nordea share and ratings

Nordea's return on equity (ROE) target is to be above the Nordic peer average*.

Nordea's market capitalisation at the end of 2018 was EUR 29.4bn (EUR 40.9bn the year before). Ranked by market capitalisation, Nordea was the fifth largest company in the Nordic region and among the ten largest European financial groups.

The Nordea share is listed on the Nasdaq Helsinki (in EUR), Stockholm (in SEK) and Copenhagen (in DKK) stock exchanges. Furthermore, Nordea ADR is listed in the US (in USD).

Share price performance

In 2018 the Nordea share price depreciated approximately 28% on the Nasdaq Helsinki exchange from EUR 10.10 to EUR 7.27. The daily closing prices listed for the Nordea share in 2018 ranged between EUR 7.25 and EUR 10.54. In 2018, the Nasdaq OMXH index depreciated by approximately 8% and the STOXX Europe 600 Banks index depreciated approximately by 28%. Since 6 March 2000, the date of the merger between Merita-Nordbanken and Unidanmark, the Nordea share has appreciated 79%, clearly outperforming the STOXX Europe 600 Banks index (–60.6%) and the Nasdaq OMXH index (–52.3%).

Nordea's share price can be monitored on www.nordea.com, where it is also possible to compare the performance of the Nordea share with competitors and general indexes and find historical prices for the Nordea share.

Total shareholder return 2018

Total shareholder return (TSR) is the market value growth per share and reinvested dividends. Total shareholder return in 2018 was –19.5% (3.6% in 2017). Nordea ranked number ten among the European peer group banks in terms of TSR in 2018 (number seventeen in 2017).

Turnover – the most liquid Nordic financial share

The Nordea share was the most liquid Nordic financial share in 2018, with an average daily trading volume of approx. EUR 164m, corresponding to approx. 13 million shares. Turnover on all stock exchanges combined totalled EUR 41bn in 2018, corresponding to 4.8 billion shares.

35% of the total volume traded in Nordea shares takes place over other exchanges such as Cboe Europe Equities, Turquoise and Aquis. Out of the total number of Nordea shares traded in 2018 on Nasdaq, approx. 54% were SEK-denominated, 41% EUR-denominated and 5% DKK-denominated.

Share capital

The share capital amounts to EUR 4,049,951,919, which equals the total number of shares in the Company.

All shares are ordinary shares. As of 1 October 2018, the share capital was increased from EUR 5m to EUR 4,049,951,919 and the numbers of shares from one to 4,049,951,919 as a result of Nordea's re-domiciliation. All ordinary shares in Nordea carry voting rights, with each share entitling to one vote at General Meetings. Nordea is not entitled to vote for own shares at General Meetings.

Further to the Long Term Incentive Programmes, there are no convertible bond loans or staff/management options in Nordea.

Capital policy

Given the implementation of transitional arrangements agreed with the ECB following Nordea's transfer to the Banking Union and with the aim to maintain the same nominal management buffer, Nordea Board of Directors decided to adjust the Groups capital policy to reflect the transitional capital regime on the meeting on 5 February 2019. The management buffer has been adjusted from 50–150bps to a range of 40–120 bps. This is mainly a technical adjustment therefore the management buffer remains largely unchanged in nominal EUR amounts. The current level of the management buffer is approximately EUR 2.5bn (160bps).

Proposed dividend and dividend policy

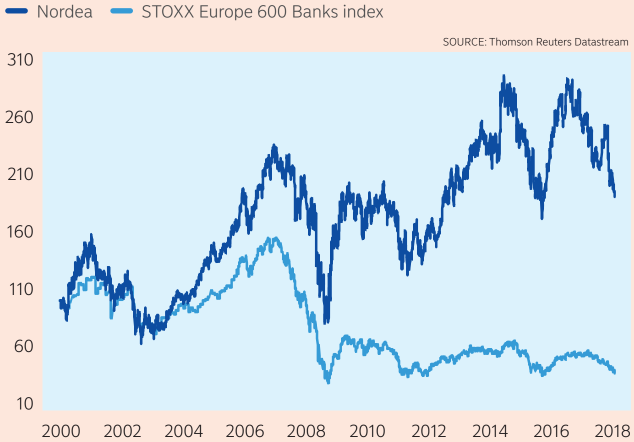
The Board of Directors proposes a dividend of EUR 0.69 per share for 2018. The total dividend payment for 2018 would then be EUR 2,788m. The dividend yield calculated on the share price at 30 December 2018 is 9.5%.

Nordea's dividend policy consists of maintaining a strong capital position in line with the bank's capital policy. The ambition is to achieve a yearly increase in the dividend per share.

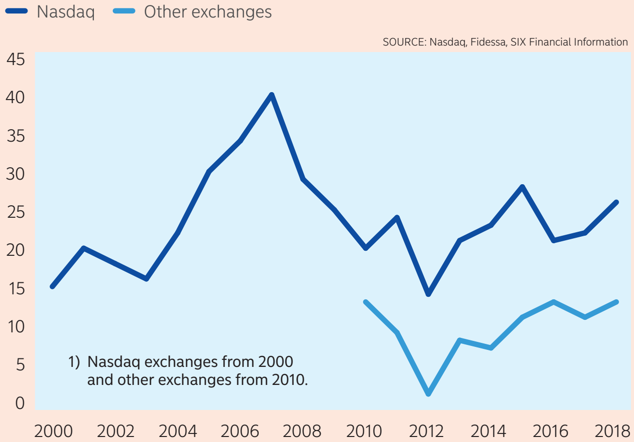
The dividend is denominated in EUR, Nordea's accounting currency.
The payment currency depends on the country in which the shares are registered. Owners of shares registered in Sweden can choose between dividend in SEK or EUR. An official exchange rate is published. In Denmark, dividends are paid in EUR. If the shareholder does not have a EUR account the dividend is con-

* Weighted to reflect Nordea's Nordic geographic mix

Nordea share price performance compared to European banks, 2000–2018, %



Turnover of the Nordea share on stock exchanges, 2000–2018[1], EURbn



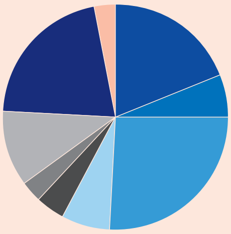
verted into local currency. Each custody institution decides its own conversion rate. In Finland, the dividend is paid in EUR.

Shareholders

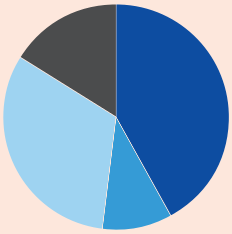
With approx. 457,000 registered shareholders at the end of 2018, Nordea has one of the largest shareholder bases of all Nordic companies. The number of shareholders in Sweden is approx. 113,000, in Finland approx. 237,000 and in Denmark approx. 138,000 – an increase in all countries from last year.

The largest shareholder category is Finnish institutions (including Sampo plc), with a 26% holding of Nordea shares at year-end. Swedish institutional shareholders held 19% while non-Nordic shareholders held 32% of the capital at the end of 2018. The largest individual shareholder is Sampo plc with a holding of 21.3%.

Shareholder structure, 31 Dec 2018



Shareholder structure, 31 Dec 2018



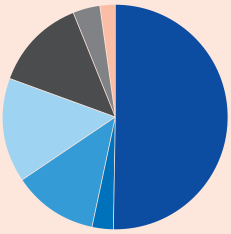
Largest registered[1] shareholders in Nordea, 31 Dec 2018

Shareholder	No of shares, million	Holdings, %
Sampo Plc	860.4	21.3
Nordea Fonden	158.2	3.9
Alecta	101.0	2.5
Vanguard Funds	92.5	2.3
Cevian Capital	92.0	2.3
Norwegian Petroleum Fund	89.7	2.2
BlackRock	85.4	2.1
Swedbank Robur Funds	83.6	2.1
Varma Mutual Pension Insurance	65.0	1.6
Didner & Gerge Funds	42.8	1.1
First Swedish National Pension Fund	38.3	0.9
Nordea Funds	33.8	0.8
SHB Funds	33.2	0.8
T. Rowe Price	32.2	0.8
Goverment of Japan Pension Fund	28.9	0.7
BNP Paribas Asset Management	28.6	0.7
AMF Insurance & Funds	28.1	0.7
SPP Funds	27.4	0.7
Folksam	26.0	0.6
Fidelity	24.7	0.6
Other	2,174.7	53.8
Total number of potential outstanding shares	**4,049.9**	**100.0**

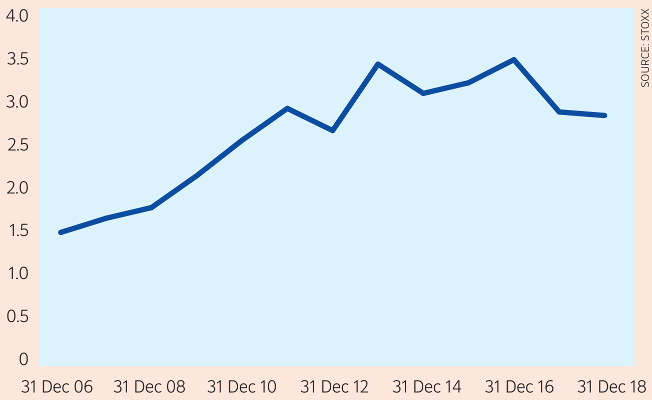
1) Excluding shares issued for the Long Term Incentive Program (LTIP).

Source: Euroclear Sweden, Modular Finance and VP Online.

Nordea share, annual turnover on different stock exchanges 2018



Nordea weighting in the STOXX Europe 600 Banks index, %



Distribution of shares, 31 Dec 2018

Distribution of shares	Number of shareholders	Shareholders, %	Number of shares	Shares, %
1–1,000	362,582	74	52,839,483	1
1,001–10,000	116,536	24	170,654,688	4
10,001–100,000	8,190	2	107,857,195	3
100,001–1,000,000	723	0	474,890,929	12
1,000,001–	260	0	3,243,709,624	80
Total	**488,291**		**4,049,951,919**	

Share data 5 years

	2018	2017	2016	2015	2014
Share price (EUR)	7.30	10.09	10.60	10.15	9.68
High/Low (EUR)	10.54 /7.25	11.75/9.74	10.93/6.94	12.56/9.47	10.65/8.97
Market capitalisation (EURbn)	29.8	40.9	42.8	41.3	38.9
Dividend (EUR)	0.69[2]	0.68	0.65	0.64	0.62
Dividend yield[3] (%)	9.5	6.7	6.2	7.6	5.4
Total shareholder return (TSR) (%)	–19.5	3.6	16.3	8.2	9.2
STOXX Europe 600 Banks index (%)	–28	7.5	–6.8	–3.3	–2.8
P/E (actual)	9.6	13.5	11.4	11.2	11.7
Price-to-book	0.90	1.23	1.32	1.32	1.31
Equity per share (EUR)	8.15	8.21	8.03	7.69	7.40
Earnings per share[4] (EUR)	0.76	0.75	0.93	0.91	0.83
Outstanding shares[1]	**4,049,951,919**	**4,049,951,919**	**4,039,029,217**	**4,038,273,025**	**4,034,032,732**

1) Excluding shares held for the Long Term Incentive Programmes.
2) Proposed dividend.
3) Dividend yield for 2013 to 2017 calculated at starting price on payment day and for 2018 calculated at price per 31 December 2018.
4) Diluted earnings per share, total operations.

Ratings

Nordea's credit ratings are some of the strongest among banks globally. During 2018, Nordea's ratings were re-affirmed at unchanged levels following the re-domiciliation of Nordea to Finland and the merger into Nordea Bank Abp as the new parent company of the Group.

The long-term ratings for senior unsecured debt for Nordea Bank Abp are all at the AA- level: from Standard & Poor's AA –(stable outlook), Moody's Aa3 (stable outlook) and Fitch AA- (stable outlook). The short-term ratings are at the highest level: P–1 from Moody's, F1+ from Fitch and A–1+ from S&P.

The covered bond ratings for the covered bond-issuing entities are also unaffected and these are all Aaa/AAA for the covered bonds issued by Nordea Hypotek AB (publ) (in Sweden), Nordea Kredit Realkreditaktieselskab (in Denmark), Nordea Mortgage Bank Plc (in Finland) and Nordea Eiendomskreditt AS (in Norway).

The analysis of the rating agencies is generally focused on profitability, asset risk and other risks, capitalisation and on the business franchise as well as wholesale funding profile and liquidity, and for all of these areas the views on Nordea have been stable or strengthening during the year.

The specific focus from the rating agencies' side in 2018 was largely on Nordea's re-domiciliation to Finland and on the MREL frameworks currently being formed and the senior non-preferred bonds that Nordea has started to issue during the year.

The newly issued senior non-preferred (SNP) bonds from Nordea have received the following ratings: A (from Standard & Poor), Baa1 (from Moody's) and AA- (from Fitch).

Ratings, 31 Dec 2018

	Moody's Investors Service		Standard & Poor's		Fitch		DBRS	
	Short	Long	Short	Long	Short	Long	Short	Long
Nordea Bank Abp	P–1	Aa3	A–1+	AA–	F1+	AA–	R–1 (mid)	AA (low)
Nordea Hypotek AB (publ)		Aaa[1]		AAA[1]				
Nordea Kredit Realkreditaktieselskab		Aaa[1]		AAA[1]				
Nordea Eiendomskreditt AS		Aaa[1]						
Nordea Mortgage Bank Plc		Aaa[1]						
Nordea Bank Abp Senior Non-Preferred (SNP) issuances		Baa1		A		AA–		
AT1 in Sep 2014 issue rating				BBB		BBB		
AT1 in March 2015 issue rating				BBB		BBB		
AT1 in Nov 2017 issue rating				BBB		BBB		

1) Covered bond rating

Financial Review 2018

- Operating profit[1] –12%, in local currencies –10%
- Total operating income[1] –11%, in local currencies –9%
- Total operating expenses[1] –7%, in local currencies –5%
- Loan loss ratio[1] 7 basis points (12 basis points last year)
- Return on equity (ROE)[1] 8.5% (last year 9.5%)
- Common equity tier 1 (CET1) capital ratio[1] 15.5% (last year 19.5%)
- Overall credit quality remained strong
- Assets under Management down 14% to EUR 282.6bn
- Proposed dividend EUR 0.69 per share (actual dividend last year EUR 0.68 per share)

Nordea's re-domiciliation to the Banking Union

By means of a cross-border reversed merger which was completed on 1 October 2018, Nordea re-domiciled the parent company of the Nordea Group from Sweden to Finland, a country which is participating in the EU's banking union.

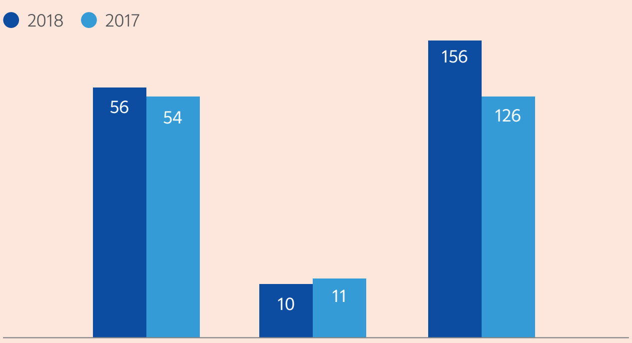
The decision to re-domicile the parent company to Finland and the banking union was based on the Nordea Group's unique pan-Nordic and international structure, which meant that the then existing national regulatory frameworks did not fully accommodate the Nordea Group's operating model and recent strategic developments.

Macroeconomic trend

In 2018, trade war, political uncertainty in Europe and tighter financial conditions have clearly impacted economic trends. Not least the European economy has disappointed, but also the countries in Asia have had to realize that it costs to be an important link in the global value chain when for some reason it suddenly breaks down. Only the US economy is not yet showing any signs of a major slowdown, but this is mainly due to the huge fiscal stimulus introduced by the Trump administration in the form of major tax cuts for both businesses and households.

The ultra-loose monetary policy since the financial crisis has been a key factor behind the sharp housing market increases (especially in the major cities) all over the world. But in many countries it has also prompted a significant rise in household debt. This is also the case in the Nordic countries where household debt has increased sharply in Sweden and Norway, but not in Finland or Denmark.

Key figures[1], Nordea Group



1) Excl. items affecting comparability in Q4 2018: EUR 50m gain from revaluation of Euroclear, EUR 38m after tax, EUR 36m gain related to sale ofEjendomme and EUR 141m loss from impairment of goodwill in Russia. Q2 2018: tax free gain related to divestment of shares in UC EUR 87m and tax free gain related to the sale of Nordea Liv & Pension Denmark EUR 262m. In Q1 2018: EUR 135m gain from valuation model update in Denmark, EUR 105m after tax.

In 2018 Norway (mainland) had the highest GDP-growth in the Nordic region expanding by 2.5%. This was closely followed by Finland and Sweden where GDP was up by 2.3%. In Denmark GDP grew by 0.9%, however here the relatively slow pace was mainly related to one-off effects.

Result summary 2018

Total income decreased in 2018 by 9% in local currencies (11% in EUR) compared to 2017, excluding items affecting comparability. Total expenses were EUR 4.7bn, a decrease of 5% in local currencies (7% in EUR) excluding items affecting comparability, in line with guidance. We are well on track to reach our 2021 target to reduce costs by 3% compared to 2018 (excluding EUR 141m in goodwill impairment in 2018 related to Russia) and in 2019 the target is to have lower costs than in 2018, adjusted for non-recurring costs in 2018 and 2019 (EUR141m in goodwill impairment related to Russia in 2018 and approximately EUR 90m related to divestment of Luminor-shares and acquisition of Gjensidige Bank in 2019). Net loan losses decreased from last year to a level of 7 basis points of loans (12 basis points in 2017). Operating profit was down 10% in local currencies (12% in EUR) excluding items affecting comparability.

Income

Net interest income was down 5% in 2018 compared to 2017 in local currencies, driven mainly by margin pressure and the deconsolidation of the Baltic operations. In recent quarters, the level has stabilised, and towards the end of the year, we saw volume growth and stabilising blended margins. Average lending volumes in business areas in local currencies were down by 3% and average deposit volumes were down by 4% compared to 2017. The market making trading environment has been challenging throughout the year, and the worsening market conditions in the fourth quarter further weighted on net fair value as well as fees and commission. Net fee and commission income decreased 9% in local currencies (11% in EUR) while net result from items at fair value decreased 16% in local currencies (18% in EUR) compared to previous year.

Expenses

Total expenses were down 5% in local currencies (4% in EUR) compared to 2017 excluding items affecting comparability. Staff costs were down 5% in local currencies (7% in EUR), excluding items affecting comparability. Other expenses were down 11% in local currencies (14% in EUR) excluding items affecting comparability. Depreciation was up 30% in local currencies (27% in EUR), excluding items affecting comparability.

Net loan losses

Net loan loss provisions decreased 51% in local currencies (53% in EUR) to EUR 173m, corresponding to a loan loss ratio of 7 basis points (12 basis points last year). The decrease is related to less new/increased provisions in 2018 for Stage 3 whereas the realised loan losses are on unchanged level (2018 at EUR 479m and 2017 at EUR 435m). Lower provisions compared to 2017 are related to corporate portfolios, where Shipping, Oil and Offshore has the highest decrease with net loan losses being almost 80% lower in 2018 compared to 2017. The impact from IFRS9 implementation has been limited over the year. The loan loss ratio was below the ten-year average loan loss ratio.

Taxes

The effective tax rate in 2018 was 22% compared to 23.7% last year.

Net profit and Return on Equity (ROE)

Net profit decreased by 11% in local currencies (12% in EUR) to EUR 2,694m.

Return on equity (ROE) was 8.5% excluding items affecting comparability (last year 9.5% excluding items affecting comparability).

Financial structure

Total assets decreased by 5% or EUR 30bn to EUR 551bn in 2018. Total liabilities decreased by 5% or EUR 30bn to EUR 519bn. All balance sheet items in foreign currencies are translated to EUR at the year-end rates when consolidated into the Nordea Group. See Note G1 for more information on accounting policies and section 29 therein for cross-currency rates used.

The euro strengthened against the Swedish krona, the Norwegian krone and the Russian rouble in 2018. It was largely unchanged against the Danish krone. The effect of changes in currency exchange rates amounted to a total decrease in the Group's assets of EUR 2bn and liabilities decreased by EUR 2bn.

Loans

Total lending decreased EUR 2bn or 1%.

Securities

Investments in interest-bearing securities and shares decreased by EUR 4bn.

Deposits

Deposits and borrowings decreased by EUR 7bn or 4%. Total debt securities in issue as per the end of 2018 amounted to EUR 190bn.

Life insurance activities

Liabilities to policyholders decreased by EUR 1bn or 6%.

Derivatives

The balance sheet items "Derivatives" reflect the net present value of derivative contracts split into positive and negative fair values. The positive market value of derivatives decreased from EUR 46bn to EUR 37bn and negative market values decreased from EUR 43bn to EUR 40bn. The decrease was driven by an increase in the long-term interest rates and changes in foreign exchange rates which reduced the net present values of the interest rate derivatives and foreign exchange swaps. For more information, see Notes G1 and G18.

Capital position

The CET1 capital ratio was 15.5% at the end of 2018 (last year 19.5%). The capital strength was unchanged and the nominal CET1 capital was largely unchanged, but the CET1 capital ratio decreased, due to the change to ECB supervision in connection to the re-domiciliation to Finland and the introduction of internal rating based (IRB) floors, which increased risk exposure amounts by approx. EUR 36bn. The total capital ratio was 19.9% and the total own funds were EUR 31.0bn at the end of 2018.

A description of the capital position is presented under Capital management on page 62–64 and in the section on Capital Adequacy for the Nordea Group on page 262–273.

Credit portfolio

Loans to the public excluding reverse repurchase agreements increased by 1% in local currencies (a decrease by 1% in EUR) and amounted to EUR 291.6bn.

The share of loans to the public to corporate customers excluding reverse repurchase agreements was 45%. The portfolio is well diversified over the Nordic countries.

Overall credit quality remains solid with strongly rated customers. Impaired loans gross measured at amortised cost in the Group ended at EUR 4,581m at the end of the year after decreasing level in all quarters in 2018. 46% of impaired loans gross are servicing and 54% are non-servicing.

Nordea's funding operations

Nordea issued approx. EUR 22.6bn of new and extended long-term funding during the year, excluding Danish covered bonds and subordinated debt. Liquidity management is presented on page 61. A maturity analysis is presented in Note G44.

Market risk

A description of market risk is presented on page 56–57.

Hedge accounting

Nordea uses hedge accounting in order to have symmetrical accounting treatment of the changes in fair value of the hedged risks in the hedged items and of the hedging instruments and in order to hedge the exposure to variability in cash flows and net investments in foreign operations. More information on the hedged risks is presented in Note G1.

The Nordea share

According Nordea's Articles of Association, do not contain any provisions on share classes or voting rights and consequently all issued shares are ordinary shares and confers one vote at general meetings and equal rights to any dividend. The total number of shares in Nordea is 4,049,951,919. See also Statement of changes in equity on page 89.

There are no restrictions in law or in the Articles of Association regarding the right to transfer shares and Nordea is not aware of any agreements between shareholders in this respect.

However, since Nordea is a credit institution, a direct or indirect acquisition of shares in Nordea, which causes the acquirer's total holding to comprise a qualified holding (representing 10% or more of the equity capital or of the voting capital or a holding that otherwise enables the acquirer to exercise a substantial influence over the management of Nordea) or an increase of qualified holdings, may only occur following approval by the Finnish Financial Supervisory Authority according to the Finnish Act on Credit Institutions. Under the Single Supervisory Mechanism, the European Central Bank is the authority that ultimately decides on (in cooperation with the Finnish Financial Supervisory Authority) whether to approve an acquisition of a qualifying holding in Nordea as it is under the direct supervision of the European Central Bank.

On 31 December 2018 Sampo plc was the largest individual shareholder with a holding of 21.3% and the only shareholder with a holding of more than 10%. A table showing the largest registered shareholders in Nordea at the end of 2018 is provided on page 38.

On 31 December 2018, employees had an indirect shareholding of 0.6% in Nordea through the Nordea Profit-sharing Foundation and a minor indirect shareholding in Nordea through the pension foundation. The voting rights are in neither case exercised directly by the employees.

Holding of own shares

As of 31 December 2018, Nordea held 15,157,666 shares (0.4% of the total number of shares) in Nordea, an increase of 1,418,657 shares compared to 31 December 2017. The acquisition price amounts to EUR 34m.

These shares are partly held for trading purposes and partly as hedges of conditional rights in the Long Term Incentive Programmes.

Dividend

The Board of Directors is going to propose to the AGM a dividend of EUR 0.69 per share (EUR 0.68) and furthermore that the record date for dividend should be 1 April 2019. The dividend corresponds to a payout ratio of 91% of net profit. The total proposed dividend amounts to EUR 2,788m.

The ex-dividend date for the Nordea share is 29 March 2019. The dividend payments are scheduled to be made on 8 April 2019.

Rating
Ratings of the Nordea Group are presented on page 39.

Personnel
Personnel expenses, significant agreements with key management personnel and the distribution by number of employees, by country and gender are disclosed in Note G7. More information is presented on the page 35 about Our people.

Profit sharing and share-based incentive systems
The three decided criteria for the outcome of the profit share programme 2018 are; Return on Capital at Risk (ROCAR), Development of Return on Equity (ROE) against competitors and Customer Net Promoter Score (NPS). If performance criteria are fully met, the cost will amount to approx. EUR 93m.

The provision for Nordea's profit-sharing scheme and the LTIPs was EUR 57m compared to EUR 27m in 2017. The 2018 amount includes EUR 10m referring to a too low accrual in 2017 due to a higher than estimated NPS.

The Profit Sharing scheme and the share-based incentive systems as well as other remuneration principles are presented in the chapter Remuneration on page 79–82 and in Note G7.

Pension liabilities
The total pension obligation in defined benefit plans increased from EUR 3,454m to EUR 3,494m in 2018. The increase is mainly due to re-measurements from changes in financial assumptions, mainly following lower discount rates, a higher inflation and salary increase assumption in Sweden. The increase in Sweden is partly offset by higher discount rates in other countries. Pensions paid have had a reducing effect on the pension obligation offset by new pension rights earned and discounting effects. The fair value of plan assets amounted to EUR 3,342m (EUR 3,423m). Asset returns across all asset classes were negatively impacted during the latter part of the year, but remained overall positive. The net pension liability amounts to EUR 152m (net pension liability of EUR 31m). See Note G32 for more information.

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

Further information is presented in Note G36.

Environmental concerns and corporate social responsibility
Nordea is committed to sustainable business and development by combining financial performance with environmental and social responsibility as well as sound governance practices. Nordea has adopted a Nordea Sustainability Policy that sets out the Group's values and commitments to ethical business. The policy is based on the ten principles of the UN Global Compact, the UN Declaration of Human Rights, ILO conventions and the OECD Guidelines for Multinational Enterprises. The Sustainability Policy has a specific section on environmental issues providing guidance on how the Group is to manage and control environmental issues in its business activities and its own operations. All employees of Nordea Group, including non-permanent staff working on behalf of Nordea, are subject to this policy.

Nordea policies are supported by a number of specific and concrete policies to ensure compliance with the principles in everyday business. Examples are the human resources policies, the anti-corruption policies and investment and credit policies.

Further information is presented under Statutory Sustainability report on page 76–77 and in Nordea's Statutory Sustainability Report available on the website.

Foreign branches
The parent company has foreign branches in China, Denmark, Estonia, Germany, Norway, Poland, Singapore, Sweden, the United Kingdom, and the United States.

Sale of Nordea's Luxembourg-based Private Banking business
In Q1 2018, Nordea communicated the sale of certain assets and liabilities and the transfer of certain employees of its Luxembourg-based private banking business to UBS. The sale was closed in Q4 2018. Assets and liabilities held for sale were consequently derecognised. The capital gain/loss on closing was close to zero after transaction cost and the impact on the CET1 ratio marginally positive.

Sale of Collection portfolios
In Q4 2017 Nordea signed an agreement to divest a portfolio of non-performing loans in Denmark. The portfolio consisted of around 40,000 claims, the principal value amounts to approximately EUR 500m. The financial impact of the transaction was EUR 40m in 2018 and recognised in "Net result from items at fair value"

Nordea additionally signed an agreement to divest a Swedish non-performing loans portfolio which generated a capital gain of approx. EUR 6m in 2018.

Furthermore, Nordea entered in Q4 2018 into an agreement with the Norwegian company B2Holding to sell a portfolio of non-performing loans. A total of 12,000 non-performing customer accounts will be transferred to B2Holding, which operates the debt collection company Nordic Debt Collection in Denmark. The portfolio of close to 12,000 customer accounts represents total debt of EUR 388m. The transfer also meant that six employees were transferred to Nordic Debt Collection. Upon completion of the transaction, Nordea is expected to generate a capital gain of approximately EUR 35–45m which will be included in the financial statements for 2019 as the loan documentation is transferred to the buyer.

Sale of Luminor
In 2018, Nordea and DNB entered into an agreement to jointly sell 60 per cent of Luminor to a consortium led by private equity funds managed by Blackstone ("Blackstone") at a valuation of 1.0x P/BV.

The decision for Nordea to sell the shares in Luminor is pursuant to Nordea's overall ambition to simplify and focus its operations to the Nordic core markets and become an even better bank for its customers. The sale is the natural next step following the establishment of Luminor in 2017 whereby Nordea and DNB created the third largest bank in the region.

The transaction is ,inter alia, subject to customary regulatory approvals and is expected to close during H1 2019. Following the transaction, each of Nordea and DNB will hold approx. 20 per cent of Luminor and maintain ongoing representation on Luminor's Board of Directors. Nordea and Blackstone have additionally entered into a forward sale agreement for the sale of Nordea's remaining 20 per cent stake, carried out at a valuation of 0.9x P/BV. The forward sale is subject to certain conditions but is expected to complete over three financial years after completion of the transaction.

The final purchase price and financial impact will be settled upon closing, based on a locked box principle, and is therefore subject to the business performance in Luminor up until then. It is currently expected that the loss on closing will amount to approx. EUR 75m (driven by, in order of magnitude, the write down on the remaining equity stake, transaction costs related to the Luminor merger and sale to Blackstone and the business performance). The upfront sale is expected to have a positive impact on Nordea's Common Equity Tier 1 ("CET1") ratio of approx. 20bps upon completion of the transaction. Pro-forma for the complete sale of Nordea's ownership in Luminor under the forward sale agreement and after Luminor has returned its funding to Nordea, the positive impact on Nordea's CET1 ratio is expected to be approx. 45bps.

Sale of Nordea Life and Pension Denmark

In Q4 2017, Nordea announced that Foreningen Norliv will purchase an additional 45% of the share capital in Danish Nordea Liv & Pension, livforsikringsselskab A/S conditional on approval by the Danish FSA and the antitrust authorities. The transaction was closed on 16 April 2018 and generated a post-tax capital gain of EUR 138m in Q2 2018. The remaining holding in the associated company (30%) was remeasured to fair value and led to an additional post-tax gain of EUR 124m for the Nordea Group in Q2 2018.

Sale of Nordea Ejendomme

The sale of Nordea Ejendomme to the property management company DEAS A/S was closed in Q4 2018. The transaction resulted in a capital gain of approximately EUR 36m, recognised in the line item Other operating income.

Acquisition of Gjensidige Bank

On 2 July 2018, Nordea entered into an agreement to acquire all shares in Gjensidige Bank. The acquisition has been approved by the Norwegian Competition Authority, but the approval from the Norwegian Ministry of Finance is still pending. The plan is to transition Gjensidige Bank customers to Nordea during 2019.

Divestment of shares in UC AB

The Finnish credit information company Asiakastieto Group Plc ("Asiakastieto") listed on NASDAQ Helsinki acquired UC AB ("UC") from the earlier owners, including Nordea, for a purchase price amounting to approximately EUR 340m. Nordea owned 26.1 % of the shares in UC. The transaction was closed on 29 June 2018 and Nordea received 2,303,315 shares in Asiakastieto, equivalent to 9.6% of the shares in the company, and approximately EUR 26m in cash. The transaction resulted in a capital gain amounting to EUR 87m for Nordea, which was recognised as "Other operating income" in Q2 2018.

Goodwill impairment following de-risking of Russian portfolio

Nordea reduced, as part of a conscious de-risking of the bank, its loan book in Russia by more than 60% since 2014, including a divestment of the household loan book. As a consequence of this de-risking, Nordea wrote off the goodwill related to Russia of EUR 141m, which was reported as depreciation.

The goodwill impairment did not impact the cash flow or the Common Equity Tier 1 ratio and will have a marginally positive impact on the bank's Return on Equity from 2019 onwards.

The goodwill impairment was excluded from Nordea's guidance for 2018.

Outsourcing of mainframe computer operations to IBM

On 8 January 2019, Nordea and IBM entered a USD 540m Multi-Year Services Pact. A total of 117 Nordea employees in Sweden, Denmark, Finland, Norway and Poland will move as the bank outsources its IBM Z operations. In this highly specialised field of infrastructure technology, Nordea foresee challenges recruiting in the long run. By outsourcing Nordea is securing its operations over time. Nordea believe that IBM, with their service model, can run the systems efficiently. IBM has the size, expertise and is currently a trusted supplier already.

Asset Quality review (AQR)

Nordea is currently undergoing an Asset Quality Review (AQR) which is standard practice for any new banks entering the eurozone. The purpose of the AQR is transparency, to build confidence and identify any corrective actions needed, as well as building the relationship with Nordeas new regulator.

The focus of the asset review is on complex and high-risk instruments as well as provisioning levels for credit exposures in terms of processes, credit files and models. Furthermore, an additional stress test is performed where focus is on analysis of solvency ratio given the Comprehensive Assessment scenarios. The AQR is currently ongoing and is expected to be finalized during H1-2019.

Outlook

Throughout Nordea we are intensifying our efforts to increase business momentum and each business area has identified a number of initiatives to drive client value and revenue growth. Examples include investments in Private Banking in Norway and Sweden, acquisition of Gjensidige Bank, new distribution channels within Asset Management and Wholesale Banking and clear plans to regain momentum on mortgages where we already start to see results.

The key drivers behind the structural cost efficiency are increased usage of automation and robotics, ongoing ramp-up in Poland and Estonia and outsourcing of Group Technology mainframe to IBM. We are also simplifying through harmonizing products and services and leveraging scale by further consolidating common units, for instance global operations and services. At the end of the day, it is all about execution.

Cost

For 2021, we expect the cost base in constant currencies to be approximately 3% below the 2018 cost base excluding items affecting comparability in 2018[1] and cash costs are expected to be down 5–10% in constant currencies over the same period.

Costs for 2019 are expected to be lower in constant currencies compared to 2018 excluding items affecting comparability in 2018 and 2019[2] and total cash cost expected to be lower in constant currencies over the same period.

Credit quality

Our expectation for the coming quarters is that net losses will remain low and around the average level for 2018.

Capital policy

Given the implementation of transitional arrangements agreed with the ECB following Nordea's transfer to the Banking Union and with the aim to maintain the same nominal management buffer, Nordea Board of Directors decided to adjust the Groups capital policy to reflect the transitional capital regime on the meeting on 5 February 2019. The management buffer has been adjusted from 50–150bps to a range of 40–120 bps. This is mainly a technical adjustment therefore the management buffer remains largely unchanged in nominal EUR amounts. The current level of the management buffer is approximately EUR 2.5bn (160bps). The ambition is to achieve a yearly increase in the dividend per share, while maintaining a strong capital position in line with the capital policy.

Annual General Meeting

The AGM will be held on Thursday 28 March 2018 in Helsinki. Further information is presented on the last page of the Annual Report.

1) EUR 141m in goodwill impairment in 2018 related to Russia
2) EUR 141m in goodwill impairment related to Russia in 2018 and approximately EUR 90m related to divestment of Luminor-shares and acquisition of Gjensidige Bank in 2019

5 year overview

Income statement

EURm	2018	2017	2016	2015	2014
Net interest income	4,324	4,666	4,727	4,963	5,349
Net fee and commission income	2,993	3,369	3,238	3,230	3,017
Net result from items at fair value	1,088	1,328	1,715	1,645	1,383
Profit from associated undertakings and joint ventures accounted for under the equity method	124	23	112	39	18
Other operating income	476	83	135	263	474
Total operating income	**9,005**	**9,469**	**9,927**	**10,140**	**10,241**
General administrative expenses:					
- Staff costs	−2,998	−3,212	−2,926	−3,263	−3,159
- Other expenses	−1,399	−1,622	−1,646	−1,485	−1,656
Depreciation, amortisation and impairment charges of tangible and intangible assets	−482	−268	−228	−209	−585
Total operating expenses	**−4,879**	**−5,102**	**−4,800**	**−4,957**	**−5,400**
Profit before loan losses	**4,126**	**4,367**	**5,127**	**5,183**	**4,841**
Net loan losses	−173	−369	−502	−479	−534
Operating profit	**3,953**	**3,998**	**4,625**	**4,704**	**4,307**
Income tax expense	−872	−950	−859	−1,042	−950
Net profit for the year from continuing operations	**3,081**	**3,048**	**3,766**	**3,662**	**3,357**
Net profit for the year from discontinued operations, after tax	–	–	–	–	−25
Net profit for the year	**3,081**	**3,048**	**3,766**	**3,662**	**3,332**

Balance sheet

EURm	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015	31 Dec 2014
Cash and balances with central banks	41,578	43,081	32,099	35,500	31,067
Loans to central banks and credit institutions	18,962	13,388	20,261	23,986	19,054
Loans to the public	308,304	310,158	317,689	340,920	348,085
Interest–bearing securities and pledged instruments	83,790	81,783	92,809	94,876	97,817
Assets in pooled schemes and unit–linked investment contracts	24,583	25,879	23,102	20,434	17,442
Derivatives	37,025	46,111	69,959	80,741	105,119
Other assets	37,166	39,026	50,843	50,411	50,758
Assets held for sale	–	22,186	8,897	–	–
Total assets	**551,408**	**581,612**	**615,659**	**646,868**	**669,342**
Deposits by credit institutions	42,419	39,983	38,136	44,209	56,322
Deposits and borrowings from the public	164,958	172,434	174,028	189,049	192,967
Deposits in pooled schemes and unit–linked investment contracts	25,653	26,333	23,580	21,088	18,099
Liabilities to policyholders	18,230	19,412	41,210	38,707	38,031
Debt securities in issue	190,422	179,114	191,750	201,937	194,274
Derivatives	39,547	42,713	68,636	79,505	97,340
Subordinated liabilities	9,155	8,987	10,459	9,200	7,942
Other liabilities	28,121	33,289	30,562	32,141	34,530
Liabilities held for sale	–	26,031	4,888	–	–
Equity	32,903	33,316	32,410	31,032	29,837
Total liabilities and equity	**551,408**	**581,612**	**615,659**	**646,868**	**669,342**

Ratios and key figures[1]

	2018	2017	2016	2015	2014
Basic earnings per share, EUR	0.76	0.75	0.93	0.91	0.83
Diluted earnings per share, EUR	0.76	0.75	0.93	0.91	0.83
Share price[2], EUR	7.30	10.09	10.60	10.15	9.68
Total shareholders' return, %	–19.5	3.6	16.3	8.2	9.2
Proposed/actual dividend per share, EUR	0.69	0.68	0.65	0.64	0.62
Equity per share[2], EUR	8.15	8.21	8.03	7.69	7.40
Potential shares outstanding[2], million	4,050	4,050	4,050	4,050	4,050
Weighted average number of diluted shares, million	4,037	4,039	4,037	4,031	4,031
Return on equity, %	9.7	9.5	12.3	12.2	11.4
Assets under management[2], EURbn	282.6	330.4	322.7	288.2	262.2
Cost/income ratio[3], %	54	54	50	47	49
Loan loss ratio, basis points[4]	7	12	15	14	15
Common Equity Tier 1 capital ratio excluding Basel I floor[2,5,6] ,%	15.5	19.5	18.4	16.5	15.7
Tier 1 capital ratio, excluding Basel I floor[2,5,6], %	17.3	22.3	20.7	18.5	17.6
Total capital ratio, excluding Basel I floor[2,5,6], %	19.9	25.2	24.7	21.6	20.6
Tier 1 capital[2,5,6], EURbn	27.0	28.0	27.6	26.5	25.6
Risk exposure amount, excluding Basel I floor[2,5,6], EURbn	156	126	133	143	146
Number of employees (full-time equivalents)[2]	28,990	30,399	31,596	29,815	29,643
Economic capital[2,5], EURbn – Total operations	26.6	26.7	26.3	25.0	24.3
ROCAR[3],%	10.0	11.1	13.4	14.8	14.0

1) Fore more information regarding ratios and key figures defined as Alternative performance measures, see http://www.nordea.com/en/investor-relations/. All key ratios reflect Nordea´s continuing operations.
2) End of the year.
3) Excluding items affecting comparability.
4) In 2016 the ratio is including Loans to the public reported as assets held for sale.
5) Since 2014 ratios are reported using the Basel III (CRR/CRDIV) framework. Basel I requirement is not applicable for Nordea Group as of January 2018, therefor only on applicable on reference periods.
6) Including result for the period.

Business area results

Personal Banking, operating profit by market

	Total		Change		Personal Banking Denmark		Personal Banking Finland		Personal Banking Norway		Personal Banking Sweden		Personal Banking other	
EURm	2018	2017	%	Loc. curr. %	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Net interest income	2,055	2,260	–9	–6	578	638	426	442	383	385	689	796	–21	–1
Net fee and commission income	671	730	–8	–6	207	232	167	192	83	82	226	231	–12	–7
Net result on items at fair value	169	48	–	–	112	–6	17	21	15	10	23	20	2	3
Equity method & other income	8	6	–	–	–3	–2	1	4	3	1	5	1	2	2
Total operating income	**2,903**	**3,044**	**–5**	**–2**	**894**	**862**	**611**	**659**	**484**	**478**	**943**	**1,048**	**–29**	**–3**
Total operating expenses	**–1,794**	**–1,808**	**–1**	**1**	**–581**	**–568**	**–438**	**–451**	**–246**	**–245**	**–473**	**–504**	**–56**	**–40**
Profit before loan losses	**1,109**	**1,236**	**–10**	**–7**	**313**	**294**	**173**	**208**	**238**	**233**	**470**	**544**	**–85**	**–43**
Net loan losses	–79	–44	–	–	–26	–5	–33	–11	–3	–4	–18	–17	1	–7
Operating profit	**1,030**	**1,192**	**–14**	**–10**	**287**	**289**	**140**	**197**	**235**	**229**	**452**	**527**	**–84**	**–50**
Cost/income ratio, %	62	59	–	–	65	66	72	68	51	51	50	48	–	–
ROCAR, %	10	13	–	–	15	15	7	11	11	13	12	14	–	–
Other information, EURbn														
Lending to corporates[1]	1.1	1.0	10	–10	0.2	0.2	0.0	0.1	0.0	0.0	0.7	0.7	–	–
Household mortgage lending	125.0	125.1	0	1	30.5	30.1	26.4	26.6	26.9	25.8	41.2	42.6	–	–
Consumer lending	18.9	19.8	–5	–4	8.2	8.2	5.7	5.6	1.5	1.4	3.6	3.9	–	–
Corporate deposits[1]	1.8	2.3	–22	–25	1.6	2.0	0.1	0.1	0.1	0.1	0.1	0.1	–	–
Household deposits	74.3	73.8	1	2	22.9	22.9	21.1	20.7	8.0	8.1	22.2	22.1	–	–

1) Corporate lending and deposits of some household customers in Personal Banking (PeB) are served and reported in PeB.

Commercial & Business Banking, operating profit

	Total		Change	
EURm	2018	2017	%	Loc. curr. %
Net interest income	1,274	1,258	1	4
Net fee and commission income	437	483	–10	–8
Net result on items at fair value	297	261	14	17
Equity method & other income	30	45	–	–
Total operating income	**2,038**	**2,047**	**0**	**2**
Total operating expenses	**–1,119**	**–1,219**	**–8**	**–6**
Profit before loan losses	**919**	**828**	**11**	**13**
Net loan losses	–23	–88	–	–
Operating profit	**896**	**740**	**21**	**23**
Cost/income ratio, %	55	60	–	–
ROCAR, %	11	9	–	–
Other information, EURbn				
Lending to corporates	72.9	71.1	3	4
Household mortgage lending[1]	6.7	7.1	–6	–4
Lending to households[1]	2.0	2.2	–9	–7
Corporate deposits	38.0	37.3	2	4
Household deposits[1]	2.8	3.0	–7	–8

1) Household lending and deposits of some corporate customers are supplied by and reported in Commercial & Business Banking.

Wholesale Banking, operating profit

	Total		Change	
EURm	2018	2017	%	Loc. curr. %
Net interest income	854	854	0	4
Net fee and commission income	471	571	–18	–14
Net result on items at fair value	408	625	–35	–35
Equity method & other income	0	4	–	–
Total operating income	**1,733**	**2,054**	**–16**	**–13**
Total operating expenses	**–901**	**–952**	**–5**	**–3**
Profit before loan losses	**832**	**1,102**	**–25**	**–23**
Net loan losses	–91	–229	–	–
Operating profit	**741**	**873**	**–15**	**–13**
Cost/income ratio, %	52	46	–	–
ROCAR, %	7	8	–	–
Other information, EURbn				
Lending to corporates	69.0	71.1	–3	–
Lending to households	0.0	0.0	–	–
Corporate deposits	42.3	46.9	–10	–
Household deposits	0.0	0.1	–	–

Business area results, cont.

Asset & Wealth Management, operating profit by unit

EURm	Total 2018	Total 2017	Change %	Change Loc. curr. %	Nordic Private Banking 2018	Nordic Private Banking 2017	Asset Management 2018	Asset Management 2017	Life & Pensions 2018	Life & Pensions 2017	Asset & Wealth Management other 2018	Asset & Wealth Management other 2017
Net interest income	66	82	−20	−18	58	66	−4	0	0	0	12	16
Net fee and commission income	1,443	1,586	−9	−9	197	189	902	971	318	373	26	53
Net result on items at fair value	162	287	−44	−42	28	44	8	0	124	229	2	14
Equity method & other income	37	23	–	–	0	0	9	8	26	19	2	−4
Total operating income	**1,708**	**1,978**	**−14**	**−13**	**283**	**299**	**915**	**979**	**468**	**621**	**42**	**79**
Total operating expenses	**−759**	**−847**	**−10**	**−10**	**−217**	**−233**	**−296**	**−279**	**−151**	**−208**	**−95**	**−127**
Profit before loan losses	**949**	**1,131**	**−16**	**−15**	**66**	**66**	**619**	**700**	**317**	**413**	**−53**	**−48**
Net loan losses	−4	0	–	–	0	0	0	0	0	0	−4	0
Operating profit	**945**	**1,131**	**−16**	**−14**	**66**	**66**	**619**	**700**	**317**	**413**	**−57**	**−48**
Cost/income ratio, %	44	43	–	–	77	78	32	28	32	33	–	–
ROCAR, %	30	32	–	–	12	12	–	–	–	–	–	–
Other information, EURbn												
Lending to households	7.7	10.8	−29	−29	5.6	6.8	–	–	–	–	0.1	1.4
Deposits from the public	11.1	13.0	−15	−15	10.9	10.1	–	–	–	–	0.2	2.9

Group Functions, other and eliminations, operating profit

EURm	2018	2017
Net interest income	75	212
Net fee and commission income	−29	−1
Net result on items at fair value	52	107
Equity method & other income	525	28
Total operating income	**623**	**346**
Total operating expenses	**−306**	**−276**
Operating profit	**341**	**62**

Life & Pensions, profit drivers

EURm	2018	2017
Profit drivers		
Profit Traditional products	22	90
Profit Market Return products	224	252
Profit Risk products	77	84
Total product result	**323**	**426**
Return on shareholders' equity, other profits and group adjustments	−6	−13
Operating profit	**317**	**413**
Other information		
Solvency in % of requirement	174	169

Business area results, cont.

Total Nordea Group and Business Areas

	Personal Banking		Commercial & Business Banking		Wholesale Banking		Asset & Wealth Management		Group Functions, Other and Eliminations		Nordea Group		Change	
EURm	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	%	Loc. curr. %
Net interest income	2,055	2,260	1,274	1,258	854	854	66	82	75	212	4,324	4,666	–7	–5
Net fee and commission income	671	730	437	483	471	571	1,443	1,586	–29	–1	2,993	3,369	–11	–9
Net result on items at fair value	169	48	297	261	408	625	162	287	52	107	1,008	1,328	–18	–16
Equity method	0	0	9	14	0	0	13	0	102	9	124	23	–	–
Other operating income	8	6	21	31	0	4	24	23	423	19	476	83	–	–
Total operating income	**2,903**	**3,044**	**2,038**	**2,047**	**1,733**	**2,054**	**1,708**	**1,978**	**623**	**346**	**9,005**	**9,469**	**–5**	**–3**
Total operating expenses	**–1,794**	**–1,808**	**–1,119**	**–1,219**	**–901**	**–952**	**–759**	**–847**	**–306**	**–276**	**–4,879**	**–5,102**	**–4**	**–2**
Net loan losses	–79	–44	–23	–88	–91	–229	–4	0	24	–8	–173	–369	–53	–51
Operating profit	**1,030**	**1,192**	**896**	**740**	**741**	**873**	**945**	**1,131**	**341**	**62**	**3,953**	**3,998**	**–1**	**1**
Cost/income ratio, %	62	59	55	60	52	46	44	43	–	–	54	54	–	–
ROCAR, %	10	13	11	9	7	8	30	32	–	–	10[1]	11[1]	–	–
Volumes, EURbn														
Lending to corporates[2]	1.1	1.0	72,9	71.1	69.0	71.1	–	–	5.0	2.0	148.0	145.2	2	–
Household mortgage lending[3]	125.0	125.1	6.7	7.1	0.0	0.0	5.7	7.3	–	–	137.5	139.5	–1	–
Consumer lending[3]	18.9	19.8	2.0	2.2	–	–	2.1	3.5	–	–	23.0	25.5	–10	–
Corporate deposits[2]	1.8	2.3	38.0	37.3	42.3	46.9	–	–	–5.3	–1.9	76.8	82.5	–7	–
Household deposits[3]	74.3	73.8	2.8	3.0	0.0	0.1	11.1	13.0	–	–	88.2	89.9	–2	–

1) Excluding items affecting comparability.
2) For PeB: Corporate lending and deposits of some household customers is supplied and reported in Personal Banking.
3) For CBB: Household lending and deposits of some corporate customers is supplied and reported in Commercial & Business Banking.

A 5-year income statement and balance sheet overview of the Group are presented in the financial statements chapter.

Risk, Liquidity and Capital management

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

Management principles and control

Board of Directors and Board Risk Committee

The Board of Directors has the ultimate responsibility for deciding on Nordea's risk appetite, comprising all of the bank's risk types, as well as for defining target capital ratios. The Board of Directors is also responsible for the risk strategy, setting the overall risk appetite limits and overseeing that Nordea has an adequate and effective Internal Control Framework. The Board of Directors also decides on the group board directives on risk and on risk appetite as well as the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). Risk is measured, managed and reported on according to common principles further covered by group instructions approved by the CEO.

In the Group Board Directive on Risk, the Board of Directors decide on powers-to-act for major credit committees at different levels within the Business Areas. These authorisations vary for different decision-making levels, mainly in terms of the size of limits but also depending on the internal risk categorisation of customers.

The Board Risk Committee (BRIC) assists the Board of Directors in fulfilling its oversight responsibilities concerning management and control of risk, risk frameworks as well as controls and processes associated with Nordea's operations.

Responsibility of CEO and GEM

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

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

ALCO, chaired by the Chief Financial Officer (CFO), prepares issues of major importance concerning Nordea's financial operations and balance sheet, either for decision by the CEO in GEM or for recommendation by the CEO in GEM for decision by the Board of Directors.

The Risk Committee, chaired by the Chief Risk Officer (CRO), oversees the management and control of Nordea's risks on aggregate level and evaluates the sufficiency of the risk frameworks, controls and processes associated with the various risks. The Risk Committee furthermore decides, within the scope of resolutions adopted by the Board of Directors, on the allocation of credit risk limits, market risk limits as well as the liquidity risk limits to the risk-taking units. These risk limits are informed by the risk appetite decided on by the Board of Directors. Unit heads allocate respective risk limits decided by the Risk Committee within their units and may introduce more detailed limits and/or require other risk mitigation techniques to be used, such as stop-loss rules. The Risk Committee has established sub-committees for its work and decision-making within specific risk areas.

The GEM Credit Committee is chaired by the CEO. The Executive Credit Committee (ECC) 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 either the Head of Credit for BB or WB or by an appointee within the business units as appointed by the ECC. 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. 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 and Control and Group Compliance are the second line of defence. The flow of risk related information from the Business Areas and the Group Functions to the Board of Directors passes through Risk Committee and BRIC. Reporting from Group Compliance is presented directly to the Board of Directors as well as discussed in the Board Audit Committee (BAC).

As of May 2018, Group Risk Management and Control is organised in the following divisions: Group Credit Risk and Control, Group Market and Counterparty Credit Risk, Group Operational Risk, Balance Sheet Risk Controls, Risk Models, Group Risk COO, CRO Functions and People – Group Functions. 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 presentation to the Board of Directors. As of January 2019, the second line functions have undergone some changes. Second line of defence now consists of Group Risk and Compliance (GRC), comprising the independent risk and compliance functions. GRC is responsible for maintaining the Internal Control Framework and for monitoring the implementation of it. The second line of defence risk function within GRC implements the risk policies and controls the Risk Management Framework and shall among other things ensure that all risks that Nordea is or could be exposed to, are identified, assessed, monitored, managed and reported on.

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 Nordea's compliance risk management. Group Compliance adds value to Nordea 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 first line of defence on ways to effectively and efficiently manage compliance obligations. As of January 2019, the second line of defence compliance function is within GRC and is responsible for identifying compliance risks and performing monitoring and control to ensure that the risks are managed by the relevant functions.

Risk appetite

Risk appetite within Nordea is defined as the level and nature of risk that the bank is willing to assume within the risk capacity, and in line with its business model, to achieve its strategic objectives. Risk appetite is defined by constraints reflecting the views of shareholders, debt holders, regulators and other stakeholders.

The Board of Directors is ultimately responsible for

Nordea's risk strategy and the risk appetite framework (RAF). BRIC assists the Board of Directors in fulfilling these responsibilities by advising and supporting the Board of Directors regarding the determination and monitoring of Nordea's actual and future risk appetite and risk strategy.

Nordea's RAF refers to the overall approach, including the internal rules framework, processes, controls, and systems through which risk appetite is established, communicated, and monitored. It includes a risk appetite statement (RAS), risk limits, and describes the roles and responsibilities of those overseeing the implementation and monitoring of the RAF. The RAS articulates the Board approved risk appetite and is comprised of high level statements that link closely to the risk strategy.

The starting point for defining Nordea's Risk Appetite is the aligning of overall risk with the financial and capital planning process, based on Nordea's risk strategy. Risk appetite is allocated to risk type including risk appetite limits for the main risk types that Nordea is or could be exposed to. Risk appetite triggers are also set for these main risk types, to act as early indicators for key decision-makers that the risk profile for a particular risk type is approaching its risk appetite limit.

Regular controlling and monitoring of risk exposures compared to risk limits for financial risks are carried out to ensure that risk-taking activity remains within risk appetite as follows:

- **Green:** Risk level is within the defined risk appetite – no action to be taken
- **Amber:** Within risk appetite but the risk appetite trigger has been breached – a trigger level for further monitoring, investigation, or analysis
- **Red:** Outside the bank's risk appetite and remediation action must be taken. The breach is escalated, and status of remediation actions is followed up until the risk exposure is within appetite.

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

Nordea's Capital and Risk Management Report 2018 available on www.nordea.com

Monitoring and reporting

The "Group Board Directive on Internal Governance" describes Nordea's Internal Control Framework. The framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, sound administrative and accounting procedures, reliability of financial and non-financial information reported or disclosed (both internally and externally) and compliance with laws, regulations, supervisory requirements and the Nordea Group Internal Rules.

The internal control process is carried out by the Board of Directors, senior management, risk management functions and other staff at Nordea and is based on five main components: control environment, risk assessment, control activities, information and communication as well as monitoring. 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.

Management of risks includes all activities aiming at identifying, measuring, assessing, monitoring and controlling risks as well as measures to limit and mitigate the consequences of the risks. Management of risk is proactive, emphasising training and risk awareness. Nordea maintains a high standard of risk management by means of applying available techniques and methodology to its needs. In order to support all employees in managing risks, Nordea has gathered relevant e-learnings, policies and guidelines – internally defined as Licence to work. Licence to Work is a set of stepwise requirements for learning about risk and compliance and shall be renewed every year.

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

Detailed risk information, covering all risks as well as capital adequacy, is regularly reported to the Risk Committee, GEM, BRIC and the Board of Directors. In addition to this Nordea's compliance with regulatory requirements is reported to GEM and Board of Directors. The Board of Directors and CEO in each legal entity regularly receive local risk reporting.

Disclosure requirements of the CRR – Capital and Risk Management Report 2018

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2018, 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

In case of credit risk exposures, credits granted within the Group shall conform to the common principles established for the Group. Nordea aims to have a well-diversified credit portfolio that is adapted to the structure of its home markets and economies.

The key principles for managing Nordea's risk exposures are:

- the three Lines of Defence (LoD), as further described in the Policy for Internal Control in the Nordea Group;
- independency, i.e. the risk control function should be independent of the business it controls; and
- risk based approach, i.e. the risk control functions should be aligned to the nature, size and complexity of Nordea's business, ensuring that efforts undertaken are proportional to the risks in question.

Group Credit Risk Management in 1st LoD is responsible for the credit process framework and operational credit risk guidelines and SOPs. Group Risk Management and Control in 2nd LoD is responsible for the credit risk management framework, consisting of policies, instructions 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.

The basis of credit risk management in Nordea is limits to customers and customer groups that are aggregated and assigned to units responsible for their continuous monitoring and development. An additional dimension of concentration risk limits based on industries, segments, products or geographies shall likewise be aggregated, assigned to units responsible for their monitoring and development and serve as caps on those limits. Each division/unit is primarily responsible for managing the credit risks in its operations within the applicable framework and limits, including identification, control and reporting.

Within the powers to act granted by the Board of Directors, Internal credit risk limits are approved by credit 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 categorisation and the exposure of the customer decide at what level the decision will be made. Responsibility for a credit risk lies with a customer responsible unit. Customers are risk categorized by a rating or score in accordance with Nordea's rating and scoring guidelines. The rating and scoring of customers aims to predict their probability of default and to consequently rank them according to their respective default risk. Rating and scoring are used as integrated parts of the credit risk management and decision-making process. Representatives from 1st LoD credit organization approve the rating independently.

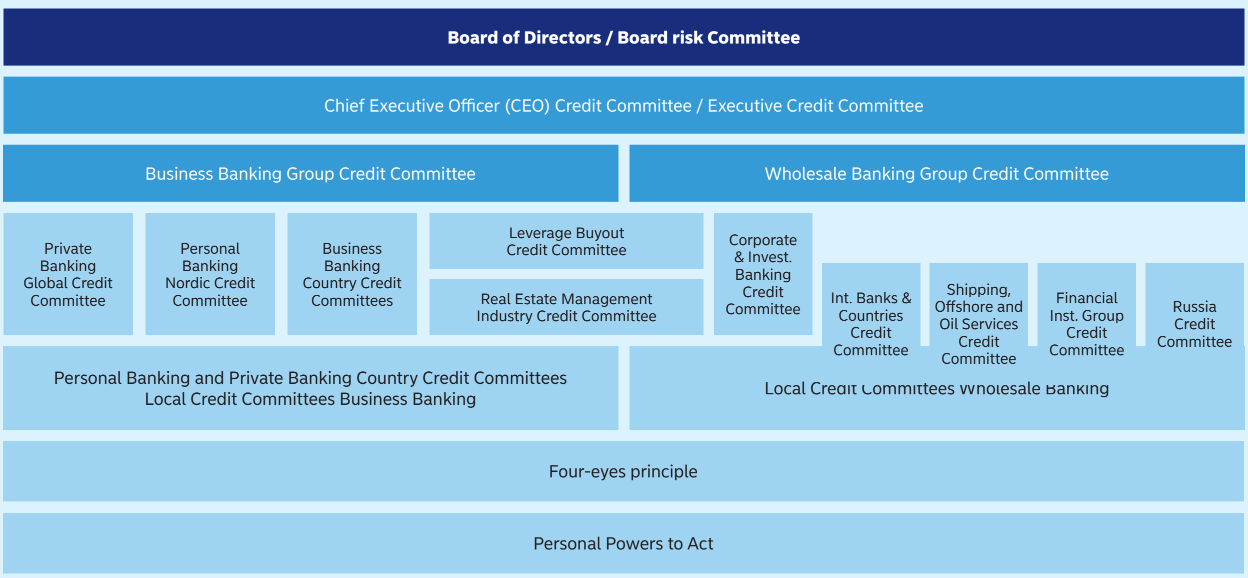
Credit risk definition and identification

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. Credit risk stems mainly from various forms of lending, but also from issued guarantees and documentary credits and includes counterparty credit risk, transfer risk and settlement risk. Nordea's loan portfolio is furthermore broken down by segment, industry and geography. Industry policies are established for those industries that have a significant weight in the portfolio and are either very volatile or require special industry competencies.

Credit decisions are made after a credit risk assessment based on principles that are defined consistently across the Group. These principles emphasize the need to adjust the depth and scope of the assessment according to the risk. The same credit risk assessments are used as input for determining the internal ratings. Credit decisions in Nordea reflect Nordea's view of both the customer relationship and credit risk.

All credit assessments in Nordea shall adequately reflect a

Credit Committee Structure



There is currently an additional Baltic Desk Credit Committee on level 4. This committee handles carve out cases from the merger to Luminor. This committee will continue to exist as long as there are remaining customers to handle, or until other decision is taken.

consideration of relevant environmental, social and governmental risks and conform to the Nordea Sustainability Policy. The total credit risk assessment shall be a combined risk conclusion on the obligor's repayment capacity and the Group's recovery position. The risk conclusion must be sufficiently forward looking as compared to the risk profile of the customer and maturity of the transaction.

In addition to credit risk assessment in conjunction with new or changed exposure towards a customer, an annual or continuous credit review process is in place. The review process is important part of the continuous credit analysis process.

If credit weakness is identified in relation to a customer exposure, the customer is categorized as "High Risk" and receives special attention in terms of more frequent review. In addition to continuous monitoring, an action plan is established outlining as to how to minimise the potential credit loss. If necessary, a work-out team is set up to support the customer responsible unit.

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. Pledge of collateral is a fundamental credit risk mitigation technique in the bank and collaterals are always sought, when reasonable and possible, to minimize the potential for credit losses. In every credit decision and review the value of collaterals must be considered.

In corporate exposures, the main collateral types are real estate mortgages, floating charges and leasing objects. Collateral coverage should generally be 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 using 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.

The collateral value shall always be based on the market value. The market value is defined as the estimated amount for which the asset or liability would exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion. From this market value a haircut is applied. The haircut is defined as a percentage by which the asset's market value is reduced ensuring a margin against loss. The margin reflects the adjustments needed to assess the cash proceeds when the collateral is liquidated in a forced sale situation. A maximum collateral ratio is set for each collateral type.

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

EURm	31 Dec 2018	31 Dec 2017
To central banks and credit institutions	**18,962**	**13,388**
To the public	**308,304**	**310,158**
- of which corporate	147,428	147,008
- of which household	157,029	158,585
- of which public sector	3,848	4,565
Total loans	**327,266**	**323,546**
Off-balance credit exposure[1]	73,287	74,398
Counterparty risk exposure	19,720	22,830
Treasury bills and interest-bearing securities[2]	74,518	72,043
Total credit risk exposure in the banking operations	**494,791**	**492,817**
Credit risk exposure in the life insurance operations	10,555	11,445
Total credit risk exposure including life insurance operations	**505,346**	**504,262**

1) Of which for corporate customers approx. 90%.
2) Also includes Treasury bills and interest-bearing securities pledged as collateral in repurchase agreements.

The same principles of calculation must be used for all exposures. For High Risk customers, the foreclosure value may differ from the maximum collateral values and should be based on a realistic assessment for the particular asset at that time. Risk transfer to other creditworthy parties, through guarantees and insurance, shall be based on legally enforceable documentation.

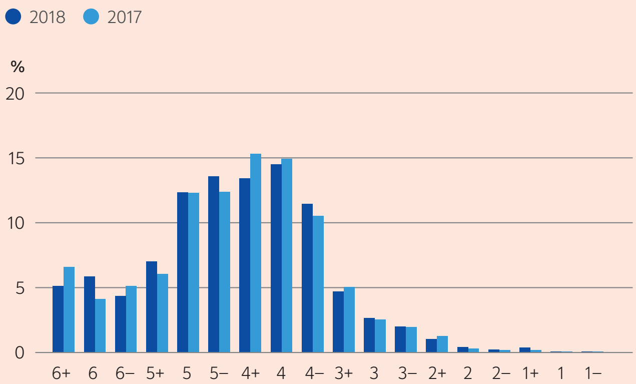
Individual and collective assessment of impairment

The impairment requirements in IFRS 9 were implemented by Nordea as from 1 January 2018. The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the incurred loss model in IAS 39.

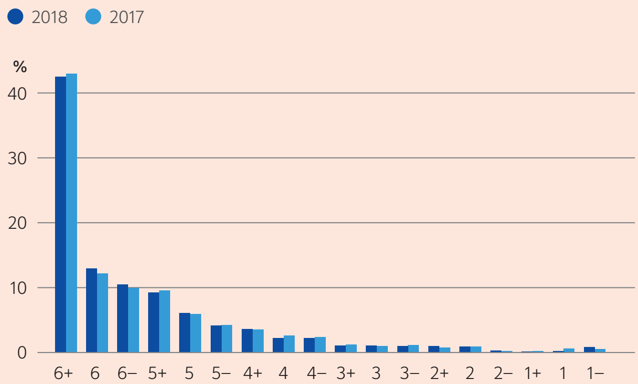
The assets to test for impairment are divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. All assets are assessed individually for staging. Significant assets in stage 3 are tested for impairment individually. Assets in stage 1, stage 2 and insignificant assets in stage 3 are tested for impairment collectively. Impairment testing (individual and collective) is applying three forward looking and weighted scenarios.

Throughout the process of identifying and mitigating credit

Rating distribution IRB Corporate customers



Risk grade distribution IRB Retail customers



Loans to the public by country and industry

31 Dec 2018, EURm	Denmark	Finland	Norway	Sweden	Russia	Outside Nordic	Group 2018	Group 2017
Energy (oil, gas, etc.)	469	55	488	414	34	359	1,819	1,867
Metals and mining materials	28	197	136	247	42	0	650	688
Paper and forest materials	274	679	69	317	0	70	1,408	1,301
Other materials (building materials, etc.)	402	1,232	342	1,467	507	30	3,980	3,994
Industrial capital goods	365	547	52	334	2	63	1,363	1,643
Industrial commercial services, etc.	4,416	1,498	2,840	3,315	0	277	12,346	11,189
Construction and engineering	1,089	840	1,898	860	0	71	4,759	4,788
Shipping and offshore	193	188	4,554	120	0	2,581	7,636	8,377
Transportation	560	1,082	619	844	83	111	3,299	3,211
Consumer durables (cars, appliances, etc.)	208	439	265	696	7	42	1,656	1,987
Media and leisure	817	597	198	641	0	1	2,253	2,336
Retail trade	3,294	1,751	839	2,570	5	69	8,529	8,725
Consumer staples (food, agriculture, etc.)	6,935	850	1,580	652	1	52	10,070	9,665
Healthcare and pharmaceuticals	812	333	86	219	0	12	1,463	1,405
Financial institutions	2,982	1,933	1,682	7,983	0	134	14,714	15,376
Real estate	9,851	7,963	9,070	15,410	18	852	43,163	41,954
IT software, hardware and services	786	449	238	406	0	133	2,013	1,946
Telecommunication equipment	7	9	2	3	0	0	20	29
Telecommunication operators	122	178	284	371	0	0	954	886
Utilities (distribution and productions)	926	2,061	793	773	176	144	4,874	4,895
Other, public and organisations	2,005	0	340	1,394	0	8	3,747	4,457
Total excl reverse repurchase agreements	**36,539**	**22,880**	**26,377**	**39,036**	**876**	**5,009**	**130,717**	**130,716**
Reverse repurchase agreements		16,711					16,711	16,292
Total corporate loans	**36,539**	**39,590**	**26,377**	**39,036**	**876**	**5,009**	**147,428**	**147,008**
Household mortgage loans	31,354	29,268	27,894	43,581	0	130	132,227	132,477
Household consumer loans	9,159	8,573	1,802	5,213	0	55	24,802	26,107
Public sector	1,514	843	44	1,447	0	0	3,848	4,565
Total loans to the public	**78,566**	**78,274**	**56,117**	**89,277**	**876**	**5,194**	**308,304**	**310,158**
Loans to central banks and credit institutions	3,196	7,328	892	6,537	190	819	18,961	13,388
Total loans	**81,762**	**85,602**	**57,009**	**95,814**	**1,066**	**6,013**	**327,266**	**323,546**

Impaired loans and ratios

	2018		2017
Gross impaired loans, Group, EURm	4,581	Gross impaired loans, Group EURm	6,068
- of which servicing	2,097	of which servicing	3,593
- of which non-servicing	2,484	of which non-servicing	2,475
Impairment rate, (stage 3) gross, basis points	**182**	**Impaired loans ratio, basis points**	**186**
Allowances in relation to loans in stage 1 and 2 , basis points	**83**	**Total allowance ratio, basis points**	**72**
Total allowance rate (stage 1, 2 and 3), basis points	**81**	**Provisioning ratio**	**38%**

Net loan losses and loan loss ratios

	2018	2017
Net loan losses, EURm	–173	–369
Loan loss ratio, Group, basis points	8	12
- of which (Stage 3)	9	15
- of which (Stage 1 & 2)	–1	–3
Loan loss ratio, Personal Banking, basis points	7	3
Loan loss ratio, Commercial & Business Banking, basis points	4	11
Loan loss ratio, Baltic countries, basis points		
Loan loss ratio, Corporate & Institutional Banking, basis points	11	20
Loan loss ratio, Shipping, Offshore & Oil Services, basis points	15	148

Impaired loans gross and allowances by country and industry

31 Dec 2018, EURm	Denmark	Finland	Norway	Sweden	Russia	Outside Nordic	Nordea Group	Allowances	Provisioning ratio (allowances/ impaired loans)w
Energy (oil, gas, etc.)	0	0	182	0	7	372	562	168	30%
Metals and mining materials	0	6	28	0	0	0	34	20	58%
Paper and forest materials	17	1	0	0	0	0	18	8	43%
Other materials (building materials, etc.)	14	128	6	9	0	2	158	116	74%
Industrial capital goods	9	46	0	3	0	0	58	42	72%
Industrial commercial services, etc.	89	35	54	54	2	82	316	96	30%
Construction and engineering	37	33	22	13	0	0	105	77	74%
Shipping and offshore	51	0	266	1	0	269	588	169	29%
Transportation	10	20	27	4	0	0	61	33	54%
Consumer durables (cars, appliances, etc.)	23	25	82	4	0	1	136	46	34%
Media and leisure	8	15	4	1	0	0	29	15	52%
Retail trade	164	48	14	67	0	1	295	183	62%
Consumer staples (food, agriculture, etc.)	335	49	5	4	0	0	392	228	58%
Healthcare and pharmaceuticals	2	3	0	0	0	0	5	4	81%
Financial institutions	195	8	64	19	0	0	285	85	23%
Real estate	82	84	66	2	0	0	233	115	49%
IT software, hardware and services	8	5	0	0	0	0	14	19	>100%
Telecommunication equipment	0	1	0	0	0	0	1	1	57%
Telecommunication operators	0	0	0	2	0	0	3	6	>100%
Utilities (distribution and productions)	1	0	1	0	0	0	2	3	>100%
Other, public and organisations	3	0	0	0	0	0	3	166	>100%
Total corporate impaired loans	**1,048**	**508**	**822**	**184**	**9**	**728**	**3,298**	**1,578**	
Household mortgages impaired loans	0	438	127	53	0	32	649	103	16%
Household consumer impaired loans	182	341	40	58	0	12	633	323	51%
Public sector impaired loans	0	0	0	0	0	0	0	1	–
Credit institutions impaired loans		0					0	15	>100%
Total impaired loans	**1,230**	**1,286**	**989**	**295**	**9**	**771**	**4,581**		
Total allowances	**820**	**472**	**317**	**172**	**9**	**249**		**2,040**	
Impairment rate, (stage 3)	**67%**	**37%**	**32%**	**58%**	**92%**	**32%**			**45%**

impairment, Nordea continuously reviews the quality of credit exposures. Weak and credit impaired exposures are closely monitored and reviewed at least on a quarterly basis in terms of current performance, business outlook, future debt service capacity, and the possible need for provisions.

Individual provisioning
A need for individual provisioning is recognised if based on credit events and observable data, a negative impact is likely on the customer's expected future cash flow to the extent that full repayment is unlikely (pledged collaterals taken into account).

Exposures with individually assigned provisions are considered as credit impaired. The size of the provision is equal to the estimated loss, which is the difference between the book value of the outstanding exposure and the discounted value of the expected future cash flow, including the value of pledged collateral.

Nordea recognises only specific credit risk adjustments (SCRA). SCRA comprise individually and collectively assessed provisions. SCRA during the year is referred to as loan losses, while SCRA in the balance sheet is referred to as allowances and provisions.

Default
Customers with exposures that are past due more than 90 days, being in bankruptcy or considered unlikely to pay are regarded as defaulted and can be either servicing debt or non-servicing.

If a customer recovers from being in default, the customer is seen as cured. Typically, this situation occurs if the customer succeeds in creating a balance in financials. In order to be cured the recovery should include the customer's total liabilities in Nordea and elsewhere, an established satisfactory repayment plan and an assessment that the recovery is underway.

Collective provisioning
The collective model is executed quarterly and assessed for each legal unit/branch. One important driver for provisions is the trigger for transferring of assets from stage 1 to stage 2. For assets recognised from 1 January 2018 changes to the

lifetime Probability of Default (PD) are used as the trigger. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2. In stage 1, the provisions equal the 12 months expected loss. In stage 2 and 3, the provisions equal the lifetime expected loss. The output is complemented with an expert-based analysis process to ensure adequate provisioning. Defaulted customers without individual provisions have collective provisions.

Forbearance

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 time period is to ensure full repayment of the outstanding debt. Examples of negotiated terms are changes in amortisation 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 recognised if necessary. Further information on credit risk is presented in Note G46 to the Financial statements.

Credit portfolio

Including on- and off-balance sheet exposures and exposures related to securities and Life insurance operations, the total credit risk exposure at year end was EUR 505bn (EUR 504bn last year). Total credit exposure according to the CRR definition was at year end after Credit Conversion Factor EUR 468bn (EUR 467bn). See more information and breakdown of exposure according to the CRR definition in Note G46 and in the Capital and Risk Management Report.

Credit risk is measured, monitored and segmented in different ways. On-balance lending consists of fair value lending and amortised cost lending and constitutes the major part of the credit portfolio. Amortised cost lending is the basis for impaired loans, allowances and loan losses. Credit risk in lending is measured and presented as the principal amount of on-balance sheet claims, i.e. loans to credit institutions and 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.

Nordea's loans to the public decreased by 0.6% to EUR 308bn during 2018 (EUR 310bn in 2017). The corporate portfolio increased approximately 0.3% and the household portfolio decreased by 1%. The overall credit quality is solid with strongly rated customers. Of the lending to the public portfolio, corporate customers accounted for 47.8% (47.4%), household customers for 50.9% (51.1%) and the public sector for 1.3% (1.5%). Loans to central banks and credit institutions, mainly in the form of inter-bank deposits, increased to EUR 19bn at the end of 2018 (EUR 13bn).

Loans to corporate customers

Loans to corporate customers at the end of 2018 amounted to EUR 147bn (EUR 147bn). The sector that increased the most in 2018 was Real estate while Shipping and Offshore decreased the most. The contribution of the three largest industries (Real estate, Financial institutions and Industrial Commercial Services) is approximately 23% of total lending. Real estate management and investment (commercial & residential) remains the largest industry in Nordea's lending portfolio, at EUR 43.2bn (EUR 41.9bn). The real estate management and investment (commercial & residential) portfolio predominantly consists of relatively large and financially strong companies, with 91% (91%) of the lending in rating grades 4- and higher. Loans to shipping and offshore industry decreased to EUR 7.6bn (EUR 8.3bn) during the year. The Russian lending portfolio decreased significantly during 2018 and amounts to 0.9bn (EUR 1.3bn). The relations between Russia and the United States and the on-going trade war are being monitored closely and a management judgement provision was made to cover for possible loan losses arising because of the trade war.

Loans to household customers

In 2018 lending to household customers decreased by 1% to EUR 157bn (EUR 159bn). The decrease is primarily driven by the divestment of the main part of the portfolio in Luxembourg. Mortgage lending remained at EUR 132bn (EUR 132bn) and consumer lending decreased to EUR 25bn (EUR 26bn). The proportion of mortgage lending of total household lending was unchanged at 84%.

Geographical distribution

Lending to the public distributed by borrower domicile shows that the customers residing in the Nordic countries and Russia account for 98% (98%). The portfolio is geographically well diversified with no market accounting for more than 29% of total lending. Other EU countries represent the largest part of lending outside the Nordic countries. At the end of 2018, lending in Russia was EUR 0.9bn (EUR 1.3bn).

Rating and scoring distribution

One way of assessing credit quality is through analysis of the distribution across rating grades, for rated corporate customers and institutions, as well as risk grades for scored household and small business customers, i.e. retail exposures. The average credit quality deteriorated slightly in the corporate portfolio due to further utilization of the full rating scale, while it improved slightly in the scoring portfolio in 2018. 21% of the number of corporate customers migrated upwards (24%) while 28% were down-rated (29%). Exposure-wise, 20% (23%) of the corporate customer exposure migrated upwards while 23% (19%) was down-rated. 85% (84%) of the corporate exposure were rated 4- or higher, with an average rating for this portfolio of 4+.

Institutions and retail customers on the other hand show a distribution that is biased towards the higher rating grades. 92% (92%) of the retail exposures is scored C- or higher, which indicates a probability of default of 1% or lower. Defaulted loans are not included in the rating/scoring distributions. The total effect on credit risk exposure amount (REA) from migration was an increase of approx. 0.35% during the full year 2018.

Loan classes

The loan portfolio consists of two classes; loans measured at amortised cost of EUR 234bn and loans measured at fair value of EUR 78bn. For further information on loans measured at fair value, see note G46. Loans measured at amortised cost are the basis used for impaired loans, allowances and loan losses.

Impaired loans (Stage 3)

Impaired loans gross in the Group decreased to EUR 4,581m, corresponding to 182 basis points of total loans. 46% of impaired loans gross are servicing and 54% are non-servicing. Impaired loans net, after allowances for Stage 3 loans amount to EUR 2,982m, corresponding to 118 basis points of total loans. Allowances for Stage 3 loans amount to EUR 1,599m. Allowances for Stages 1&2 loans amount to EUR 441m. The ratio of allowances in relation to impaired loans is 35% and the allowance ratio for loans in Stages 1&2 is 0.8%. The decrease in impaired loans was mainly related to the Energy industry and the Household sector. The industries with the largest impaired loan amounts were household, Consumer staples and Energy. Past due loans, 6 days or more, for corporate customers make up EUR 1,235m, and past due loans to household sum up to EUR 1,636m in 2018.

Net loan losses

Loan losses amount to EUR 173m in 2018. This corresponds to a loan loss ratio of 7 basis points. EUR 82m relates to corporate customers (EUR 296m), and EUR 102m (EUR 48m) to household customers. Within the corporate portfolio the main net loan losses were in the industries Consumer staples, Retail trade and Energy.

Counterparty credit risk

Counterparty credit risk is the risk that Nordea's counterpart in an FX, interest, commodity, equity or credit derivative contract defaults prior to maturity of the contract and that Nordea at that time has a claim on the counterpart. Counterparty credit risk can also exist in repurchasing agreements and other securities financing transactions. Current exposure net (after close-out netting and collateral reduction) represents EUR 6.8bn of which 28% was towards financial institutions. For information about financial instruments subject to master netting agreement, see note G41.

Market risk

Market risk is defined as the risk of loss in the Group's holdings and transactions as a result of changes in risk factors that affect the market value of these positions, for example changes to interest rates, credit spreads, FX rates or equity prices.

The market risk appetite for the Group is expressed through risk appetite statements issued by the BoD. The statements are defined for trading and banking books.

The 2nd LoD ensures that the risk appetite is appropriately translated through the Risk Committee into specific risk appetite limits for the Business Areas and Group Treasury and ALM (TALM).

As part of the overall risk appetite framework (RAF), holistic and bespoke stress tests are used to calibrate the risk appetites and set limits to monitor and control the full set of material market risk factors to which the bank is exposed.

Traded market risk

Traded market risk arises mainly from client-driven trading activities and related hedges in Nordea Markets which is part of Nordea Wholesale Banking.

Nordea Markets takes market risks as part of its business model to support corporate and institutional clients through a range of fixed income, equity, foreign exchange and structured products. The market risks Nordea Markets is exposed to include interest rate risk, credit spread risk, equity risk, foreign exchange risk and inflation risk.

Furthermore, Nordea is one of the major mortgage lenders in the Nordics and market makers in Nordic corporate and government bonds. Holding inventory is a consequence of providing secondary market liquidity. As a result, Nordea's business model naturally gives rise to a concentration in Nordic mortgage and corporate bonds as well as in local market currencies.

Non-traded market risk

Non-traded market risk principally arises from the core banking business of Nordea, related hedges and regulatory or other external requirements (e.g. liquid asset buffer).

TALM is responsible for the comprehensive risk management of all non-traded market risk exposures in the Group's balance sheet. For transparency and a clear division of responsibilities within TALM, the comprehensive banking book risk management is divided across several frameworks – each with a clear risk mandate and specific limits and controls.

The non-traded market risks that Nordea is exposed to are interest rate risk, credit spread risk, foreign exchange risk (both structural and non-structural) and equity risk.

Interest rate risk in the banking book (IRRBB) is the current or prospective risk to Nordea's capital and earnings arising from adverse movements in interest rates. Business Areas transfer their banking book exposures to TALM through a funds transfer pricing framework. The market risks are then managed centrally and include gap risk, spread risks, basis risks, credit spread risk, behavioural risk and non-linear risks. These risks are also delineated by currency.

Due to the lending structure in Nordea's home markets, most of the contractual interest rate exposures are floating rate. Consequently, wholesale funding is also swapped to floating rate. The resulting repricing gap risk is managed on an aggregated basis by currency and where applicable by legal entity (primarily the mortgage companies). The net outright interest rate risk stemming from the repricing gaps, together with the limited fixed interest rate risk, is hedged with interest rate swaps (IRS) and overnight index swaps (OIS).

Liquid assets are managed in accordance with the Liquidity Buffer and Pledge/Collateral frameworks. Most of the directional interest rate risk arising from bond holdings is hedged primarily with maturity matched IRS payer swaps and to a smaller degree with OIS payer swaps. Forward Rate Agreements and listed futures contracts are also used to hedge credit spread and interest rate fixing risks.

The tail hedging framework operates a running portfolio of tail hedges across listed equity futures and options, main credit indices and interest rate swaps and options. Due to the nature of the framework, asymmetrical hedging structures are natural building blocks of the tail hedging portfolio. Tail hedges run across Nordea's other banking book frameworks, including the liquid asset bond and derivative portfolios, the strategic equity investments and the structural risks.

Market risk measurement

Nordea uses several quantitative risk measurement methods for traded market risk: value-at-risk, stress testing, sensitivity analysis, parametric methods and Monte Carlo simulation.

Value-at-Risk is based on historical scenarios and is the primary market risk measurement metric, complemented by stress testing.

Parametric methods are used to capture equity event risk including the impact of defaults on equity related positions (these risks are part of specific equity risk).

Monte Carlo simulation is used in the Incremental Risk Charge model and the Comprehensive Risk Charge model to capture the default and migration risks.

The Value-at-Risk, Stressed Value-at-Risk, Equity Event Risk, Incremental Risk Charge and the Comprehensive Risk Charge models were all approved by the Swedish FSA for use in calculating market risk own funds requirements under the Internal Model Approach (IMA). The same models, with same calibration and settings, as used for regulatory capital requirements are used for internal risk management purposes.

Nordea uses the standardised approach to determine the capital charge for structured equity risk, fund-linked derivatives, certificates in commodities including their hedges as well as for components of specific interest rate risk which are not covered by the IMA.

Economic value (EV) stress tests look at the change in economic value of banking book assets, liabilities and interest-bearing derivative exposures resulting from interest rate movements, independently of the accounting classification and ignoring margins. These are measured as the changes in the Economic Value of the Equity of the banking book under the 6 standardised scenarios defined by the Basel Committee on Banking Supervision (BCBS). The exposure limit under this

Market risk figures for the trading book[1]

EURm	31 Dec 2018	2018 high	2018 low	2018 avg	31 Dec 2017
Total VaR	18	22	8	13	11
Interest rate risk	16	22	7	13	10
Equity risk	2	7	1	3	4
Credit spread risk	6	7	2	4	3
Foreign exchange risk	2	8	1	4	5
Inflation risk	2	3	1	2	–
Diversification effect	38%	59%	28%	44%	50%
Total Stressed VaR	62	70	18	33	25
Incremental Risk Charge (IRC)	35	41	11	25	38
Comprehensive Risk Charge (CRC)	29	55	12	25	20

1) Equity Event Risk, which equalled EUR 0.3m at end of 2018, is an official IMA measure from Q3 2018.

Market risk for the banking book figures[1]

EURm	31 Dec 2018	2018 high	2018 low	2018 avg	31 Dec 2017
Total VaR	38	60	32	44	46

1) The banking book VaR for end of 2017 contained NLP

metric which was introduced in October 2018 is the greatest of these values.

Using the same 6 BCBS scenarios as for the EV stress tests, the earnings metric measures the change in net interest income relative to a base scenario, creating a Structural Interest Income Risk (SIIR) value over a one-year horizon. The model uses a constant balance sheet assumption and realized forward curves with behavioural modelling for the non-maturing deposits and prepayments.

Additionally, VaR is used daily to monitor fair value IRRBB as well as for Pillar 2 capital calculations for IRRBB. Fair value sensitivities in the banking book are beside this monitored against severe but plausible market stress scenarios.

Nordea is exposed to structural FX risk defined as the mismatch between the currency composition of its common equity tier 1 (CET1) and risk exposure amounts. CET1 is largely denominated in euro with the only significant non-euro equity amounts stemming from mortgage subsidiaries and Nordea Bank Russia. Changes in FX rates can therefore negatively impact Nordea's CET1 ratio.

Market risk analysis

The market risk for the Nordea trading book is presented in the table above.

The Market risk measured by VaR showed an average utilisation of EUR 13m in 2018 (in line with 2017 levels) and was driven primarily by interest rate VaR. Stressed VaR showed an average utilisation of EUR 33m which is higher compared to 2017 and is primarily driven by interest rate exposure with additional contributions from credit spreads. The highs in VaR and stressed VaR were reached in Q4 2018. Market risk is primarily concentrated in Europe and the Nordics.

The IRC at the end of 2018 was slightly lower compared to the end of 2017 driven by reduced default exposure. The lowest exposure occurred during Q2 2018, while IRC peaked in Q4 2018.

The average IRC increased by EUR 6.4m compared to the previous year, especially driven by a consistently higher IRC in the second half of 2018.

CRC at the end of 2018 was higher than at the end of 2017 driven by increased default exposure. The lowest exposure occurred during Q4 2018, while CRC peaked during Q2 2018. Average CRC for 2018 dropped by EUR 7.4m compared to 2017 driven by increased short index positions.

The total VaR in the banking book was EUR 38m at the end of 2018 (EUR 46m at the end of 2017). The VaR reduction was driven by reduced government positions in the Liquidity Buffer.

The fair value of illiquid alternative investments was EUR 645m at the end of 2018 (EUR 554m at the end of 2017), of which private equity funds EUR 284m, hedge funds EUR 4m, credit funds EUR 222m and seed-money investments EUR 135m. All four types of investments are spread over a number of funds.

SIIR/EV

At the end of the year, the worst loss out of the 6 Basel scenarios for SIIR was driven by the Steepener Basel scenario, where the loss was of EUR 1,176m (against the worst loss in 2017 of EUR 1,132m taken from the Steepener shock scenario). These figures imply that net interest income would decrease if short term interest rates fall while long rates rise.

The most severe impact from the Basel scenarios on EV is from the Flattener shock scenario, where the loss was EUR 283.2m at end of year 2018.

Other market risks

Pension Risk

Pension Pension risk (including market and longevity risks) arises from Nordea-sponsored defined benefit pension schemes for past and current employees. The ability of the pension schemes to meet the projected pension payments is maintained through investments and ongoing scheme contributions.

Pension risks can manifest through increases in the value of liabilities or through falls in the values of assets. These risks are regularly reported and monitored and include consideration of sub components of market risk such as interest rate, inflation, credit spread, real estate and equity risk. To minimise the risks to Nordea, limits are imposed on potential losses under severe but plausible stress events and by limits on capital drawdown. In addition, regular reviews of the schemes strategic asset allocation are undertaken to ensure the investment approach reflects Nordea's risk appetite.

Operational risk

Nordea defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. The risk of loss includes direct or indirect financial loss, which includes but is not limited to impacts from regulatory sanctions, legal exposure, reputational damage and critical business process disruption.

Operational risks are inherent in all of Nordea's businesses and operations. Consequently, managers throughout Nordea are accountable for the operational risks related to their area of responsibility, and responsible for managing these risks within limits and risk appetite, in accordance with the operational risk management framework. Group Operational Risk (GOR) in Group Risk Management and Control (GRMC) constitutes the 2nd line of defense for operational risk and is responsible for developing and maintaining the overall operational risk management framework as well as for monitoring and controlling the operational risk management of the 1st line of defense. GOR monitors and controls that operational risks are appropriately identified, assessed and mitigated, follows-up risk exposures towards risk appetite, and assesses the adequacy and effectiveness of the operational risk management framework and framework implementation.

The focus areas of the monitoring and control work performed by GOR are decided during an annual and quarterly planning process that includes business areas, key risk areas and operational risk processes. GOR is responsible for preparing and submitting regular risk reports on all material risk exposures including Risk Appetite Limit utilization and operational risk incidents to the CRO, who thereafter reports to the Group CEO, the Board of Directors and relevant committees.

The risk appetite framework (RAF) in Nordea, including risk appetite statements, is approved annually by the BoD. The risk appetite statements for operational risk are expressed in terms of:

1) residual risk level and management of risks
2) total loss amount of incidents and management of incidents
3) management of Key Risk Indicators (KRIs).

Management of operational risk

Nordea Board's directives on risk and internal governance set the principles for the management of risks in Nordea. Based on these principles, Nordea has established supporting CEO instructions and guidelines for operational risk that form the operational risk management frameworks. Management of operational risk includes all activities aimed at identifying, assessing, mitigating, monitoring, controlling, and reporting on risks.

Risks are identified through various processes. Examples are detailed in the following section and include the reporting of incidents, approval of changes, as well as risk assessment processes.

The assessment of risks is done by assessing the probability of the risks occurring and the impact in case of materialisation.

Mitigating actions are established to mitigate the risks which are considered as having a too high-risk exposure (i.e. outside the limits set within the boundaries of the risk appetite) during the assessment phase.

Monitoring and controlling is also part of risk management. It ensures for example that risks are appropriately identified and mitigated, that risk exposures are kept within limits, and that risk management procedures are efficient, and adhere to internal and external rules. A regulatory horizon scanning process secures that new and amended rules and regulations are identified. The impact of the rules and regulations is assessed, and appropriate implementation measures are taken in accordance with the framework for regulatory implementation and change risk management.

Key risk management processes

Risk and control self-assessment (RCSA)

The objective of the Risk and Control Self-Assessment (RCSA) is to provide a comprehensive overview of operational risks across Nordea.

For risks identified in the RCSA, the level of risk and the controls in place to mitigate the risks, are assessed. If mitigating actions are required to reduce the risk exposure, these are identified and implemented.

Based on the self-assessment, Operational Risk Officers independently monitor and challenge the identified risks and the management of these.

Scenario analysis

The objective of the Scenario Analysis process is to identify and assess operational risks with severe financial or non-financial impacts with low probability of materialization, so called "tail risks".

Analyzing tail risks contributes to increased understanding of unusual risk events otherwise not being addressed by other operational risk assessment processes to identify and close possible control gaps in Nordea.

Change risk management

The objective of Change Risk Management is to ensure the identification and mitigation of non-financial risks when executing changes.

A change includes all new or changed products, services, markets, processes or IT systems, or substantial changes to the operations, the organisation or corporate structure, including exceptional transactions and decommissioning.

The process supporting this, the Change Risk Management and Approval (CRMA) process, consists of an initial materiality assessment and subsequent risk identification, assessment and risk mitigation. The CRMA process includes the involvement of relevant subject matter experts to ensure a thorough risk identification, assessment and management, before a change is executed.

Incident management and reporting

The objectives of Incident Management and Reporting are to ensure appropriate handling of detected incidents to minimise resulting impacts, and to prevent incidents from reoccurring through a structured and proactive documentation and mitigation process.

Upon detection of an incident, the priority is to minimize its impact. Incidents of a certain nature and impact also require timely notification to relevant supervisory authorities.

Unit managers are responsible for the proper handling, documentation and reporting of incidents. Incident reporting contributes to embedding a sound risk culture in daily operations, and to create necessary documentation for the work to prevent incidents from materializing again.

Business continuity and crisis management (BC&CM)

The objective of Business Continuity and Crisis Management is to maintain appropriate levels of readiness for a wide range of operational risk events, to minimise their impact on Nordea's operations and customers.

The BC&CM framework consists of a Group Board Directive setting out general principles, Chief Executive Officer Instructions providing guiding principles and guidelines setting minimum standards and detailing requirements.

BC&CM includes risk analysis, continuity planning and testing, to protect Nordea's customers, resources (e.g. people, premises, technology and information), supply chains, interested parties and reputation, from the impacts that a disruptive operational risk event otherwise could have caused. As most services are supported by IT applications, disaster recovery plans for technical infrastructure and IT systems are included as an essential part of this work.

Information security

The objective of Information Security Management is to protect information with respect to confidentiality, integrity and availability.

Nordea has a documented information security framework which supports and enables the organisation to protect information against accidental or malicious disclosure, modification or destruction, and to maintain its availability.

Significant Operating Processes (SiOPs)

The objective of Significant Operating Processes (SiOPs) is to understand the processes dependencies and vulnerabilities, reveal control gaps, and support efficiency in managing risks and controls related to Nordea's most important processes.

The documentation of SiOPs is included in the SiOPs framework, and it offers in-depth understanding of the process flows, and how these processes provide products and services in a compliant, safe and timely way to Nordea's customers.

Third party risk management (TPRM)

The objective of Third Party Risk Management is to ensure that risks and regulatory requirements related to third parties (TPs) including outsourcing, are appropriately managed both before and during the relationship.

Nordea's TPRM framework outlines the requirements for risk management, due diligence, monitoring and control of its TPs. TPRM is to be considered prior to, and during engagement with, a third party to safeguard Nordea and to understand and control the respective risks.

While Nordea may delegate day-to-day operational activities to TPs, Nordea's responsibility to maintain effective oversight and governance of the outsourced activities and TP relationships remains.

Reputational Risk

The objective of Reputational Risk Management is to protect Nordea's reputation.

In Nordea, reputational risk is defined as "the risk of damage to the trust in Nordea from our customers, employees, authorities, investors, partners and the general public with the potential for adverse financial impact". Reputational risk is often an impact from, or a cause of, other types of risks, e.g. credit, liquidity, market, operational, compliance and legal risks inherent in the business.

Nordea has developed a reputational risk framework with guiding principles for managing reputational risk. The framework is strongly linked with the risk management framework and related processes for identifying, assessing and mitigating risk. It includes considering stakeholders' perceptions in Nordea's decision-making processes.

Compliance risk

Nordea defines compliance risk as the risk of failure to comply with statutes, laws, regulations, business principles, rules of conduct, good business practices, and related internal rules governing Nordea's activities subject to authorisation in any jurisdiction where Nordea operates.

The key principle for the management of compliance risk is the three lines of defence. The first 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. Group Compliance is a second 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 with relevant rules and regulations, and advises, supports and trains first line on ways to efficiently ensure compliance with obligations. On a quarterly basis, Group Compliance reports on all significant compliance risks to Senior Management and the Board, informing of Nordea's current risk exposure in relation to the predefined risk appetite and tolerance level. Group Internal Audit constitutes the third line of defence and performs audits and provides assurance to stakeholders on internal controls and risk management processes.

Nordea is subject to various legal regimes and requirements, including those of the Nordic countries, the European Union and the United States. In 2018, European Securities and Market Authority fined five Nordic banks EUR 495,000 each, including Nordea Bank AB (publ), due to non-compliance with the Credit rating agency regulation in relation to shadow ratings practice. Nordea has appealed the decision. The Finnish FSA imposed a penalty payment of EUR 400,000 on Nordea Bank AB (publ) (i.e. Nordea Bank Abp's predecessor), Finnish Branch for omissions concerning transaction reporting. Nordea Funds Oy was issued with an administrative fee of SEK 375,000 from the Swedish FSA for late notification of changes in major shareholdings. Nordea still has one legal action pending from 2016 regarding alleged anti-competitive behaviour or violations of antitrust and monopoly legislation. In October 2016, it was announced that EFTA Surveillance Authority has opened proceedings against DNB, Nordea, Finance Norway, and BankID for suspected breaches of the competition rules in the EEA Agreement.

Nordea takes these events very seriously. We want to be a responsible corporate citizen and prevent the banking system being used for illegal activity. To ensure these aims are met, it is important that regulations are followed, and compliance is monitored. With our recent domiciliation to Finland, Nordea is operating in a regulatory regime with high standards overseen by the European Central Bank's Single Supervisory Mechanism (SSM). The move into the Banking Union is a significant strategic step in our transformation journey securing a fair, stable and predictable regulatory environment for the bank on a par with its European peers.

Our Code of Conduct and corporate values underpin our culture and set the parameters for how we conduct ourselves. The high-level principles that guide our business, how we treat our customers and the conduct expected from our employees are defined in our Code of Conduct. Conducting ourselves in the right manner means asking ourselves not only "can we do it?", but also "should we do it?". When we ask these questions, we consider the impact of our decision on our stakeholders. All our employees are required to complete annual training in the Code of Conduct to ensure proper awareness and knowledge of the ethical principles. In addition, new joiners must undertake mandatory Code of Conduct training.

In 2018, we continued the development of our approach to ensure our culture and behaviours are consistent with our values, and that we deliver fair outcomes for our customers across all stages of the customer lifecycle. This means a strong focus on putting the customer first in our business strategy, the design and development of products, our sales, and the ongoing service we provide. In line with this approach, new internal rules relating to product governance, customer handling in the provision of investment services, and advisor's knowledge and competence have been established and implemented.

The supervisory authorities have conducted investigations of Nordea in several areas, e.g. compliance with anti-money laundering and tax regulations. The outcomes of the investigation regarding the historical compliance with certain U.S. financial sanctions during 2008–2014, as well as the Danish anti-money laundering investigation launched by the police in August 2017, are still pending. Additionally, the Danish tax authorities are investigating whether there is a basis for raising a claim for damages against Nordea relating to Nordea's assistance to a foreign bank in connection with the said bank's reclaim of dividend tax on behalf of one of its customers. At this point in time, it is not possible to assess the potential risk related to the case.

Since mid-2015, Nordea has made considerable improvements to reduce financial crime risks. In 2018 that journey continued with significant deliveries to further strengthen our financial crime defense and improve capabilities. Specific and targeted financial crime risk management activities were identified and prioritised across Nordea and anchored with the Group Board. Significant compliance enhancements have been achieved within e.g. the following areas:

- We have enhanced our framework for managing risks relating to financial crime, including enhancements and clarifications made to various policies and procedures, including procedures for customer exits.
- We have further developed our processes for identifying and assessing Nordea's exposure to financial crime risks, enabling us to identify and put in place needed controls and risk mitigating actions.
- We have strengthened the quality of our work relating to knowing/understanding our customers and ensuring we collect the needed information on our customers to understand their risk profile. We have introduced a new and improved customer risk scoring model, improving our capabilities of identifying customers with high exposures to financial crime risks. Hence enabling us to do efficient monitoring and control the risks relating to financial crime.
- We have significantly improved our transaction monitoring capabilities, enabling accurate identification and reporting of suspicious activities.

We are committed to preventing Nordea being used for any illegal activity and complying with all applicable laws and regulations. This includes applicable laws and regulations concerning anti-money laundering, counter terrorist financing, sanctions and bribery and corruption in the jurisdictions we operate. Nordea has established global policies that are updated every year, and all employees must undertake mandatory financial crime risk, and License to Work trainings annually. It is important for us to conduct robust risk-based due diligence measures when onboarding new customers, and on a continuous basis. By knowing our customers and counterparties well, we can perform screening and monitoring activities to detect suspicious or illegal activity and report it to the police for further investigation.

We have a challenge and an obligation to manage risks relating to financial crime and anti-money laundering activities for each of the 1.8 billion transactions passing through Nordea every year. During the last years, Nordea has significantly strengthened its transaction monitoring capabilities through investment in technology, additional hiring and more sophisticated assessment techniques. We have more than 1,500 employees working with prevention of financial crime and 12,000 employees, in direct contact with our customers, who are trained to identify signs of financial crime.

Our customers meet our work to prevent financial crime in different ways. When we onboard new customers to Nordea, we must ask several questions to get to know and understand who our customer is, how the customer will fund the account and what the anticipated pattern of transaction activity will be. The latter is crucial to ensure that funds from illegal sources are not introduced into the financial system. Similarly, it is necessary to confirm that the customer is not a sanctioned individual. It is also necessary to determine if the customer has any political exposure, as politically exposed persons may carry a higher financial crime risk through the nature of their work and their connections. Depending on the risk profile of the customer, we may also perform additional more in-depth checks and verification processes. Following onboarding and acceptance, all customers are subject to regular review procedures where the review frequency is determined by the customer risk profile.

To detect suspicious transactions, we have monitoring systems that produce daily, weekly and monthly alerts on transaction activities that are outside normal thresholds for the different customer types or that qualify as suspicious transaction activity patterns. Every year, these systems generate hundreds of thousands of alerts. All alerts are managed and, where necessary, investigated for potential suspicious activity which may result in a Suspicious Activities Report being filed with the relevant authorities in our jurisdictions. In addition to the systems, a roughly equal number of Suspicious Activities Reports arise from observations of and reports from Nordea staff.

Nordea also has an obligation to comply with all international and local sanctions programs. Our customers and their transactions are therefore screened daily against several sanctions lists to ensure that the customers are not sanctioned individuals and that no sanctions are breached by execution of the transactions.

Life insurance risk and market risks in the Life & Pensions operations

The life insurance business of Nordea Life & Pensions (NLP) consists of a range of different life & health products, from endowments with duration of a few years to very long-term pension savings contracts, with durations of more than 40 years. Market return products (unit- linked products) clearly dominate NLP's business, followed by traditional products (participating savings and life insurance products). Health insurance takes a minor role in NLP's business profile.

The main risks that NLP is exposed to are market risks and life & health insurance risks.

Market risks at NLP arise from the sensitivity of the values of assets and liabilities to changes in the level or volatility of market prices or interest rates. Within market risk, the interest rate risk, equity risk, credit spread risk and property risk are the most relevant risks.

Market risks are measured and monitored through exposure calculations and adequate limit setting. In addition, NLP regularly performs stress tests and macroeconomic scenario analyses to assess the need for future capitalization. The results of stress tests and scenario analysis are monitored against limits and targets set in the internal policies.

Market risk is mitigated by applying hedging and asset allocation strategies.

Life & health insurance risk is the risk of unexpected losses due to changes in the level, trend or volatility of mortality, longevity, disability and surrender/ lapse rates. The risks are measured and monitored through calculations of the Solvency II capital requirements. To assess the resilience of the business to sudden changes in the lapse rate, regular sensitivity tests are performed at NLP group and local entity level.

Life & health insurance risk is mitigated using actuarial methods, i.e. through tariffs, rules for acceptance of customers, reinsurance contracts, stress tests and setting up adequate provisions for risks.

Liquidity management

During 2018, Nordea continued to benefit from its prudent liquidity risk management, in terms of maintaining a diversified and strong funding base and a diversified liquidity buffer. Nordea had access to all relevant financial markets and was able to actively use all of its funding programmes. Nordea issued approximately EUR 22.6bn in long-term debt (excluding subordinated debt and covered bonds issued by Nordea Kredit Realkreditaktieselskab) of which approx. EUR 14.5bn included covered bonds issued in Sweden, Finland and Norway. Throughout 2018, Nordea remained compliant with the requirement in EBA Delegated Act Liquidity Coverage Ratio (LCR) in all currencies on a combined basis.

Liquidity risk definition and identification

Liquidity risk is the risk that Nordea is unable to service its cash flow obligations when they fall due; or unable to meet its cash flow obligations without incurring significant additional funding costs. Nordea is exposed to liquidity risk in its lending, investment, funding, off-balance sheet exposures and other activities which result in a negative cash flow mismatch. Cash flow mismatches can occur at the end of a day or intraday.

Management principles and control

Liquidity risk at Nordea is managed across three Lines of Defence:

The First Line of Defence comprises Group Treasury & Asset Liability Management (TALM) and the Business Areas. TALM is responsible for the day to day management of the Group's liquidity positions, liquidity buffers, external and internal funding including the mobilisation of cash around the Group, and Funds Transfer Pricing (FTP).

The Second Line of Defence, which includes Group Risk Management and Control (GRMC) and Group Compliance, is responsible for providing independent oversight of and challenge to the first line of defence.

The Third Line of Defence comprises Group Internal Audit (GIA), which is responsible for providing independent oversight of the first – and second lines of defence.

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

A framework of limits and monitoring metrics is in place to ensure Nordea stays within various risk parameters including the risk appetite.

A Funds Transfer Pricing (FTP) framework is in place that recognises that liquidity is a scarce and costly resource. By quantifying and allocating the liquidity and funding costs and benefits to the respective business areas, behaviours and strategic decisions are appropriately incentivised.

Liquidity risk management strategy

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

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

Trust is fundamental in the funding market; therefore, Nordea periodically publishes information on the liquidity situation of the Group. Furthermore, Nordea regularly performs stress testing of the liquidity risk position and has put in place business contingency plans for liquidity crisis management.

Liquidity risk measurement

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

Liquidity risk management focuses on both short-term liquidity risk and long-term structural liquidity risk. Liquidity risk is limited by the Board of Directors via internal liquidity coverage and survival horizon metrics stipulating that the liquidity buffer needs to be sufficient to cover peak cumulative stressed outflows experienced over the first 3 months of a combined stress event, whereby Nordea is subject to a market-wide stress similar to what many banks experienced in 2007–08; and an idiosyncratic stress corresponding to a three-notch credit rating downgrade. These metrics form the basis for Nordea's liquidity risk appetite, which is reviewed and approved by the Board at least annually.

Furthermore, short-term funding risk is measured via the Liquidity Coverage Ratio (LCR) and a funding gap risk metric. The funding gap risk metric 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.

Structural liquidity risk of Nordea is measured via many metrics of which the Net Stable Funding Ratio (NSFR) and the internally defined Net Balance of Stable Funding (NBSF) are very important. Furthermore, the loan to deposit ratio is closely monitored together with the wholesale funding refinancing profile and rating agency metrics.

Liquidity risk analysis

Nordea continues to have a strong and prudent liquidity risk profile with a strong funding base. As of year-end 2018, the total volume utilised under short-term programmes was EUR 46.8bn (EUR 35.2bn) with an average maturity of 0.3 (0.2) years. The total volume under long-term programmes was EUR 152.8bn (EUR 152.9bn) with an average maturity being 6.0 (6.2) years. Nordea's funding sources are presented in a table below.

The liquidity risk position remained at a low level throughout 2018. The internal survival horizon was 7.6 months as of year-end 2018 (8.2 months as of year-end 2017) with a yearly average of 11.1 months (9.8 months) – the Group limit is not below 3 months.

The yearly average of the funding gap risk was EUR +17.7bn (EUR +22.5bn in 2017) against a limit of EUR –15bn. Nordea's liquidity buffer ranged between EUR 86.9bn and 110.1bn throughout 2018 (EUR 102.2bn and 133.7bn) with an average liquidity buffer of EUR 97.8bn (EUR 116.4bn). Both NSFR and NBSF stayed comfortable above 100% throughout 2018.

The combined LCR according to EBA Delegated Act rules for the Nordea Group was at the end of 2018 185% (152%) with a yearly average of 184% (168%). At the end of 2018 the LCR in EUR was 257% (206%) and in USD 214% (172%), with yearly averages of 190% (210%) and 183% (208%), respectively.

Net balance of stable funding, 31 December 2018

EURbn	
Stable liabilities and equity	
Tier 1 and tier 2 capital	32.1
Secured/unsecured borrowing >1 year	125.7
Stable retail deposits	65.4
Less stable retail deposits	15.8
Wholesale deposits <1 year	72.1
Total stable liabilities	**311.1**
Stable assets	
Wholesale and retail loans >1 year	239.6
Long-term lending to banks and financial companies	1.0
Other illiquid assets	25.8
Total stable assets	**266.5**
Off-balance-sheet items	**2.0**
Net balance of stable funding (NBSF)	**42.6**

Funding sources, 31 December 2018

Liability type	Interest rate base	Average maturity (years)	EURm
Deposits by credit institutions			
Shorter than 3 months	Euribor etc.	0.0	39,083
Longer than 3 months	Euribor etc.	1.5	3,336
Deposits and borrowings from the public			
Deposits on demand	Administrative	0.0	144,656
Other deposits	Euribor etc.	0.2	20,302
Debt securities in issue			
Certificates of deposits	Euribor etc.	0.3	29,693
Commercial papers	Euribor etc.	0.2	17,078
Mortgage covered bond loans	Fixed rate, market-based	7.0	108,028
Other bond loans	Fixed rate, market-based	2.8	35,623
Derivatives			39,547
Other non-interest-bearing items			53,776
Subordinated debentures			
Dated subordinated debenture loans	Fixed rate, market-based	7.0	7,869
Undated and other subordinated debenture	Fixed rate, market-based		1,286
Equity			32,901
Total			**533,178**
Liabilities to policyholders			18,230
Total, including life insurance operations			**551,408**

For a maturity breakdown, see Note G44.

Capital management

Nordea strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to different asset, liability and risk categories. The goal is to enhance returns to shareholders while maintaining a prudent capital structure. The Board of Directors decide ultimately on the targets for capital ratios, capital policy and the overall framework of capital management in Nordea. 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.

Capital requirements

The capital requirement and the own funds described in this section follow the rules in the Capital Requirements Regulation (CRR) and not accounting standards, see Note G38 for details. Therefore, the capital requirement and the own funds are only applicable for Nordea Bank Abp on its consolidated situation, in which the insurance companies are not consolidated.

Capital policy

The Nordea Group's current capital policy states that Nordea Group under normal business conditions should have minimum targets for Common Equity Tier 1 (CET1) capital ratio, Tier 1 capital ratio and the Total capital ratio that exceed the capital requirements received from the competent authorities and, in addition, Nordea will maintain a management buffer.

Minimum capital requirements

Risk exposure amount (REA) is calculated in accordance with the requirements in the Capital Requirements Regulation. Nordea had 89% of the credit risk exposure amount covered by internal rating based (IRB) approach by the end of 2018. Nordea is approved to use its own internal Value-at-Risk (VaR) models to calculate capital requirements for the major share of the market risk in the trading book. For operational risk the standardised approach is applied.

Internal capital requirement

The ICR is calculated based on a Pillar I equivalent plus add-ons approach and includes a buffer for economic stress. In addition, supervisors require Nordea to hold capital for other risks which are identified and communicated as part of the Supervisory Review and Evaluation Process (SREP). Until the ECB has issued a decision establishing prudential requirements prepared in accordance with the 2019 Joint Decision on Capital concerning Nordea Group, expected Q4 2019 the ECB has informed Nordea of the minimum Pillar 2 levels of own funds applicable during the transition period. During the transition period, Nordea is expected to maintain a Pillar 2 level of at least EUR 4,945m in CET1.

The current Pillar 2 add-ons do not affect the maximum distributable amount (MDA) level at which automatic restrictions on distributions linked to the combined buffer requirement would come into effect. However, Nordea expects to receive formally decided pillar 2 requirements as part of the 2019 joint decision on capital. In Q4 2018 the MDA level is assessed to be 7.9% but this level is expected to grow in 2019 when the 2% O-SII buffer is applied and later when the 3% SRB buffer is applied. For more details see the Nordea Capital and Risk Management Report.

Capital requirements and REA

	31 Dec 2018		31 Dec 2017
EURm	Minimum capital requirement	REA	REA
Credit risk	**9,678**	**120,969**	**102,743**
- of which counterparty credit risk	534	6,671	6,096
IRB	**8,611**	**107,635**	**88,808**
- sovereign	–	–	1,869
- corporate	5,749	71,868	57,004
- advanced	4,850	60,626	47,173
- foundation	899	11,242	9,831
- institutions	477	5,953	6,163
- retail	2,078	25,979	20,888
- secured by immovable property collateral	1,369	17,118	11,678
- other retail	709	8,861	9,210
- items representing securitisation positions	132	1,648	850
- other	175	2,187	2,034
Standardised	**1,067**	**13,334**	**13,935**
- central governments or central banks	48	600	281
- regional governments or local authorities	7	86	7
- public sector entities	0	2	3
- multilateral development banks	–	–	–
- international organisations	–	–	–
- institutions	20	248	171
- corporate	312	3,904	3,264
- retail	259	3,243	3,225
- secured by mortgages on immovable properties	79	984	2,458
- in default	28	344	592
- associated with particularly high risk	65	811	754
- covered bonds	–	–	–
- institutions and corporates with a short-term credit assessment	–	–	–
- collective investments -undertakings (CIU)	–	–	–
- equity	198	2,472	2,598
- other items	51	640	582
Credit Value Adjustment Risk	**74**	**931**	**1,207**
Market risk	**485**	**6,064**	**3,520**
- trading book, Internal Approach	351	4,388	2,444
- trading book, Standardised Approach	86	1,070	1,076
- banking book, Standardised Approach	48	606	
Operational risk	**1,319**	**16,487**	**16,809**
Standardised	1,319	16,487	16,809
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	**53**	**657**	**–**
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	**850**	**10,626**	**–**
Additional risk exposure amount, Article 3 CRR	**12**	**152**	**1,500**
Sub total	**12,471**	**155,886**	**125,779**
Adjustment for Basel I floor			
Additional capital requirement according to Basel I floor	–	–	76,645
Total	**12,471**	**155,886**	**202,424**

Changes to the applicable capital requirements regime due to Nordea's re-domiciliation to Finland

When Nordea Group, on 1 October 2018, changed the domicile of its parent company to Finland, the overall supervisory responsibility for the Nordea Group moved to the European Central Bank (ECB). As part of the ECB permission for continued use of the internal models for calculation of risk exposure amounts (REA), Nordea was required to migrate parts of the previous Pillar 2 add-ons into Pillar 1 REA and impose limitations to certain models within Credit and Market risk. The ECB decision included an updated PD-scale to include add-ons in the calculation imposed by the Swedish FSA. As a result, REA increased by approx. EUR 35.8bn while the CET1 capital add-ons in pillar 2 decreased approximately EUR 3.8bn. Consequently, the regulatory CET1 capital requirement including Pillar 2 decreased from 18.0% in Q3 2018 to 11.1% in Q4 2018. The regulatory CET1 capital requirement will increase by 2% in Q1 2019 when Finland will introduce a 2% buffer for systemic risk (O-SII). The CET1 capital requirement will further increase by 1% in Q3 2019 when the 3% systemic risk buffer (SRB) is implemented.

Due to the uncertainty on the future capital requirements for Nordea, also considering that Finland has not yet fully introduced the systemic risk buffer, Nordea has voluntarily committed to comply with nominal capital requirements from the 2018 Supervisory Review and Evaluation Process (SREP) until the ECB has issued its SREP decision in 2019. This commitment amounts to EUR 27.8bn in total capital and 21.7bn in CET1 capital or 13.9% of REA. Nordea expect to receive ECB's decision establishing prudential requirements in late 2019, effective from Q1 2020.

Economic Capital (EC)

Economic Capital is a method for allocating the cost of holding capital, as a result of risk taking. The allocation of costs within the EC model is based on the same risk components as the ICAAP but also includes risks in the insurance business. EC is calculated for the group whereas the ICAAP, governed by the CRD, covers Nordea Bank Abp on its consolidated situation. EC has been aligned to CET1 capitalisation requirements according to CRR. Economic Capital (EC including Nordea Life and Pensions) was, at the end of 2018, EUR 26.6bn (EUR 26.7bn as of 2017).

Own funds

Own funds is the sum of Tier 1 and Tier 2 capital. Tier 1 capital consists of both Common Equity Tier 1 (CET1) and Additional Tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbance characteristics and consists predominately of paid in capital and retained earnings. Profit may only be included after permission from the financial supervisory authority and after deduction of proposed dividend. Additional Tier 1 and Tier 2 capital consists mostly of undated and dated subordinated loans, respectively. Holdings of other financial sector entities' subordinated loans are deducted from the corresponding tier.

Capital situation of the financial conglomerate

As Sampo Plc has an owner share of more than 21.3% in Nordea Bank Abp, Nordea is part of the Sampo financial conglomerate in accordance with the Finnish Act on the Supervision of Financial and Insurance Conglomerates (2004/699), based on Directive 2002/87/EC.

Further information – Note G38 Capital adequacy and the Capital and Risk Management Report

Further information on capital management and capital adequacy is presented in Note G38 Capital adequacy and in the Capital and Risk Management Report at www.nordea.com.

Summary of items included in own funds

Calculation of own funds		
Equity in the consolidated situation	31,305	31,799
Proposed/actual dividend	**–2,788**	**–2,747**
Common Equity Tier 1 capital before regulatory adjustments	28,517	29,052
Deferred tax assets		–0
Intangible assets	–3,885	–3,835
IRB provisions shortfall (-)	–76	–291
Deduction for investments in credit institutions (50%)	–	–
Pension assets in excess of related liabilities[1]	–117	–152
Other items, net	–305	–259
Total regulatory adjustments to Common Equity Tier 1 capital	**–4,383**	**–4,537**
Common Equity Tier 1 capital (net after deduction)	**24,134**	**24,515**

EURm	31 Dec 2018[3]	31 Dec 2017[3]
Additional Tier 1 capital before regulatory adjustments	2,860	3,514
Total regulatory adjustments to Additional Tier 1 capital	–10	–21
Additional Tier 1 capital	**2,850**	**3,493**
Tier 1 capital (net after deduction)	**26,984**	**28,008**
Tier 2 capital before regulatory adjustments	4,960	4,903
IRB provisions excess (+)	135	95
Deduction for investments in credit institutions (50%)	–	–
Deductions for investments in insurance companies	–1,000	–1,205
Pension assets in excess of related liabilities	–	–
Other items, net	–51	–54
Total regulatory adjustments to Tier 2 capital	**–916**	**–1,164**
Tier 2 capital	**4,044**	**3,739**
Own funds (net after deduction)[2]	**31,028**	**31,747**

1) Based on conditional FSA approval.
2) Own Funds adjusted for IRB provision, i.e. adjusted own funds equal EUR 30,969m by 31 Dec 2018.
3) Including profit for the period.

Capital adequacy ratios

	2018	2017
Common Equity Tier 1 (CET1) capital ratio excluding Basel I floor, %	15.5	19.5
Tier capital ratio excluding Basel I floor, %	17.3	22.3
Total capital ratio excluding Basel I floor, %	19.9	25.2
Capital adequacy quotient (own funds/ capital requirement excluding Basel I floor)	2.5	3.2
Capital adequacy quotient (own funds/ capital requirement including Basel I floor)	2.5	2.0

Life & Pensions- Solvency II position

EURm	30 Nov 2018[2]	30 Nov 2017[1]
Required solvency	1,914	2,674
Actual solvency capital	3,338	4,516
Solvency buffer	1,424	1,842
Solvency in % of req	174%	169%

1) The solvency sensitivities do not include the end- of- year dividend payment. The equity sensitivity shows a 12% drop.
2) The solvency sensitivities do not include the anticipated dividend for 2018. The dividend will be reflected in the figures for Q1/2019.

Life & Pensions- Solvency II sensitivity

EURm	30 Nov 2018[2]	30 Nov 2017[1]
Solvency in % of requirement	174%	169%
Equities drop 20%	174%	174%
Interest rates down 50bp	168%	169%
Interest rates up 50bp	179%	173%

1) The solvency sensitivities do not include the end- of- year dividend payment. The equity sensitivity shows a 12% drop.
2) The solvency sensitivities do not include the anticipated dividend for 2018. The dividend will be reflected in the figures for Q1/2019.

New regulations

The Capital Requirement Directive IV (CRD IV) and Capital Requirement Regulation (CRR) entered into force on 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 were implemented through national law within all EU member states from 2014.

In November 2016, the European Commission 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, need to be implemented into national legislation before being applicable. The proposal contains, among others, review to the Minimum Requirement for own funds and Eligible Liabilities (MREL), review to the market risk requirements (Fundamental Review of the Trading Book, FRTB), introduction of a binding Net Stable Funding Ratio (NSFR), introduction of a strict leverage ratio requirement of 3% to be met by Tier 1 capital and amendments to the pillar 2 and macro prudential framework.

In November 2017, an agreement was reached on some of the proposals in the review in a so called fast tracking process, i.e. creditor hierarchy and transitional arrangements for IFRS 9, which entered into force from 1 January 2018. However, Nordea has decided not to use those transitional arrangements related to own funds. In December 2018 a political agreement was reached on the remaining parts of the review. The review will enter into force after it has been published in the Official Journal which can be made after it is formally adopted, which is expected during spring 2019. Application of the revised requirement will generally start 2 years after entry into force with some parts having separate implementation dates.

On 14 March 2018 the European Commission submitted a proposal to the European Council to amend the CRR with regards to minimum loss coverage for new Non-Performing Exposures (NPEs). On 18 December 2018 co-legislators reached a provisional agreement which resulted in a final compromise text. The prioritisation of the remaining regulatory process indicates that an entry into force may take place early in 2019.

The change of domicile to Finland means that Nordea is subject to Finnish legislation and ECB supervision. The change also means that it is the Single Resolution Board (SRB) that sets the MREL requirement for Nordea. On 16 January 2019, the SRB published an updated policy statement on the MREL requirement that will serve as a basis for setting the MREL targets for banks under the remit of SRB. In Finland, the implementation of EU Creditor Hierarchy Directive has been finalised and the changes in legislation were approved in November 2018. The changes enable Nordea to issue subordinated MREL eligible liabilities, so-called senior non-preferred (SNP) in statutory format, i.e. in the Terms & Conditions referring the ranking of SNP directly to the Finnish law. As a result of the changes in legislation, Nordea has aligned the SNP issued earlier in contractual format to statutory format.

The Finnish Act on Credit institutions has been amended to give the Finnish FSA the mandate to apply the systemic risk buffer from 1 January 2019. In June 2018, the Board of the Finnish FSA decided on the application of the systemic risk buffer in Finland. For the Nordea Group the requirement will be to hold 3% CET1 capital from 1 July 2019. Nordea was also identified as other systemically important institution (O-SII) with a 2% CET1 buffer requirement from 1 January 2019. However, these buffers are not additive as, according to current regulations, only the higher shall apply. In November 2018, the Financial Stability Board (FSB) published the annual list of Global Systemically Important Banks (G-SIB) and Nordea was removed from the list. Based on this, the Board of the Finnish FSA removed the identification of Nordea as a Global Systemically Important Institution (G-SII). A decision has also been taken to apply a minimum risk weight of 15% for residential mortgages in Finland. The decision entered into force 1 January 2018 and is applicable for credit institutions that have permission to apply the Internal Ratings Based Approach. The decision is based on article 458 of the CRR which allows authorities to target asset bubbles in the residential sector by increasing the risk weights within pillar 1. Similarly, the Swedish FSA have from 31 December 2018 changed the application of the 25% risk weight floor for residential mortgages from a pillar 2 application to use article 458 of the CRR instead.

During 2018 it has been decided to increase the countercyclical buffer rate in Sweden, Denmark and Norway. On 19 September the Swedish FSA decided to raise the buffer from 2% to 2.5%. The amended buffer enters into force on 19 September 2019. In Denmark the Minister of Business decided in Q1 2018 to increase the buffer from 0% to 0.5% valid from 31 March 2019 and in Q3 2018 further to 1.0% valid from 30 September 2019. On 13 December an increase in the Norwegian buffer rate from 2% to 2,5% was decided with effect from December 2019.

Finalised Basel III framework ("Basel IV")

Basel III is the global, regulatory framework on bank capital adequacy, stress testing, and liquidity risk. In December 2017, the finalised Basel III framework, often called the Basel IV package, was published. The Basel IV package will be implemented in 2022 and includes revisions to credit risk, operational risk, credit valuation adjustment (CVA) risk, leverage ratio and introduces a new output floor. In addition, revisions to market risk (the so called Fundamental Review of the Trading Book) was initially agreed in 2016, with a revision published on 14 January 2019, will be implemented together with the Basel IV package in 2022.

On credit risk, the package includes revisions to both the internal ratings based (IRB) approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. For operational risk, the three approaches currently existing will be removed and replaced with one standardised approach to be used by all banks. On CVA risk, the internally modelled approach is removed, and the standardised approach is revised. The package also includes the implementation of a minimum leverage ratio requirement of 3% to be met with Tier 1 capital with an additional leverage ratio buffer requirement for Global systemically important banks (G-SIB) of half the size of G-SIB capital buffer requirement.

The output floor is to be set to 72.5% of the standardised approaches on an aggregate level, meaning that the capital requirement under the floor will be 72.5% of the total pillar 1 REA calculated with the standardised approaches for credit-, market- and operational risk. The floor will be phased-in, starting with 50% from 2022 to be fully implemented at 72.5% from 1 January 2027.

Before being applicable to Nordea, the Basel IV package needs to be implemented into EU regulations and will therefore be subject to negotiations between the European Commission, Council and Parliament which might change the implementation and potentially also the timetable. In May 2018 the European Commission made a 'Call for Advice' to EBA on the impact of an implementation of the Basel IV package into EU regulations to which the EBA will answer by 30 June 2019.

Corporate Governance Statement 2018

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 in order to, attain a company that is well governed and well managed.

This Corporate Governance Statement is prepared in accordance with the requirements in the Finnish Act on Credit Institutions, Finnish Accounting Act, Finnish Securities Market Act, Ministry of Finance Decree on the obligation of securities issuers to disclose periodic information, and the Finnish Corporate Governance Code 2015 (the Code).

The Code is available at https://cgfinland2.fi/en/.

The main emphasis is on the Board of Directors in its role as the main decision-making body in Nordea's corporate governance structure, and the interaction with the other bodies to ensure sound corporate governance. Nordea's system for internal control and risk management regarding financial reporting is also covered.

Corporate governance at Nordea

Nordea Bank Abp (the Company) became the parent company of the Nordea Group on 1 October 2018 when the cross-border merger effectuating the re-domiciliation of the parent company of the Nordea Group from Sweden to Finland was registered in the Finnish Trade Register. Consequently, as of such date the Company replaced its predecessor Nordea Bank AB (publ) as the parent company of the Nordea Group Further information regarding the re-domiciliation is provided in the "Financial Review 2018" on page 40.

The Company is a Finnish public limited company with its shares listed on the Nasdaq stock exchanges in Stockholm, Helsinki and Copenhagen. Corporate governance at Nordea follows generally adopted principles of corporate governance.

The external framework that regulates corporate governance work includes the Finnish Companies Act, the Finnish Act on Credit Institutions, the Finnish Accounting Act, EU regulations for the financial industry, rules issued by relevant financial supervisory authorities, Nasdaq's rules for each stock exchange, and the rules and principles of the Code. Nordea complies with the Code with the exception of the appointment procedure for electing employee representatives to the Board (Recommendation 5), as described further in detail below.

In 2018, the Company had neither any infringement of the applicable stock exchange rules nor any breach of good practice in the securities market reported by the relevant exchange's disciplinary committee.

Division of powers and responsibilities

The management and control of Nordea is divided among the shareholders (at the General Meeting), the Board of Directors and the President and CEO, pursuant to the provisions of the external framework, the Articles of Association and the internal rules set forth by the Board of Directors.

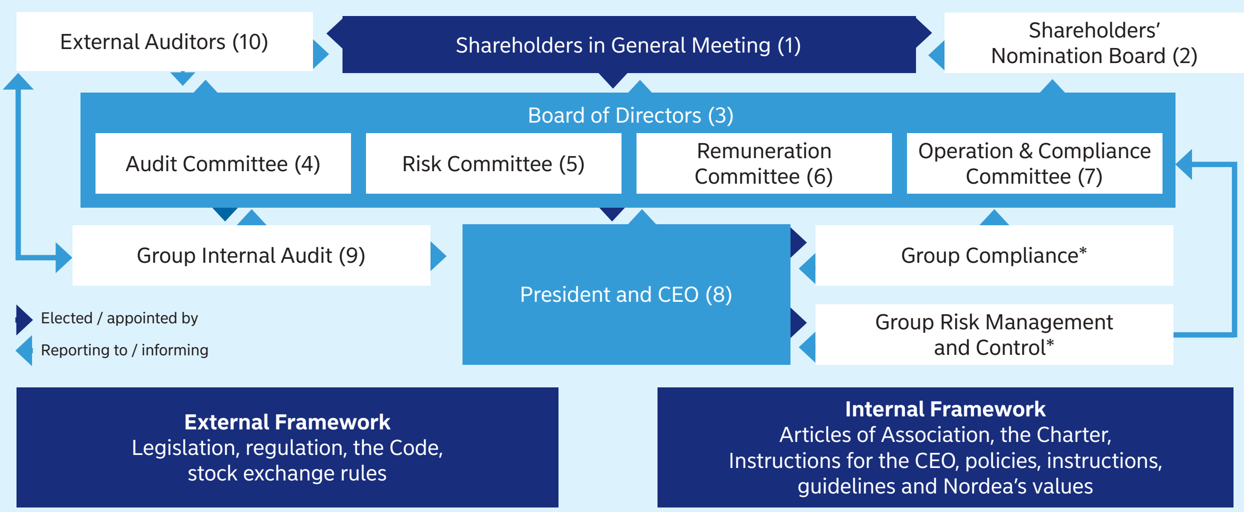
General Meetings (1)

The General Meeting is the Company's highest decision-making body, at which shareholders exercise their voting rights. At the General Meeting, decisions are taken regarding matters such as the annual accounts, dividend, election of the Board of Directors and auditors, as well as remuneration for Board members and auditors.

Following the re-domiciliation of the parent company from Sweden to Finland, General Meetings are held in Helsinki. The minutes of the AGM 2018 of Nordea Bank AB (publ), the Company's predecessor, are available at www.nordea.com.

The AGM 2019 will be held on Thursday 28 March 2019.

Corporate Governance Structure



The numbers within brackets are references to the various subsections in the Corporate Governance Report 2018

* Group Risk Management and Control as well as Group Compliance are described in the section "Risk, Liquidity and Capital Management" on page 49. Furthermore, as from 1 January 2019, a new Group Risk and Compliance function has been established, consolidating the second line of defence functions Group Compliance and Group Risk Management and Control.

Voting rights
Nordea's Articles of Association do not contain any provisions on share classes or voting rights and consequently all issued shares are ordinary shares and carry equal voting rights, with each share entitling to one vote at General Meetings. At General Meetings, each shareholder is entitled to vote for the full number of shares that he or she owns or represents. Nordea is not entitled to vote for its own shares at General Meetings. More information about the Nordea share is presented in the section "The Nordea share and ratings" on page 37 and in the "Financial Review 2018" on page 40.

Articles of Association
The Articles of Association are available at www.nordea.com. Amendments to the Articles of Association are resolved by the General Meeting pursuant to Finnish law and are subject to the review of the Finnish Financial Supervisory Authority.

Authorization to acquire and transfer/issue shares
Information on the authorization to acquire and transfer/issue shares is presented in the "Financial Review 2018" on page 40.

Authorization to issue special rights entitling to shares (convertibles)
Information on the authorization to issue special rights entitling to shares (convertibles) is presented in the "Financial Review 2018" on page 40.

Shareholders' Nomination Board (2)
On 12 September 2017, the nomination committee of Nordea Bank AB (publ) (i.e., Company's predecessor) held its statutory meeting and thereafter five more meetings were held up until 25 January 2018 when the nomination committee's proposals to the AGM 2018 were made public.

Under the Finnish Act on Credit Institutions and the Code, a credit institution shall have a Nomination Committee that consists of Board members or a Shareholders' Nomination Board that consists of persons appointed by the shareholders. In accordance with the practice applied by the Company's predecessor (i.e., Nordea Bank AB (publ)), the General Meeting held on 5 September 2018 decided to establish a Shareholders' Nomination Board with the task of proposing Board members, the Chairman of the Board as well as remuneration for the Board members to the AGM 2019. The Shareholders' Nomination Board shall also assess the composition and work of the Board, assess the knowledge, experience and diversity of the Board, and conclude on the selection criteria, including the notion of sufficient time commitment, of Board candidates. It shall further assist the Board in the assessment of the selection criteria and selection process of the executive management.

The Shareholders' Nomination Board shall comprise the Chairman of the Board (Björn Wahlroos) and four members appointed by the four largest shareholders in terms of voting rights on 1 October 2018, who wish to participate in the Shareholders' Nomination Board.

The Charter of the Shareholders' Nomination Board is available at www.nordea.com.

The composition of the Shareholders' Nomination Board was made public on 24 October 2018. Sampo plc had appointed Kari Stadigh, Nordea-fonden had appointed Mogens Hugo, Alecta had appointed Hans Sterte and Varma had appointed Risto Murto. Kari Stadigh had been appointed chairman of the Shareholders' Nomination Board. At the date of constitution, the Shareholders' Nomination Board represented 29.5 per cent of the shareholders' votes.

During 2018, the Shareholders' Nomination Board held six physical meetings and one per capsulam meeting.

Kari Stadigh, chairman of the Shareholders' Nomination Board
Master of Science (Eng.) 1979, BBA 1980
Born 1955.
Group CEO and President of Sampo plc

Björn Wahlroos
See "Board of Directors" on page 286.

Mogens Hugo
MSME, MBA
Born 1943
Chairman of Tietgen Foundation

Hans Sterte
BA(Econ.)
Born 1961
Head of Investment Management at Alecta

Risto Murto
Ph.D. (Econ.)
Born 1963
President and CEO of Varma

The proposals of the Shareholders' Nomination Board are presented in the notice of the AGM 2019 and at www.nordea.com.

Nordea Board of Directors (3)
Composition of the Board of Directors
According to the Articles of Association, the Board of Directors shall consist of not less than six and not more than fifteen members. The term of office for Board members is one year and expires at the end of the Annual General Meeting following the election. Nordea has neither a specific retirement age for Board members nor a time limit for how long a Board member may serve on the Board. There are no such requirements in the external framework, however according to the Code, the fact that a Board member has served as a member for more than 10 consecutive years shall be taken into account when conducting the overall evaluation of independence.

The Company strives to promote diversity of the members of the Board with the aim to ensure that the Board as a whole for the purpose of its work possesses the requisite knowledge of and experience in the social, business and cultural conditions of the regions and markets in which the main activities of the Nordea Group are carried out. Furthermore, according to the Code, the Board is to have a composition appropriate to the company's operations and phase of development. The Board members elected by the General Meeting are collectively to exhibit diversity and breadth of opinions, qualifications and experience. According to the Code, both genders shall be represented in the Board.

The Board of Directors has further adopted a Diversity Policy that establishes the principles of diversity in the Board. According to the Diversity Policy, all board assignments in the Company are based on merit with the prime consideration being to maintain and enhance the Board's overall effectiveness. In order to fulfil this, a broad set of qualities and competences is sought for and it is recognised that diversity, including age, gender, geographical provenance and educational and professional background, is an important factor to consider.

During the nomination work before the AGM 2018 in Nordea Bank AB (publ) (i.e., the Company's predecessor prior to the re-domiciliation), the Chairman of the board of directors in Nordea Bank AB (publ) informed the then Nomination Committee of the competencies and skills needed for the board as a whole and as a board member in Nordea Bank AB (publ), and consequently also the Company, according to its Suitability Policy and the Diversity Policy. As is also stated in the Nomination Committee's Statement on the proposal regarding the board of directors, the Nomination Committee thereafter considered a broad range of qualifications and knowledge to ensure sufficient expertise and independence, and also strived for equal gender distribution on the Board.

It is assessed that the Board collectively possesses the requisite knowledge and experience in the social, business and cultural conditions of the regions and markets in which the main activities of the Nordea Group are carried out, exhibiting adequate diversity and breadth of qualities and competences and the gender distribution is well balanced.

The Board consists of ten members, five men and five women, elected by the General Meeting. They are Björn Wahlroos (Chairman), Lars G. Nordström (Vice Chairman), Pernille Erenbjerg, Robin Lawther, Nigel Hinshelwood, Torbjörn Magnusson, Sarah Russell, Silvija Seres, Birger Steen and Maria Varsellona.

In addition to the members proposed by the Shareholders' Nomination Board and elected by the AGM, three members and one deputy member are appointed by the employees as employee representatives to the Board. The term of office for the employee representatives is one year. As mentioned above, this appointment procedure departures from Recommendation 5 "Election of the Board of Directors" in the Code. The reason for this deviation is that in Nordea, employee representation is based on an agreement between Nordea and an employee representative body, which was entered into under the Finnish Act on Employee Involvement in European Companies and European Social Cooperatives as well as the Finnish Act on Personnel Representation in the Company Administration in connection with the cross-border merger effectuating the re-domiciliation.

The employee representatives are Dorrit Groth Brandt, Gerhard Olsson, Hans Christian Riise and Kari Ahola (currently deputy member until 28 March 2019).

The President and CEO of Nordea is not a member of the Board.

The composition of the Board is shown in the table on page 72 and further information regarding the Board members elected by the General Meeting and the employee representatives is presented in the sections "Board of Directors" and "Employee representatives" on pages 286–287.

Independence of the Board of Directors

Nordea complies with applicable requirements regarding independence of the Board according to Finnish laws and regulations as well as according to the Code. The Board considers all of the members elected by the shareholders, apart from Lars G Nordström, to be independent of the Company according to the Code. Lars G Nordström is considered as dependent of the Company due to having served as a Board member for more than ten consecutive years.

All Board members elected by the shareholders at the General Meeting, apart from Björn Wahlroos and Torbjörn Magnusson, are furthermore independent in relation to the Company's major shareholders according to the Code. Björn Wahlroos is chairman of Board of Directors of Sampo plc and Torbjörn Magnusson is member of the Group Executive Committee of Sampo plc, which owns more than 10 % of all shares in the Company and they are therefore not considered as independent of the Company's major shareholders.

According to the Code, the majority of the Board members shall be independent of the company, and at least two Board members who are independent of the company shall also be independent of the major shareholders of the company. Thus, the number of Board members who are independent in relation to the Company and independent in relation to the Company's major shareholders, exceeds the minimum requirements.

No Board member elected by the shareholders at the General Meeting is employed by or works in an operative capacity at the Company. All Board members and the deputy Board member appointed by the employees are employed by the Nordea Group and are therefore not independent of the Company according to the Code.

The independence of the individual Board members is also shown in the table on page 72.

The work of the Board of Directors

The Board elected the vice Chairman and appointed the Board Committee members. The Board has adopted written work procedures governing its work which also sets forth the management and risk reporting to the Board (the "Charter") and separate work procedures for its work carried out in each of the Board Committees (the "Committee Charters"). For example, the Charter sets forth the Board's and the Chairman's areas of responsibility, documentation and quorum as well as the frequency of meetings. It also contains rules regarding conflicts of interest and confidentiality. Furthermore, the Board of Directors has adopted instructions for the CEO specifying the CEO's responsibilities as well as other charters, policies and instructions for the operations of the Group. These, together with the Articles of Association, the Charter, the Committee Charters and Nordea's values, constitute the internal framework that regulates corporate governance at Nordea.

The Board is charged with the organisation of Nordea and administration of the Company's operations and the overall management of the Nordea Group's affairs in accordance with the external and internal framework. Furthermore, the Board shall ensure that the Company's organisation in respect of accounting, management of funds and the Company's financial position in general includes satisfactory controls. The Board is ultimately responsible for ensuring that an adequate and effective system of internal control is established and maintained. Group Internal Audit (GIA) annually provides the Board with an assessment of the overall effectiveness of the governance, and risk and control framework, together with an analysis of themes and trends emerging from internal audit work and their impact on the organisation's risk profile. Further information regarding internal control within Nordea is provided on page 71 under "Internal control framework".

At least once a year, the Board meets the external auditor without the CEO or any other member of Group Executive Management (GEM) being present. In addition, the auditor in charge meets separately with the Chairman of the Board and with the Chairman of the Board Audit Committee.

In 2018, the board of directors of the Company's predecessor (i.e., Nordea Bank AB (publ)) held 13 meetings and the Board of the Company held 10 meetings. In relation to Nordea Bank AB (publ), eight meetings were held in Stockholm and one in Helsinki while four meetings were held per capsulam. Prior to the re-domiciliation and as part of the formal legal preparations thereof, the Board of the Company held two meetings in Stockholm ans five meetings per capsulam. Following the re-domiciliation on 1 October 2018, the Board has held two meetings in Helsinki while one meeting was held per capsulam. Some of the meetings were held with the possibility to attend by phone. For more information see the table on page 72.

The Board regularly follows up on the strategy, business development as well as the financial position and development and on the financial market. Furthermore, the Board is regularly updating the policies and internal rules for the governance and control on which it has decided. The Board is also reviewing the risk appetite and regularly follows up on the development of risks, capital and liquidity. The Internal Capital Adequacy Assessment Process (ICAAP), organisational changes, appointment of senior management and transactions of significance are other matters dealt with by the Board. The work of the Board Committees is also reported to the Board. In 2018, the Board also dealt with for example the re-domiciliation, the Group Simplification programme, digitalisation, issues related to internal control and compliance, anti-money laundering and other remediation and implementation programmes.

The Secretary of the Board is Jussi Koskinen, Chief Legal Officer.

The Chairman

The Chairman of the Board is elected by the shareholders at the General Meeting. The Board meets according to its annual meeting schedule as well as when necessary. According to the Charter, the Chairman is to ensure that the Board's work is conducted efficiently and that the Board fulfils its duties. The Chairman is to organise and lead the Board's work, maintain regular contact with the CEO, ensure that the Board receives sufficient information and documentation and ensure that the work of the Board is evaluated annually, and that the Shareholders' Nomination Board is informed of the result of the evaluation.

Evaluation of the Board

The Board of Directors annually conducts a self-evaluation process, through which the performance and the work of the Board is evaluated for the purpose of continuously improving the work. The evaluation is based on methodology that includes questionnaires to evaluate the Board as a whole, the Chairman and individual Board members. The result of the self-evaluation process is further discussed by the Board and presented to the Shareholders' Nomination Board by the Chairman.

In accordance with applicable European regulatory requirements, an internal process has been set up for assessing the suitability both of the members of the Board individually and of the Board as a whole. This assessment is normally done annually as well in connection with the selection process of new Board members.

Board Committees

In accordance with the external framework and in order to increase the effectiveness of the board work, the Board of Directors has established separate working committees to assist the Board in preparing matters, belonging to the competence of the Board and to decide in matters delegated by the Board. The duties of the Board Committees, as well as working procedures, are defined in the Committee Charters. In general, the Board Committees do not have autonomous decision-making powers and each Committee regularly reports on its work to the Board.

The Board Audit Committee (4)

The Board Audit Committee (BAC) assists the Board in fulfilling its oversight responsibilities by inter alia monitoring the Nordea Group's financial reporting process and providing recommendations or proposals to ensure its reliability, monitoring the effectiveness of GIA, keeping itself informed as to the statutory audit of the annual and consolidated accounts, and by reviewing and monitoring the impartiality and independence of the external auditors.

Members of the BAC are Sarah Russell (chairman), Pernille Erenbjerg and Torbjörn Magnusson. Generally, the Group Chief Audit Executive (CAE) and the Group Chief Financial Officer (CFO) as well as the external auditors of the Company are present at meetings with the right to participate in discussions but not in decisions.

The Board annually appoints the members and the chairman of the BAC. The BAC must have at least three committee members who are members of the Board. The chairman of the BAC may not be the chairman of the Board or of any other Board Committee. None of the members of the BAC may be employed within the Nordea Group. The majority of the members of the BAC are to be independent of the Company. At least one of the members of the BAC who is independent of the Company shall also be independent of the Company's major shareholders and have sufficient expertise in accounting and/or auditing. The committee members must have the expertise and experience required for the performance of the responsibilities of the BAC. Nordea follows the legal requirements as well as complies with the Code. For more information, see the table on page 72.

The Board Risk Committee (5)

The Board Risk Committee (BRIC) assists the Board in fulfilling its oversight responsibilities concerning the management and control of the risks, risk frameworks, controls and processes associated with the Nordea Group's operations, including credit, market, liquidity, business, life and operational risk.

The duties of the BRIC include to review and where required make recommendations on the Nordea Group's risk governance and review the development of the Group's internal control framework, including the risk management framework, in reference to the development of the Group's risk profile and changes in the regulatory framework. In addition, the BRIC reviews and make recommendations regarding the Group's risk appetite and limits for market and liquidity risks. Furthermore, the BRIC reviews resolutions made by lending entities concerning credits or limits above certain amounts, as well as strategic credit policy matters and the development of the credit portfolio.

Members of the BRIC are Nigel Hinshelwood (chairman), Lars G Nordström and Silvija Seres. Generally, the Chief Risk Officer and, when deemed important and to the extent possible, the Group CEO and the CAE are present at meetings with the right to participate in discussions, but not in decisions. Further information regarding the credit decision-making structure for main operations and risk management within Nordea is presented in the section "Risk management", on page 51.

The Board annually appoints the chairman and members of the BRIC. The BRIC must have at least three committee members, who are members of the Board. The chairman of the BRIC may not be the chairman of the Board or of any other Board Committee. The BRIC shall be composed of members of the Board who are not employed within the Nordea Group. The majority of the members of the BRIC, including the chairman, are to be independent. Members of the BRIC shall have, individually and collectively, appropriate knowledge, skills and expertise concerning risk management and control practices. Nordea follows the legal requirements as well as complies with the Code. For more information, see the table on page 72.

The Board Remuneration Committee (6)

The Board Remuneration Committee (BRC) is responsible for preparing and presenting proposals to the Board of Directors on remuneration issues. This duty includes, inter alia, proposals regarding the Nordea Remuneration Policy and underlying instructions, the remuneration for the Group CEO, the Group Chief Operating Officer (COO) and Deputy Group CEO, other members of GEM as well as the CAE.

At least annually, the BRC follows up on the application of the Nordea Remuneration Policy and underlying instructions through an independent review by GIA and exercises an assessment of the Nordea Remuneration Policy and remuneration system with the participation of appropriate control functions. The BRC also has the duty of annually monitoring, evaluating and reporting to the Board on the programmes for variable remuneration for GEM, as well as the application of the guidelines for remuneration for executive officers. At the request of the Board, the BRC also prepares other issues of principle for the consideration of the Board.

Members of the BRC are Robin Lawther (chairman), Björn Wahlroos and Gerhard Olsson (employee representative). Generally, the Chief People Officer and, when deemed important and to the extent possible, the Group CEO are present at meetings with the right to participate in discussions but not in decisions. Neither the Chief People Officer nor the Group CEO participates in considerations regarding his or her respective employment terms and conditions.

The Board annually appoints the chairman and members of the BRC. The BRC must have at least three committee members. The Chairman and the majority of the members of the BRC shall be Board members, who are independent of the Company, and not employed by the Nordea Group. The CEO or the other executives may not be members of the BRC. However, if employee representatives are appointed to the Board, at least one of them shall be appointed as a member of the BRC pursuant to the Finnish Credit Institutions Act. The members of BRC shall have collectively sufficient knowledge, expertise and experience in issues relating to risk management and remuneration. Nordea follows the legal requirements as well as complies with the Code. For more information, see the table on page 72.

Further information regarding remuneration in Nordea is presented in the separate section "Remuneration", on page 79–82 and in Note G7, on page 126.

Board Operations and Compliance Committee (7)

The Board Operations and Compliance Committee (BOCC) assists, without prejudice to the tasks of the other Board Committees, the Board of Directors in fulfilling its oversight responsibilities concerning conduct, sustainability, compliance and operations/systems, as well as related frameworks and processes. The duties of the BOCC include advising the Board on the Nordea Group's overall strategy as to the mentioned areas and assisting the Board in overseeing the implementation of that strategy by senior management.

Members of the BOCC are Birger Steen (chairman), Maria Varsellona and Nigel Hinshelwood. Generally, the Group Compliance Officer, the Group COO and, to the extent possible, the CAE are present at meetings with the right to participate in discussions but not in decisions. Furthermore, also the Chief Risk Officer and other senior executives attend meetings when deemed relevant.

The Board annually appoints the chairman and members of the BOCC. The BOCC must have at least three committee members, who are members of the Board. The BOCC shall be composed of members of the Board who do not perform any executive function in the Nordea Group. Members of the BOCC shall collectively have sufficient knowledge, expertise and experience in issues relating to the work of the committee, including conduct, sustainability, compliance and operations/systems. Nordea follows the legal requirements as well as complies with the Code. For more information, see the table on page 72.

Meetings, attendance and independence

The table below shows the number of meetings held by the Board of Directors and its Committees as well as the attendance of the individual Board members. It also shows the independence of the individual Board members in relation to the Company as well as to the major shareholders.

The CEO and Group Executive Management (8)

Nordea's President and CEO is charged with the day-to-day management of the Company and the Nordea Group's affairs in accordance with the external and internal framework. The internal framework regulates the division of responsibilities and the interaction between the CEO and the Board. The CEO works closely with the Chairman of the Board in relation to the planning of Board meetings.

The CEO is accountable to the Board for the management of the Nordea Group's operations and he is also responsible for developing and maintaining effective systems for internal control within the Group. Further information regarding the control environment for risk exposures is presented in the section; "Risk, Liquidity and Capital management", on page 49. The CEO works together with certain senior officers within the Group in GEM. Presently, GEM consists of ten members and the CEO. GEM meets regularly and whenever necessary upon request by the CEO. These meetings are chaired by the CEO, who reaches decisions after consulting with the other members of GEM. Notes of meetings, verified by the CEO, are kept. Further information regarding the CEO and GEM is presented in the section "Group Executive Management", on page 288–289.

Internal control framework

The Board is responsible for setting and overseeing an adequate and effective Internal Control Framework. The Internal Control Framework includes the control functions and the Risk Management Framework and covers the whole Nordea Group.

The Internal Control Framework is designed to ensure effective and efficient operations, adequate identification, measurement and mitigation of risks, prudent conduct of business, sound administrative and accounting procedures, reliability of financial and non-financial information reported or disclosed (both internally and externally) and compliance with laws, regulations, supervisory requirements and the Nordea Group Internal Rules.

The internal control process is carried out by the Board, senior management, risk management functions and other staff at Nordea and is based on five main components: control environment, risk assessment, control activities, information and communication as well as monitoring. 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 first 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 Internal Control Framework.

As second line of defence, the control functions are responsible for maintaining the Internal Control Framework and for monitoring the implementation of the policies and procedures within this Framework. Group Risk Management and Control (GRMC)[1] is responsible for identifying, measuring, monitoring and reporting on all risks. Group Compliance is responsible for ensuring and monitoring compliance with internal and external rules and for establishing policies and processes to manage compliance risks and to ensure compliance.

GIA, which is the third line of defense, performs audits and provides the Board with an assessment of the overall effectiveness of the governance, and risk and control framework, together with an analysis of themes and trends emerging from internal audit work and their impact on the organisation's risk profile.

Internal audit (9)

GIA is an independent function commissioned by the Board. The BAC is responsible for guidance on and evaluation of GIA within the Nordea Group. The CAE has the overall responsibility for GIA. The CAE reports on a functional basis to the Board and the BAC and reports on an administrative basis to the

1) Furthermore, as from 1 January 2019, a new Group Risk and Compliance function has been established, consolidating the second line of defence functions Group Compliance and Group Risk Management and Control.

Board members' attendance and independence

	Board of Directors in Nordea Bank AB (publ)	Board of Directors in Nordea Bank Abp	Board Audit Committee[1]	Board Risk Committee[1]	Board remuneration Committee[1]	Board Operations and Compliance Committee[1]	Independence in relation to the Company[2]	Independence in relation to the major shareholders[2]
Number of meetings (of which per capsulam)	13(4)	10(6)	12(3)	8(0)	11(3)	9(0)		
Elected by shareholders								
Björn Wahlroos[3]	13	10	–	–	11	–	Yes	No
Nigel Hinshelwood[4]	9	5	–	6	–	7	Yes	Yes
Lars G Nordström[5]	13	10	–	8	–	–	No	Yes
Pernille Erenbjerg	11	9	12	–	–	–	Yes	Yes
Kari Stadigh[6]	3	3	–	2	–	–	Yes	No
Robin Lawther	13	10	–	–	11	–	Yes	Yes
Sarah Russell	13	10	12	–	–	–	Yes	Yes
Silvija Seres	13	10	–	7	–	–	Yes	Yes
Torbjörn Magnusson[7]	9	5	8	–	–	–	Yes	No
Lars Wollung[8]	3	3	–	–	–	2	Yes	Yes
Birger Steen	12	10	–	–	–	9	Yes	Yes
Maria Varsellona	12	9	–	–	–	9	Yes	Yes
Appointed by employees								
Dorit Groth Brandt[9]	9	2	–	–	–	–	No	Yes
Kari Ahola (deputy until 28 March 2019)	13	4	-	-	-	-	No	Yes
Hans Christian Riise	13	4	-	-	-	-	No	Yes
Gerhard Olsson	13	4	-	-	3	-	No	Yes
Toni Madsen[10]	3	1	-	-	-	-	No	Yes

1) Refers to the combined number of meetings during 2018, irrespective of whether held in Nordea Bank Abp after the re-domiciliation or Nordea Bank AB (publ) prior to the re-domiciliation.
2) For additional information, see Independence on page 69.
3) Chairman from the AGM 2011. This date refers to when Björn Wahlroos became the Chairman of the Board of Directors in the Nordea Group's parent company, irrespective of whether it is Nordea Bank Abp or Nordea Bank AB (publ).
4) Board and committee member from the AGM 2018 in Nordea Bank AB (publ).
5) Vice Chairman from the AGM 2017. This date refers to when Lars G Nordström became the Vice Chairman of the Board of Directors in the Nordea Group's parent company, irrespective of whether it is Nordea Bank Abp or Nordea Bank AB (publ).
6) Board and committee member until the AGM 2018 in Nordea Bank AB (publ).
7) See footnote 4.
8) See footnote 6.
9) Employee representative from the AGM 2018 in Nordea Bank AB (publ).
10) Employee representative until the AGM 2018 in Nordea Bank AB (publ).

CEO. The Board approves the appointment and dismissal of the CAE and decides, on proposal from the BRC, on salary and other employment terms and conditions for the CAE.

The purpose of GIA is to support the Board and GEM in protecting the assets, reputation and sustainability of the organisation. GIA does this by assessing whether all significant risks are identified and appropriately reported by management and the risk functions to the Board, its committees and GEM; by assessing whether all significant risks are adequately controlled; and by challenging GEM to improve the effectiveness of governance, risk management and internal controls.

GIA does not engage in consulting activities unless otherwise instructed by the BAC.

All activities and entities of the Group fall within the scope of GIA. GIA makes a risk-based decision as to which areas within its scope should be included in the audit plan approved by the Board.

GIA shall operate free from interference in determining the scope of internal auditing, in performing its audit work, and in communicating its results. This means for example that GIA, via the CAE, is authorised to inform the financial supervisory authorities on any matter without further approval. The CAE has unrestricted access to the CEO and Chairman of the BAC and should meet with the Chairman of the BAC informally and formally throughout the year, including without the presence of executive management. GIA is authorised to carry out all investigations and obtain all information required to discharge its duties. This includes the right to sufficient and timely access to the organisation's records, systems, premises and staff. GIA has the right to attend and observe Board committees, GEM, overall committees and fora for the Nordea Group and other key management decision-making fora when relevant and necessary.

External audit (10)

According to the Articles of Association, the auditor of the Company shall be an audit firm with the auditor-in-charge being an Authorized Public Accountant (APA). The term of office for the auditor expires at the end of the AGM following the election. The current auditor of the Company is PricewaterhouseCoopers Oy. Juha Wahlroos, APA, has been assigned as the auditor-in-charge.

Further information regarding the fees paid for audit services and non-audit services is presented in Note G8 on page 131.

Report on internal control and risk management regarding financial reporting

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. 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 at Nordea can be described in accordance with the COSO Framework as follows below.

Control Environment

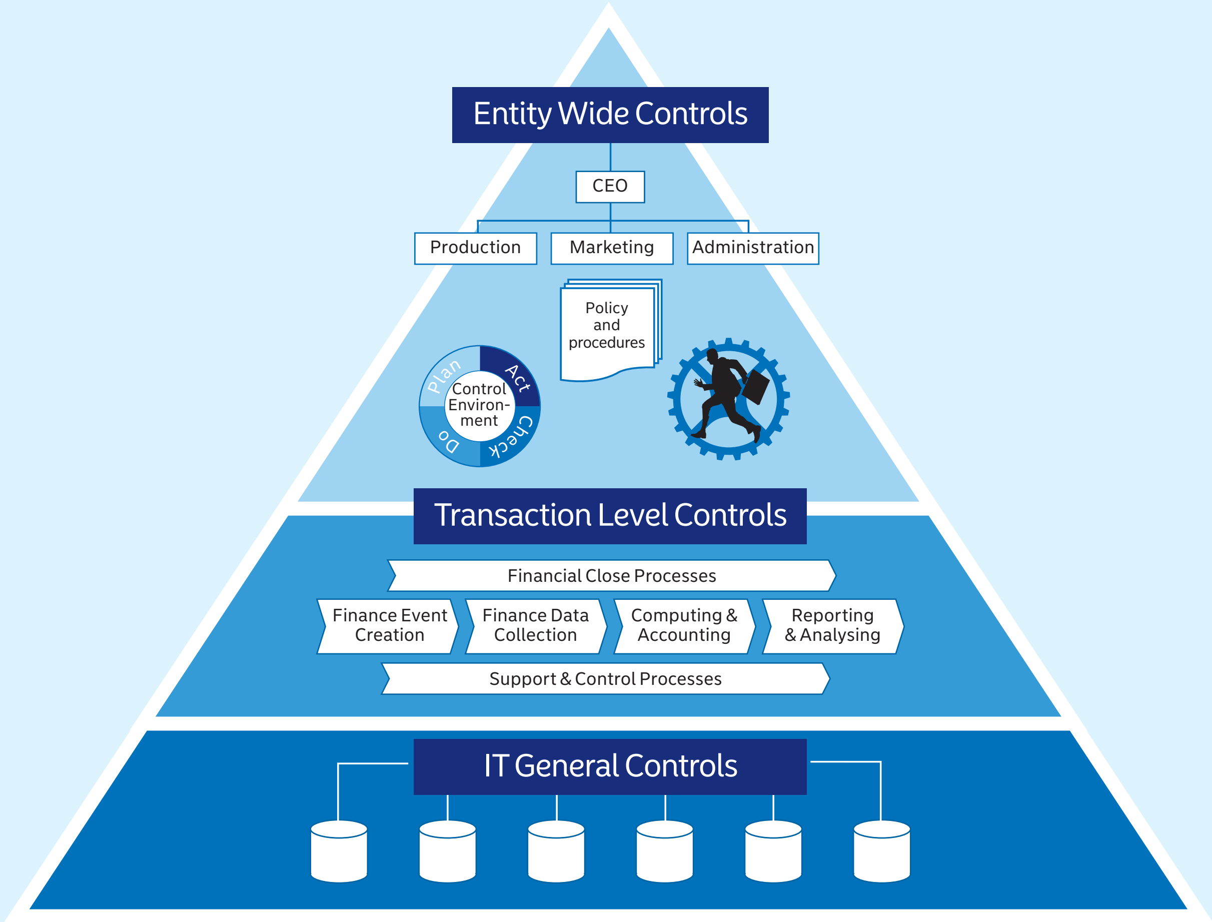
The control environment constitutes the basis for Nordea's internal control and centres around the culture and values established by the Board and GEM, and the organisational structure, with clear roles and responsibilities.

A clear and transparent organisational structure is of importance for the control environment. Nordea's business structure aims to support the overall strategy, ensuring strong business momentum and meeting increased requirements on capital and liquidity. The business and the organisation are under continuous development.

The primary governance principle is the adherence to the three Lines of Defence (3 LoD) model which forms the basis for a clear division of roles and responsibilities in the organisation. A proper 3 LoD governance is in place ensuring that the segregation of duties is defined and established between risk management and risk control. According to the Group Board Directive on Internal Governance, the 1st LoD refers to all units and employees that are neither in the 2nd nor in the 3rd LoD. The 1st LoD is responsible for the daily risk management and for compliance with applicable rules. 2nd LoD consists of GRMC and Group Compliance being independent control functions. 3rd LoD consists of GIA being an independent internal audit function.

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 & Treasury are responsible for the risk management activities.
A risk management function supports the CFO in maintaining a Group wide set of controls, in Nordea defined as Accounting Key Control (AKC), in line with the risk framework, which covers the controlling of risks and the risk identification process, that is based on the business and financial closing processes

Control Activities



Examples of control activities in Nordea:

Entity-Wide Controls: Group Accounting Manual, Financial Control Principles, Group Valuation Committee, numerous analyses in Management Reporting.

Transaction Level Controls: Reconciliations, approvals, financial controlling analysis, authorisation, automated controls and Group eliminations.

IT General Controls: Controls over access, systems development and deployment, data back-up & recovery and logical and physical security critical to the integrity of the financial reporting process.

in place. An independent risk control function that is responsible for identifying, controlling and reporting on financial reporting risk has been established in the GRMC. In addition, the internal audit function provides the Board with an assessment of the overall effectiveness of the governance, risk management and control processes

Risk Assessment

The Board bears ultimate responsibility for limiting and monitoring Nordea's risk exposure. Risk management is considered to be an integral part of running the business and 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, control functions stipulate in governing documents when and how these assessments are to be performed. Examples of risk assessments are the reoccurring Risk and Control Self-Assessments and the event driven Change Risk Management and Approval process

Risk assessment in relation to reliable financial reporting involves the identification and analysis of risks of material misstatements. Financial reporting risk control work in Nordea focuses on risks and processes which could lead to material financial misstatements, i.e. misstatements that if they occurred would significantly and adversely affect Nordea. The scope of the AKC is therefore areas where risks of material financial misstatements exist, i.e. where the judgment of a reasonable person relying upon the report would have been changed or influenced by the inclusion or correction of the misstated item. Structured risk assessment procedures determine in which divisions, locations and/or processes risks for material financial misstatements exist and therefore need to be monitored under the AKC framework to ensure reasonable assurance of the reliability of Nordea's external financial reporting.

Control Activities

The heads of the respective units are primarily responsible for managing 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 in Nordea are the segregation of duties and the four-eyes principle when approving, for instance, transactions and authorisations.

The AKC control structure is based on Transaction Level Controls (TLC) that 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 determine what systems/applications are in scope for AKCs where specific IT General Controls are governed. The analysis aims at scoping in the major systems where there is a risk that data, which is not detected in the TLC control structure, could become corrupt.

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 & Treasury is responsible for ensuring that the GAM 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 guidelines and standard operating procedures in the responsible units. Accounting specialists from Group Finance & Treasury continuously provide accountants and controllers with information on changes in order to inform of existing and updated rules and regulations with an impact on Nordea.

Key criteria applied when communicating financial information to the market is "correct, relevant, consistent, reliable and timely". The information is to be disclosed in such a way that the information is made available to the public in a fast and on a non-discriminatory manner.

Nordea interacts with relevant subject-matter experts to ensure fulfilment of financial reporting objectives. Nordea actively participates in relevant national forums, for example forums established by the Financial Supervisory Authorities, Central Banks and associations for financial institutions.

The AKC reporting procedures provide management at different levels in the organisation with information related to the performance and assessment of the identified AKCs in the form of Process Owner reports and Management Dashboard reports with a summarised assessment of the outcome and any high-risk areas.

Monitoring

Nordea has established a process with the purpose of ensuring proper monitoring of the quality of the financial reporting and follow-up regarding possible deficiencies. This interactive process aims to cover all COSO-components in the Framework and is illustrated in the diagram below.

The Risk and Control Self-Assessment process is conducted in each Business Area and Group Function. It covers identification and assessment of risks and controls, which also includes risks and controls related to financial reporting.

Group Finance & Treasury 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 GRMC reports specifically on financial reporting risk to the BAC and the CEO in GEM on a quarterly basis.

The Board, the BAC, the BRIC, the BOCC and GIA have important roles in respect to overseeing and monitoring the internal control of financial reporting at Nordea Group. For further information, see "The work of the Board of Directors (3)", "Board Audit Committee (4)", "Board Risk Committee (5)", "Board Operations and Compliance Committee (7)" and "Group Internal Audit (9)" above.

Insider Administration

The insider administration is organized according to the applicable European Union and local laws and regulations. The Board has also approved Group wide rules to facilitate for employees to comply with the applicable rules and to ensure that inside information is identified as such and treated in an appropriate manner.

The Company has identified members of the Board and the GEM as well as the CAE as persons discharging managerial responsibilities (as defined in the EU's Market Abuse Regulation (MAR)) who, along with persons closely associated with them, are required to notify the Company and the relevant Financial Supervisory Authority of their transactions in the financial instruments issued by Nordea. The Company publishes such transactions as stock exchange releases.

Persons discharging managerial responsibilities are only permitted to trade in financial instruments issued by Nordea during the two-week period following the publication of an interim financial report or year-end reports. In exceptional circumstances and based on written request from a person discharging managerial responsibilities, the Head of Group Compliance may grant permission for such person to trade on his or her own account or for the account of third party outside of the two-week open window period.

Nordea does not maintain a permanent insider register under MAR. Insiders are identified on a case-by-case basis for specific projects and are notified of their insider status. Persons included in a project specific insider register are prohibited from dealing in Nordea's financial instruments as long as they are included on such a list.

For employees who participate in providing investment services or advice, the Company also applies Group-wide trading restrictions that are based on the trading rules established by for example Finance Finland, the Swedish Securities Dealers Association and the Swedish Investment Fund Association. Furthermore, in their capacity as a company licensed to provide investment services and as a fund management company, the Company and its subsidiary Nordea Funds Ltd, respectively, maintain insider registers of persons who are classified as "insiders" pursuant to the Finnish Act on Investment Services and the Finnish Act on Mutual Funds. The holdings of such persons in securities listed in Finland are public information and is updated automatically in the public insider register kept by Euroclear Finland Oy. The register of holders of units in funds managed by Nordea Funds Ltd is also available for viewing at Nordea Funds Ltd.

Nordea's insider administration responsibilities include internal communications related to insider matters and trading restrictions, setting up and maintaining its insider registers, arranging related trainings as well as organizing and overseeing compliance with the insider rules. Group Compliance is overall responsible for monitoring the compliance with the Group wide rules on, inter alia, prohibition of insider trading, trading restrictions for persons discharging managerial responsibilities and personal account dealing.

Procedure for related-party transactions

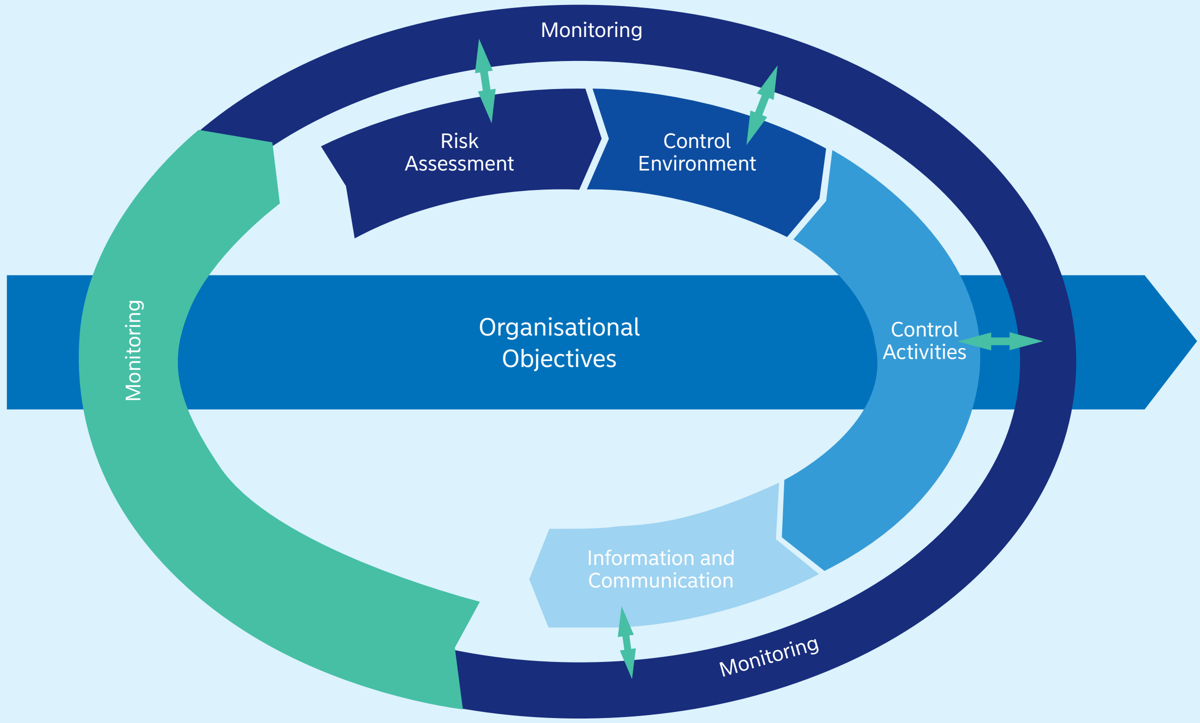
To ensure that possible conflicts of interest are appropriately taken into consideration in all decision-making, the Company has procedures in place to identify and define its related-parties. Many of the transactions with related-parties are however part of the Company's ordinary course of business and carried out on the same criteria and terms as those of comparable transactions with external parties of similar standing. With the exception of compensation and loans to the key management, all related-party transactions are thus made on the same criteria and terms as those of comparable transactions with external parties of similar standing. The decision-making processes have furthermore been structured in order to avoid conflict of interests.

In case the Company would conduct any significant transactions or transactions deviating from the Company's ordinary criteria and terms with its related-parties, such transactions shall be approved by the Board.

Group People is responsible for maintaining and updating the list of related-parties while Group Credit Risk Management is the overall coordinating unit for transactions with related-parties as part of its routines for control and reporting.

Further information regarding related-party transactions is presented in Note G7 on page 126–130 and Note G45 on page 172.

Monitoring



Non-Financial Statement

This report constitutes Nordea's non-financial statement for the fiscal year 2018. The report covers the parent company Nordea Bank Abp and its subsidiaries.

Our business

Nordea is present in 18 countries, including our four Nordic home markets; Denmark, Finland, Norway and Sweden. Through our four main business areas – Personal Banking, Commercial and Business Banking, Wholesale Banking and Asset and Wealth Management – we offer a wide range of products and services. We have set the mission to enable the transition to a sustainable future in our capacity of a major bank and through the choices we make. We mitigate sustainability risks by integrating sustainability throughout the bank, into our products and processes in our core areas of investment, financing and advice, and in our internal operations.

Policies leading the way

The The Nordea Code of Conduct is based on the UN Global Compact. It defines the high-level ethical principles that guide our business and includes aspects such as care for the environment, labour rights, customer relations, human rights, the right to privacy, bribery and corruption. All our employees are required to complete annual training in the Code of Conduct as part of their Licence to Work. In 2018, 91% of all employees (excl. those on long-term leave) and 97% of all new employees completed their Licence to Work.

Nordea's Sustainability Policy is approved by the Board of Directors and includes principles on investment, financing and advice. It is our guide to conduct in our day-to-day work and when making business decisions. At Nordea, we take the policy and other relevant environmental, social and governance (ESG) principles into consideration when evaluating business risks and opportunities. We integrate ESG issues into our investment analysis methodology to ensure that investment and portfolio construction decisions are based on a full set of information. We have also initiated to integrate ESG risk evaluation into our credit decision-making and to include the customers' ESG risk category in credit memorandums.

Sustainability governance

Our sustainability governance structure ensures that we focus on embedding sustainability, including climate risks and opportunities, into the business. The Board of Directors decides on Nordea's Code of Conduct and Sustainability Policy and approves this Non-Financial Statement. A dedicated Board committee assists the Board of Directors in fulfilling its oversight responsibilities concerning conduct, sustainability including climate-related issues, compliance and operations/systems, as well as related frameworks and processes. The CEO in Group Executive Management decides on the strategic sustainability direction and focus areas including plans, targets and performance indicators. To ensure that social and environmental topics including climate-related issues are represented at senior-management level, we have our Group CEO and one member of GEM that is directly responsible for sustainability-related matters. Sustainability-related matters are monitored by the Business Ethics and Values Committee (BEVC) chaired by the CEO. The BEVC reviews and approves relevant Group Internal Rules including external position statements and sector guidelines, monitors and influences selected relevant focus areas as well as provide recommendations to business areas and group functions on various dilemmas and themes.

Each business area and group function is represented in the Sustainability Committee. The committee prepares sustainability issues related to policies, guidelines and strategy. Business areas and group functions are responsible for implementing sustainability policies, products and risk management processes in the business. For Nordea's whole governance structure, please see the Corporate Governance Statement on page 67–75.

Sustainability risk management

Risks related to sustainability are managed and governed based on Nordea's guiding principles on sustainability as set out in the Group Board Directive on Sustainability which implies that it shall be integrated into our investment and financing activities as well as in our advice to customers. Sustainability and climate-related risks cannot be treated in isolation to other risks as they can have a financial impact. In 2018, we included sustainability in our Group Board Directive on Risk and incorporated ESG risk in our risk taxonomy. Furthermore, ESG risk is defined as being a potential cause of reputational risk. Efforts have commenced to embed risk assessment and controlling activities as a part of our regular risk management processes and will continue into 2019.

Material sustainability issues

In 2018, we set our sustainability direction and focus based on the materiality analysis we conducted during the year. The analysis shows that our greatest impact and contribution to sustainable development is indirect, but even so we cannot neglect that also our internal operations can have a negative sustainability impact.

In the materiality analysis, we identified climate as the lead area for our efforts as it is an area that will have long-term financial implications for our business, but also an area in which we see that we can have an impact in the transition to a low-carbon economy. We also identified human rights, a responsible supply chain, community engagement and being an inclusive employer with satisfied employees as important issues that we will put focus on. Our foundation consists of the sustainability areas that are fundamental to trust in the banking industry, and that must be managed well to ensure going concern, such as governance, business ethics and digitalisation as well as our purpose and values which are how we do things.

Sustainability targets

Based on the work we performed during 2018, we have set a sustainability direction for 2021 and targets for 2019, for both our direct and indirect impact. The new direction and targets were approved by GEM in early February 2019.

Climate action

In 2017, we launched Nordea's Position Statement on Climate. This position statement sets out the scope and principles of Nordea's climate change agenda and take into consideration relevant international conventions as well as the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) and the views of our stakeholders. The statement presents our position on climate change with initiatives on how to approach the challenges. We commit to refraining from providing new financing to energy production or mining companies that are primarily dependent on thermal coal. We may continue to finance existing customers but will encourage them to transform to less carbon-intensive production. In 2018, our existing corporate customers were screened and assessed for utilisation of thermal coal. The share of companies in our portfolio primarily dependent on coal is small. As a result of the assessment we identified only three customers with which we have engaged in further dialogues to make sure that risks are highlighted, assessed and mitigated. In relation to our total lending portfolio, lending to more carbon-intensive industries[1] stands for 6% of total corporate loans excluding reverse repurchasing agreements. This exposure percentage is in line with typical corporate lending portfolios, which – according to 2° Investing Initiative – have a 20–30% share of more carbon-intensive industries.

Our greatest direct climate impact is business travel, which stands for 71% of our carbon emissions in 2018. In 2018 our business travel activity decreased with 21% in comparison to 2017 and our ambition is to continue to reduce it in 2019. Another contributor to our carbon emissions is our energy consumption. Due to our strategy to become more digital, we expect energy consumption in our data centres going up and are taking various energy efficiency measures to reduce it. To reduce carbon emissions, we are purchasing 100% renewable electricity through Guarantees of Origin equal to our electricity consumption in Denmark, Finland, Norway, Sweden, Poland and Estonia. Total carbon emissions from our internal operations in 2018 were 40,294 tonnes CO_2e[2].

Human rights

Human rights-related risks are a salient and at times material factor affecting most industries and sectors and as such is one ESG parameter in our risk evaluation in the credit decision-making process for a customer. All Nordea funds are subject to annual norm-based screening used to identify listed companies allegedly involved in breaches of international law and norms, including human rights. Nordea follows the UN Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights. We have included human rights in our Code of Conduct, Sustainability Policy, Responsible Investment Policy, Supplier Code of Conduct and in our Sector Guideline for the Defence Industry. In 2019 we will launch a position statement on Human Rights. We also work systematically to embed human rights into all parts of the organisation and to strengthen our due diligence processes, e.g. in relation to our suppliers. In the beginning of 2019, we will also conduct an independent assessment of Nordea's human rights performance. The result of the assessment will be used as a baseline for our continuing work.

Responsible supply chain

With approximately 1,300 active contracted suppliers and a spend of around EUR 2.39bn, we recognise the significant impact of where we choose to spend our money. Our suppliers operate primarily in the Nordics, and our largest single spend area is within IT. We are working on a risk-based mapping of the supply chain taking into account issues relating to climate change, human rights, labour rights and anti-corruption as well as country, sector and reputational risk. It also captures the importance of the supplier to Nordea, as well as concentration and monopoly risk. The work with risk-based mapping will continue in 2019.

Each year we also select a number of suppliers with whom we conduct an in-depth sustainability review. In 2018 we engaged directly with 20 suppliers on specific sustainability matters and conducted three in-depth supplier reviews.

Community engagement

Nordea's community engagement strategy focuses on building financial skills and accelerating entrepreneurship. We run programmes and partnerships in all our four Nordic countries, reaching thousands of young people every year. Many of the activities are based on volunteering. Nordea's volunteering policy encourages all employees to spend two days per year doing voluntary work promoting these two focus areas of our community engagement strategy and in 2018 close to 3,000 employees spent a total of approximately 18,900 hours.

Our people

Our people are our greatest asset. We aim to be an attractive employer, laying the foundation for a sustainable work environment where people can perform at their best. Our focus in 2018 has been on increasing engagement, knowing that engaged employees drive performance and productivity. We will deepen our understanding of our people's engagement and well-being with a quarterly people survey, the People Pulse.

In 2017, we announced that we will be significantly fewer in the years to come. In 2018, we supported those of our people who will leave Nordea whether it's with finding a new job internally or outside Nordea, returning to education, starting a new business or early retirement. We are happy to see that approximately 75% of the people who received support have found a solution for their next step.

At Nordea, we want to lead the way for gender equality in the finance sector. In 2018, 39% of all our leaders at Nordea were women and 61% were men. At more senior management levels, however, we see a decrease in the percentage of women. We want to improve the balance and contribute to securing equal participation at all levels in decision-making. We integrate gender perspectives into all our recruitment and report on gender balance among the last three candidates in managerial recruitments. In 2018, men represented 63% and women 37% of managerial recruitments. Our Board of Directors, with 50% men and 50% women, has adopted a directive on the promotion of gender balance that guides us in our efforts.

Nordea does not tolerate any form of harassment, sexual harassment, bullying or similar violations in the workplace. In 2018, we strengthened that commitment and created new group-wide guidelines with clear instructions for all leaders and employees. In 2018, 3% of the respondents to our People Pulse survey stated that they have been subjected to some sort of harassment or other maltreatment, and we handled 33 cases. Our goal is to further improve our people's trust in an open culture in which they can raise any misconduct.

Raise Your Concern

Raise Your Concern (RYC) is Nordea's group wide whistle-blowing function which encourages employees to speak up if they have concerns about any misconduct or irregularities. This includes any action that constitutes a violation of laws or regulations, or of Nordea's internal policies, instructions or guidelines. RYC aims to ensure compliance with global and national legislations and guidelines as well as with our own Code of Conduct. It also includes actions that could cause harm to Nordea's business or reputation, or to the health and security of our employees and customers. RYC is supported by the electronic reporting channel WhistleB.

1) Including Energy (oil, gas, etc.), Metals and mining materials, Paper and forest materials, Shipping and offshore, Transportation and Utilities (distribution and productions) with reference to the table "Loans to the public by country and industry" on page 53.

2) The GHG accounting is performed according to the GHG Protocol, including scope 1–3 and the following sources: Scope 1 is mobile combustion of leased cars and stationary combustion from diesel generators. Scope 2 is purchased electricity, heating and cooling. Scope 3 is production of energy carriers and business travel. Energy related data include Nordea's headquarters, head offices and data centres in Denmark, Finland, Norway, Sweden, Poland and Estonia. Business travel data cover employees regardless of location/office in the same countries, corresponding to almost 97% of total number of employees.

Conflict of interest policy

The Nordea Group Board has adopted a group directive on Conflicts of interest that is implemented in Nordea Bank Abp and in all its branches and subsidiaries. The directive sets forth the organizational and administrative procedures to identify, prevent or manage actual and potential conflicts of interest when providing financial services or performing other activities in Nordea. The directive applies to all employees in the Nordea Group, including non-permanent staff working on behalf of Nordea, the CEO of Nordea and Group Board members. The Group Board members, CEO and GEM members are required ensure that their decisions are unaffected by potential or actual conflicts of interest.

In all its activities, Nordea acts honestly, fairly and professionally to protect the customers best interest. The directive lists examples of potential conflicts of interest related to Nordea's activities, employees and customers and differentiates between coincidental and permanent conflicts of interest situations. Coincidental conflict of interest situation occurs with regard to a single event and can often be managed with a one-off measure. Nordea applies a principle of independence whereby Employees may not handle matters on behalf of Nordea where he/she or a closely associated person or company may have an interest which conflicts with the interests of Nordea or its customers.

Measures to avoid or manage conflicts of interest include assessing the conflict, arranging effective organizational and administrative controls, registering the identified conflicts and disclosure to customer where relevant. The organizational and administrative measures to ensure that conflicts of interest do not affect Nordea's customers include segregating duties and establishing information barriers between units, functions or activities. The information barriers and other measures enable Nordea to carry out business on behalf of customers without being influenced by other information held within Nordea and which may give rise to an actual or potential Conflict of Interest. The practical arrangements can include physical separation, technical separation (access limitations), separate organizational structures and reporting lines and frameworks, procedures and internal controls. When offering investment services, ancillary services or insurance-based investment services, Nordea uses disclosure of Conflicts of interest as a measure of last resort if effective organizational and administrative arrangements to prevent or manage the conflict are not sufficient to ensure with reasonable confidence that risk of damage to the interest of a client is prevented.

Nordea employees are required to seek prior approval for external engagements to ensure that no negative effects or conflict of interest arises from the engagements. The directive includes further details on seeking for approval for external engagements and consulting the Compliance Function in the process. External directorships in listed companies and competitor companies are prohibited as well as external engagements in offshore structures.

Remuneration

Nordea has clear remuneration policy, instructions and processes, securing sound remuneration structures throughout the organisation.

Decision making process for the Remuneration Policy

The Remuneration Policy sets out principles for remuneration within the Nordea Group including how the policy is to be applied, remuneration governance and risk management as well as how employees with a material impact on the risk profile of Nordea are defined (Identified Staff).

The Board of Directors decides on Nordea's Group Board Directive on Remuneration (the Remuneration Policy) taking possible risks into account and ensures that it is applied and followed-up as proposed by the Board Remuneration Committee (BRC).

BRC is responsible for preparing and presenting proposals to the Board of Directors on remuneration issues, including proposals about Nordea's Remuneration Policy and supplementing instructions. These preparations include assessment of the Remuneration Policy and the remuneration system. Appropriate Control Functions participate in this process and give input within their area of expertise to ensure that the Remuneration Policy is up-to-date and compliant. Further, in collaboration with the Board Risk Committee (BRIC), BRC assess that Nordea's remuneration systems properly account for all types of risks, that liquidity and capital levels is consistent with and that remuneration systems promotes sound and effective risk management.

More information about the composition of the BRC and its responsibilities is found in a separate section "Corporate Governance Statement", page 70.

Aim of Nordea's Remuneration Policy

Nordea's remuneration Policy shall:

- Support Nordea's ability to recruit, develop and retain highly motivated, competent and performance-oriented employees and hence support the Group strategy;
- Ensure that employees are offered a competitive and market aligned total reward offering;
- Support sustainable results and the long-term interests of the shareholders; and
- Ensure that remuneration in Nordea is aligned with efficient risk management, Nordea Purpose and Values and applicable regulations.

Nordea has a total remuneration approach to compensation that recognises the importance of well- balanced but differentiated remuneration structures, based on business and local market needs, as well as the importance of remuneration being consistent with and promoting sound and effective risk management not encouraging excessive risk-taking or counteracting Nordea's long-term interests.

The link between performance, risk and variable pay

Nordea's remuneration components are assessed annually to ensure business relevance, that all risks are addressed appropriately as well as compliance to applicable international and local regulations. This include non-financial risks related to operational risks, compliance risks, reputational risks and specific remuneration related risks. Most remuneration related risks concern variable pay which if not appropriately considered could lead to excessive risk taking.

Risks are addressed through the regular reviews of both remuneration structures as well as individual remuneration components, participants and potential size of potential awards, and by disclosing relevant information.

Also, Nordea has processes to align business and individual goal and target-setting across Nordea with the overall strategy, and predefined risk adjusted criteria.

Financial and non-financial goals are based on the business' expectations and forecast and stretched targets are approved by the Board of Directors to ensure alignment with shareholders and business priorities. The main performance goals in variable pay for Nordea Group were hence both absolute and relative financial goals and targets as well as absolute and relative customer satisfaction goals and targets.

When assessing performance against the pre-determined set of well-defined goals and target, Nordea applies an aligned structure with clear expectations for people leaders. Individual performance is assessed on not only 'what' is delivered but also 'how' it is delivered. A key aspect is performance against specific risk and compliance targets as well as general compliance and risk conduct, which must be appropriately considered when determining variable remuneration awards.

To guarantee fair and objective remuneration decisions and to support good governance, all individual remuneration decisions are subject to separate processes and approved in line with the Grandparent principle (approval by the manager's manager).

In-addition, Nordea performs an on-going risk assessment of remuneration risks conducted within the framework of People Risk Committee and the Risk and Control Self-Assessment. Nordea also mitigates relevant risks by means of our internal control framework, which is based on the control environment and includes the following elements: Values and management culture, goal orientation and follow-up, a clear and transparent organisational structure, three lines of defense, the four-eye principle, quality and efficiency of internal communication and an independent assessment process.

The following principles are examples of what is further applied to ensure sound risk management:

- There is an appropriate balance between fixed and variable remuneration
- Relevant Control functions are involved in and give input to the design of variable remuneration plans and associated processes.
- No employee in Nordea can earn variable remuneration exceeding 200% of annual fixed remuneration. The maximum ratio between the fixed and the variable remuneration for employees who are identified as having an impact on Nordea's risk profile under CRD IV (Identified Staff) was 100% in 2018.
- The risks set out in Nordea's Risk Appetite Statement are linked to forfeiture conditions to ensure that breaches of risk limits influence variable remuneration awards.

- Guaranteed variable remuneration (sign-on) and compensation for contracts in previous employments (buy-outs) can be offered in exceptional cases only, and then limited to the first year of employment when hiring new staff. Sign-on and Buy-out can only be paid where Nordea and the employing entity has a sound and strong capital base at the time of payment.
- Payments related to early termination of employment should reflect performance achieved over time and should be designed to not reward failure or misconduct.
- Employees engaged in control functions are compensated independently of the performance of the business unit(s) they control, and predominantly through fixed remuneration.

Nordea ensures that a substantial part of variable remuneration, as a minimum for Identified Staff, is deferred and afterwards retained over an appropriate period in line with regulatory requirements. This means that 40%–60% of variable remuneration awards are deferred for three to five years with vesting and subsequent disbursement over the deferral period on a pro-rata basis. The first disbursement of deferred variable remuneration can take place one year into the deferral period at the earliest.

At least 50% of vested awards are also subject to 6–12 months' retention

Deferred amounts relating to the 2018 performance year are subject to indexation against the development of Nordea's share price during both the deferral and retention period ensuring that, in line with regulatory requirements, awards are made in the form of instruments linked to the Nordea share price. Dividends are excluded from the indexation due to regulatory requirements.

Risk adjustments, malus and claw-back provisions

General provisions for malus and claw-back in Nordea are set out in Nordea's Board Directive on Remuneration. The Consequence Management Committee ("CMC"), constituted of the heads of Control Functions, provides governance and oversight of risk performance related adjustments of selected staff in scope in the first line of defence. Ex-ante and ex-post adjustments are proposed by the CMC to individually or collectively adjust any awards due to Risk & Compliance related performance prior to awarding.

Payment of variable remuneration awards (excluding Profit Sharing Plan) to Identified Staff, or to other employees if required according to applicable regulations, is based on an assessment of Nordea's, the relevant business unit's and the individual employee's results. Reductions, partly or down to zero, can occur if an employee eligible for variable remuneration for example has violated internal or external regulations, participated in or been responsible for an action that has caused Nordea significant losses, or in the event of a significant downturn in Nordea's or the relevant business unit's financial results.

Employees must not use personal hedging strategies to undermine or eliminate the effects of deferred variable remuneration being partly or fully removed.

Audit of Nordea's Remuneration Policy

The BRC follows-up on the application of the Nordea Remuneration Policy and supplementing instructions within Nordea through an independent review by Group Internal Audit. This audit is conducted at least annually.

Nordea's remuneration components – fixed salary

Nordea's remuneration structure comprises fixed remuneration and variable remuneration.
Fixed remuneration components are:

Fixed Base Salary which should remunerate for role and position and is impacted by: job complexity, responsibility, performance and local market conditions.

Allowance is a predetermined fixed remuneration component. Fixed base salary is, however, the cornerstone for all fixed remuneration. Allowances are not linked to performance or otherwise incentivising risk taking.

Pension and Insurance aims at ensuring employees an appropriate standard of living after retirement as well as personal insurance during employment. Pension and insurance provisions are in accordance with local laws, regulations and market practice either collectively agreed schemes or company determined schemes, or a combination thereof. Nordea aims to have defined contribution pension schemes.

Benefits in Nordea are awarded as a part of the total reward being either individually agreed or based on local laws, market practice, collective bargaining agreements and company determined practice.

Nordea variable remuneration programs

The following variable remuneration programmes are offered to Nordea employees:

GEM Executive Incentive Programme (GEM EIP) is offered to recruit, motivate and retain the CEO and executive officers in GEM and aims to reward strong performance and efforts. Assessment of individual performance is based on a predetermined set of well-defined financial as well as non-financial goals, including Nordea Group goals, BA/GF goals (where relevant) and Team/Personal goals. Please refer below for further information.

Leaders of Transformation Variable Programme (LTV) is offered to a selected and limited group of top management members to reward strong performance and working towards common goals. LTV is based on assessment of Group, BA/GF and Team/Personal performance. The programme is pool-based with predetermined financial and non-financial goals and targets at Group level as well as a collective set of performance targets for the programme participants. The individual award from the pool is determined by a performance assessment of defined goals and targets at BA/GF/Division and individual level.

Individual awards from the LTV shall not exceed annual fixed salary. All awards from 2018 LTV are paid in cash and are partly subject to share price indexation, deferral and subsequent retention as well as forfeiture clauses as outlined above.

Executive Incentive Programme (EIP) is offered to recruit, motivate and retain selected people leaders and key employees outside of GEM, and aims to reward strong performance and efforts. Assessment of individual performance is based on a predetermined set of well-defined financial as well as non-financial goals, including Nordea Group goals, BA/GF/Division goals, Team/Personal goals and where relevant employing entity goals.

The effect on the long-term result is to be considered when determining the goals and any EIP awards shall not exceed annual fixed salary.

2018 EIP awards are paid in cash and are partly subject to share price indexation, deferral and subsequent retention as well as forfeiture clauses as outlined above. Awards for most participants in EIP are subjected to three-year deferral.

Variable Salary Part (VSP) is offered to selected people leaders and specialists to reward strong performance. Assessment of individual performance is based on a predetermined set of well-defined financial as well as non-financial goals, including Nordea Group goals, BA/GF/Division goals and Team/Personal goals. VSP maximum opportunity should normally not exceed a maximum outcome of 25% of annual fixed salary, except for few selected managers and specialists within specific areas. Awards from VSP shall not exceed annual fixed salary.

Awards from VSP are paid in cash. For Identified Staff, VSP awards are partly subject to share price indexation, deferral and subsequent retention as well as forfeiture clauses as outlined above.

Bonus schemes is offered only to select groups of employees employed in specific business areas or units as approved by the Board of Directors, e.g. in Nordea Wholesale Banking, Nordea Asset Management and within Group Treasury and ALM. The aim is to ensure strong performance and to maintain cost flexibility for Nordea. Bonus schemes are pool based which is linked to a set of well-defined financial as well as non-financial goals, including Nordea Group goals. Divisional financial performance is measured as risk-adjusted profits, explicitly incorporating capital and funding costs, and is adjusted for multi-period revenue effects and minimum required profit. In the event of weak or negative overall results for the Nordea Group, bonus pools can be adjusted downwards at the discretion of the Board of Directors. As such, individual awards are determined based on detailed performance assessments covering a range of financial and non-financial goals.

Individual bonuses must be provided within both caps on the percentage of risk-adjusted profit that can be paid out, as well as individual caps for variable pay. Also, an approval process is in place to provide specific governance relating to significant individual awards from bonus schemes.

2018 Bonus awards from bonus schemes are paid in cash. For Identified Staff, awards are partly subject to share price indexation, deferral and subsequent retention as well as forfeiture clauses as outlined above.

Recognition Schemes is offered to employees to recognize extraordinary individual or team performance. Individual or team performance is assessed based on a predetermined set of goals. Identified Staff and employees eligible for other variable remuneration components (excluding Profit Sharing Plan and Recommendation Programme) are not eligible for Recognition Scheme awards.

Profit Sharing Plan (PSP) is offered group-wide to all Nordea employees but not to Identified Staff and employees who are eligible for any of Nordea's other formal variable remuneration plans. For eligible employees, the Profit Sharing Plan is offered irrespective of position and salary and aims to reward employees based on achievement against pre-determined financial goals as well as goals relating to customer satisfaction. The Profit Sharing Plan is capped financially, and outcome is not linked to the value of Nordea's share price.

Guaranteed variable remuneration (Sign-on) is can be offered in exceptional cases only and only limited to the first year of employment when hiring new staff. Sign-on can only be paid where Nordea and the employing company have a sound and strong capital base at the time of payment.

Compensation for contracts in previous employments (Buy-outs) can be offered only in exceptional cases and only in the context of hiring new staff, limited to the first year of employment and where Nordea and the employing company have a sound and strong capital base.

Retention bonus can be offered only in exceptional cases where Nordea has a legitimate interest to retain employees for a predetermined period of time or until a certain event occurs and where Nordea and the employing company have a sound and strong capital base.

Remuneration for the Board of Directors

On proposal form the Nomination Committee the AGM annually decides on remuneration for the Board of Directors. Further information is found in Note G7 on page 126.

Remuneration for the CEO and Group Executive Management (GEM)

The Board of Directors prepares proposal for guidelines for remuneration for executive officers to be approved by the AGM under Swedish regulations. According to these guidelines and on proposal by BRC, the Board of Directors decides on fixed and variable remuneration, as well as pension and other employment terms and conditions for Group CEO and other members of GEM as well as for the Group Chief Audit Executive.

Guidelines for remuneration for executive officers for 2018, approved by the AGM 2018

Nordea shall maintain remuneration levels and other employment conditions needed to recruit and retain executive officers with competence and capacity to deliver on the strategy and targets thus enabling Nordea to become a Great European bank.

The term "executive officers" shall in this context mean the CEO and Deputy CEO of Nordea Bank Abp and the executives who are members of Group Executive Management.

Remuneration for executive officers will be decided by the Board of Directors in accordance with Nordea's internal policies and procedures, as resolved and approved by the AGM 2018 in Nordea Bank AB (publ) (i.e., the predecessor of Nordea Bank Abp), which are based on the Swedish Financial Supervisory Authority's ("SFSA") regulations on remuneration systems, the Swedish Corporate Governance Code, national implementation of the EU's directive on capital requirements for banks as well as international sound compensation practices.

Salaries and other remuneration in line with market levels constitute the overriding principle for compensation for executive officers at Nordea. Compensation for the executive officers shall be consistent with and promote sound and effective risk management and not encourage excessive risk-taking or counteract Nordea's long-term interests.

Annual remuneration consists of fixed salary and variable salary.

Variable salary to the executive officers will be offered as an Executive Incentive Programme 2018 ("GEM EIP 2018") with predetermined targets at Group, business area/group function and individual level. The effect on the long-term result is to be considered when determining the targets. The outcome from GEM EIP 2018 will be based on the Board of Director's assessment of performance of the predetermined targets. The outcome from GEM EIP 2018 will be paid over a five-year period in cash, and be subject to forfeiture clauses, Total Shareholder Return indexation (dividend factor to be excluded during the deferral period) and retention based on the SFSA's regulations on remuneration systems, taking account of domestic rules and practices where relevant. GEM EIP 2018 has a one-year performance period and the outcome shall not exceed the fixed salary. The executive officers have been offered similar programs since 2013.

In accordance with SFSA's remuneration regulations guaranteed variable salary is to be exceptional and may only occur in the context of hiring a new executive officer and then be limited to the first year of employment.

Non-monetary benefits are given to facilitate executive officers' performance. The levels of these benefits are determined by what is considered fair in relation to general market practice. The executive officers shall be offered retirement benefits in accordance with market practice in the country of which they are permanent residents. Fixed salary during the period of notice and severance pay shall in total not exceed 24 months of fixed salary for executive officers.

The Board of Directors may deviate from these guidelines if required due to new remuneration regulations or if there are other special reasons for this in a certain case.

Application of the Guidelines for remuneration for executive officers for 2018

There have been no deviations from the approved guidelines 2018.

For GEM EIP, variable pay awards for the CEO, the Deputy CEO and Group COO and other members of GEM were determined based on performance against the predetermined set of well-defined financial as well as non-financial goals.

Goals at Group level included financial goals as well as non-financial goals relating to customer satisfaction on both absolute and relative levels. BA/GF goals (where relevant) included financial as well as non-financial goals relating to customer satisfaction. At individual level, performance was measured against the individually agreed goals and targets including risk and compliance as well as leadership and behaviours. The weight of Group, BA/GF (where relevant) and individual goals are determined in an individual manner for the CEO reflecting his overall responsibility for the Nordea Group, as well as for members heading a business area or a group function.

Qualitative and quantitative information

The actual cost of variable remuneration for executive officers (excluding social cost)

For GEM EIP 2018 is EUR 4.8m to be paid over a five-year period. The estimated maximum cost for GEM EIP 2019 is EUR 8.3m and the estimated cost assuming 65% fulfilment of the performance goals is EUR 5.4m.

Cost of variable remuneration for non-executive officers (excluding social cost):

The actual cost for EIP, LTV, VSP and Bonus 2018 is EUR 206m, which is paid over a three to five-year period.

In 2018, a total of EUR 56.9m was provided under Nordea's Profit Sharing Plan. Each employee can receive a maximum of EUR 3,200. If all stretched performance goals were met, the cost of the Profit Sharing Plan for eligible participants would have amounted to a maximum of approx. EUR 76.9m.

Nordea has provided qualitative and quantitative disclosures according to CRR regulation (EU) no 575/2013 of the European Parliament and of the council of 26 June 2013, the consolidated and enhanced framework for disclosure requirements issued by BIS March 2017 and the EBA guideline for sound remuneration practises.

The disclosures are included in this Annual Report 2018, in the G7 remuneration note (page 126–130). Additional and more detailed disclosures, including amounts deferred and details about the deferrals will be published on nordea.com one week before the ordinary Annual General Meeting on 28 March 2019.

Remuneration Statement

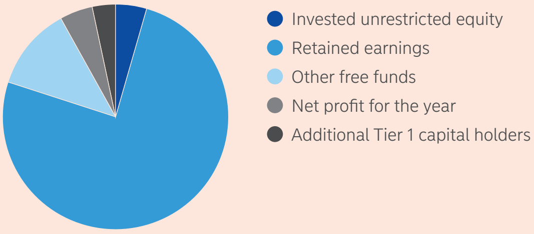
Please also refer to Nordea's Remuneration Statement for 2018. The Remuneration Statement is issued in accordance with the requirements of the Finnish Corporate Governance Code 2015 from the Securities Market Association.

It is disclosed with other information on Nordea's website on https://www.nordea.com/en/about-nordea/corporate-governance/remuneration.

Proposed distribution of earnings

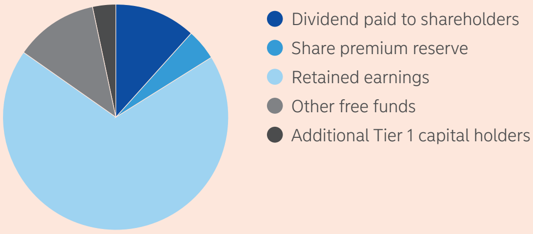
According to the parent company's balance sheet, the following amount is available for distribution by the Annual General Meeting:

EUR	
Invested unrestricted equity	1,079,925,521.03
Retained earnings	17,763,048,696.31
Other free funds	2,762,284,827.88
Net profit for the year	1,133,424,719.67
Additional Tier 1 capital holders	749,459,912.33
Total	**23,488,143,677.22**



The Board of Directors proposes that these earnings be distributed as follows:

EUR	
Dividend paid to shareholders	2,787,859,824.33
Invested unrestricted equity	1,079,925,521.03
Retained earnings	16,108,613,591.65
Other free funds	2,762,284,827.88
Additional Tier 1 capital holders	749,459,912.33
Total	**23,488,143,677.22**



It is the assessment of the Board of Directors that the proposed dividend is justifiable considering the demands with respect to the size of the Company's and the Group's equity, which are imposed by the nature, scope and risks, associated with the business, and the Company's and the Group's need for consolidation, liquidity and financial position in general.

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Income statement

EURm	Note	2018	2017
Operating income			
Interest income calculated using the effective interest rate method	G3	5,843	6,132
Other interest income	G3	1,410	1,443
Interest expense	G3	–2,929	–2,909
Net interest income	**G3**	**4,324**	**4,666**
Fee and commission income		3,846	4,232
Fee and commission expense		–853	–863
Net fee and commission income	**G4**	**2,993**	**3,369**
Net result from items at fair value	G5	1,088	1,328
Profit from associated undertakings and joint ventures accounted for under the equity method	G19	124	23
Other operating income	G6	476	83
Total operating income		**9,005**	**9,469**
Operating expenses			
General administrative expenses:			
Staff costs	G7	–2,998	–3,212
Other expenses	G8	–1,399	–1,622
Depreciation, amortisation and impairment charges of tangible and intangible assets	G9	–482	–268
Total operating expenses		**–4,879**	**–5,102**
Profit before loan losses		**4,126**	**4,367**
Net loan losses	G10	–173	–369
Operating profit		**3,953**	**3,998**
Income tax expense	G11	–872	–950
Net profit for the year		**3,081**	**3,048**
Attributable to:			
Shareholders of Nordea Bank Apb (Nordea Bank AB (publ))		3,070	3,031
Additional Tier 1 capital holders		7	–
Non–controlling interests		4	17
Total		**3,081**	**3,048**
Basic earnings per share, EUR	G12	0,76	0.75
Diluted earnings per share, EUR	G12	0,76	0.75

Statement of comprehensive income

EURm	2018	2017
Net profit for the year	**3,081**	**3,048**
Items that may be reclassified subsequently to the income statement		
Currency translation differences during the year	–240	–511
Tax on currency translation differences during the year	–2	3
Hedging of net investments in foreign operations:		
Valuation gains/losses during the year	67	175
Tax on valuation gains/losses during the year	–19	–37
Fair value through other comprehensive income[1]:		
Valuation gains/losses during the year	–48	–
Tax on valuation gains/losses during the year	11	–
Transferred to the income statement during the year	–10	–
Tax on transfers to the income statement during the year	2	–
Available for sale investments[1]:		
Valuation gains/losses during the year	–	31
Tax on valuation gains/losses during the year	–	–8
Transferred to the income statement during the year	–	0
Tax on transfers to the income statement during the year	–	0
Cash flow hedges:		
Valuation gains/losses during the year	720	43
Tax on valuation gains/losses during the year	–159	–19
Transferred to the income statement during the year	–676	–150
Tax on transfers to the income statement during the year	149	43
Items that may not be reclassified subsequently to the income statement		
Changes in own credit risk related to liabilities classified as fair value option:		
Valuation gains/losses during the year	20	–
Tax on valuation gains/losses during the year	–4	–
Defined benefit plans:		
Remeasurement of defined benefit plans during the year	–173	–115
Tax on remeasurement of defined benefit plans during the year	36	25
Other comprehensive income, net of tax	**–326**	**–520**
Total comprehensive income	**2,755**	**2,528**
Attributable to:		
Shareholders of Nordea Bank Abp (Nordea Bank AB (publ))	2,744	2,511
Additional Tier 1 capital holders	7	–
Non-controlling interests	4	17
Total	**2,755**	**2,528**

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

Balance sheet

EURm	Note	31 Dec 2018	31 Dec 2017
Assets			
Cash and balances with central banks		41,578	43,081
Loans to central banks	G13	7,642	4,796
Loans to credit institutions	G13	11,320	8,592
Loans to the public	G13	308,304	310,158
Interest-bearing securities	G14	76,222	75,294
Financial instruments pledged as collateral	G15	7,568	6,489
Shares	G16	12,452	17,180
Assets in pooled schemes and unit-linked investment contracts	G17	24,583	25,879
Derivatives	G18	37,025	46,111
Fair value changes of the hedged items in portfolio hedge of interest rate risk		169	163
Investments in associated undertakings and joint ventures	G19	1,601	1,235
Intangible assets	G20	4,035	3,983
Properties and equipment		546	624
Investment properties	G22	1,607	1,448
Deferred tax assets	G11	164	118
Current tax assets		284	121
Retirement benefit assets	G32	246	250
Other assets	G23	14,749	12,441
Prepaid expenses and accrued income	G24	1,313	1,463
Assets held for sale	G42	–	22,186
Total assets		**551,408**	**581,612**
Liabilities			
Deposits by credit institutions	G25	42,419	39,983
Deposits and borrowings from the public	G26	164,958	172,434
Deposits in pooled schemes and unit-linked investment contracts	G17	25,653	26,333
Liabilities to policyholders	G27	18,230	19,412
Debt securities in issue	G28	190,422	179,114
Derivatives	G18	39,547	42,713
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,273	1,450
Current tax liabilities		414	389
Other liabilities	G29	23,315	28,515
Accrued expenses and prepaid income	G30	1,696	1,603
Deferred tax liabilities	G11	706	722
Provisions	G31	321	329
Retirement benefit liabilities	G32	398	281
Subordinated liabilities	G33	9,155	8,987
Liabilities held for sale	G42	–	26,031
Total liabilities		**518,507**	**548,296**
Equity			
Additional Tier 1 capital holders		750	750
Non-controlling interests		6	168
Share capital		4,050	4,050
Share premium reserve		–	1,080
Invested unrestricted equity		1,080	–
Other reserves		–1,876	–1,543
Retained earnings		28,891	28,811
Total equity		**32,901**	**33,316**
Total liabilities and equity		**551,408**	**581,612**
Assets pledged as security for own liabilities	G34	171,899	198,973
Other assets pledged	G35	4,788	4,943
Contingent liabilities	G36	17,819	19,020
Commitments	G37	74,479	77,032

Statement of changes in equity

2018

	Attributable to shareholders of Nordea Bank Abp											
			Other reserves:									
EURm	Share capital[1]	Share premium reserve/ Invested unrestricted equity	Translation of foreign operations[6]	Cash flow hedges[7]	Fair value through other com-prehensive income[5]	Defined benefit plans	Changes in own credit risk related to liabilities at fair value option	Retained earnings	Total	Additional Tier 1 capital holders	Non-controlling interests	Total equity
Balance at 31 Dec 2017	**4,050**	**1,080**	**–1,720**	**–46**	**103**	**120**	**–**	**28,811**	**32,398**	**750**	**168**	**33,316**
Effects from changed accounting policy, net of tax	–	–	–	–	1	–	–8	–237	–244	–	–	–244
Restated opening balance at 1 Jan 2018	**4,050**	**1,080**	**–1,720**	**–46**	**104**	**120**	**–8**	**28,574**	**32,154**	**750**	**168**	**33,072**
Net profit for the year	–	–	–	–	–	–	–	3,070	3,070	7	4	3,081
Items that may be reclassified subsequently to the income statement												
Currency translation differences during the year	–	–	–240	–	–	–	–	–	–240	–	–	–240
Tax on currency translation differences during the year	–	–	–2	–	–	–	–	–	–2	–	–	–2
Hedging of net investments in foreign operations:												
Valuation gains/losses during the year	–	–	67	–	–	–	–	–	67	–	–	67
Tax on valuation gains/losses during the year	–	–	–19	–	–	–	–	–	–19	–	–	–19
Fair value through other comprehensive income:												
Valuation gains/losses during the year	–	–	–	–	–48	–	–	–	–48	–	–	–48
Tax on valuation gains/losses during the year	–	–	–	–	11	–	–	–	11	–	–	11
Transferred to the income statement during the year	–	–	–	–	–10	–	–	–	–10	–	–	–10
Tax on transfers to the income statement during the year	–	–	–	–	2	–	–	–	2	–	–	2
Cash flow hedges:												
Valuation gains/losses during the year	–	–	–	720	–	–	–	–	720	–	–	720
Tax on valuation gains/losses during the year	–	–	–	–159	–	–	–	–	–159	–	–	–159
Transferred to the income statement during the year[4]	–	–	–	–676	–	–	–	–	–676	–	–	–676
Tax on transfers to the income statement during the year[4]	–	–	–	149	–	–	–	–	149	–	–	149

Statement of changes in equity, Nordea Group, cont.

2018

EURm	Share capital[1]	Share premium reserve/ Invested unrestricted equity	Translation of foreign operations[6]	Cash flow hedges[7]	Fair value through other com-prehensive income[5]	Defined benefit plans	Changes in own credit risk related to liabilities at fair value option	Retained earnings	Total	Additional Tier 1 capital holders	Non-controlling interests	Total equity
	Attributable to shareholders of Nordea Bank Abp											
			Other reserves:									
Items that may not be reclassified subsequently to the income statement												
Changes in own credit risk related to liabilities classified as fair value option:												
Valuation gains/losses during the year	–	–	–	–	–	–	20	–	20	–	–	20
Tax on valuation gains/losses during the year	–	–	–	–	–	–	–4	–	–4	–	–	–4
Transfer due to derecognition during the year	–	–	–	–	–	–	–	–	–	–	–	–
Defined benefit plans:												
Remeasurement of defined benefit plans during the year	–	–	–	–	–	–173	–	–	–173	–	–	–173
Tax on remeasurement of defined benefit plans during the year	–	–	–	–	–	36	–	–	36	–	–	36
Other comprehensive income, net of tax	**–**	**–**	**–194**	**34**	**–45**	**–137**	**16**	**0**	**–326**	**–**	**–**	**–326**
Total comprehensive income	**–**	**–**	**–194**	**34**	**–45**	**–137**	**16**	**3,070**	**2,744**	**7**	**4**	**2,755**
Paid interest on additional Tier 1 capital	–	–	–	–	–	–	–	–	–	–7	–	–7
Dividend for 2017	–	–	–	–	–	–	–	–2,747	–2,747	–	–	–2,747
Purchase of own shares[2]	–	–	–	–	–	–	–	–6	–6	–	–	–6
Change in non-controlling interests[3]	–	–	–	–	–	–	–	–	–	–	–166	–166
Balance at 31 Dec 2018	**4,050**	**1,080**	**–1,914**	**–12**	**59**	**–17**	**8**	**28,891**	**32,145**	**750**	**6**	**32,901**

1) Total shares registered were 4,050 million.
2) Refers to the change in the holding of own shares related to the Long Term Incentive Programme (LTIP), trading portfolio and Nordea's shares within portfolio schemes in Denmark. The number of own shares were 15.2 million. The total holding of own shares related to LTIP were 9.6 million.
3) Of which EUR -172m refers to the sale of Nordea Liv & Pension, Livforsikringsselskab A/S in Denmark.
4) The transfer is due to that the hedged item is affecting the income statement.
5) Due to the implementation of IFRS 9 the Available for sale (AFS) category does no longer exist and the assets are instead classified as Fair value through other comprehensive income (FVOCI). Hence, the opening balance 2018 for the FVOCI-reserve is the closing balance 2017 for the AFS-reserve.
6) Relates to foreign exchange risk. Of the balance per 31 December 2018, EUR 568m relates to hedging relationship for which hedge accounting is applied and EUR -m relates to hedging relationships for which hedge accounting is no longer applied.
7) For more detailed information see Note G18.

Statement of changes in equity, Nordea Group, cont.

2017

EURm	Share capital[1]	Share premium reserve	Translation of foreign operations[5]	Cash flow hedges[6]	Available for sale investments	Defined benefit plans	Retained earnings	Total	Additional Tier 1 capital holders	Non-controlling interests	Total equity
	Attributable to shareholders of Nordea Bank AB (publ)										
			Other reserves:								
Balance at 1 Jan 2017	4,050	1,080	–1,350	37	80	210	28,302	32,409	–	1	32,410
Net profit for the year	–	–	–	–	–	–	3,031	3,031	–	17	3,048
Items that may be reclassified subsequently to the income statement											
Currency translation differences during the year	–	–	–511	–	–	–	–	–511	–	–	–511
Tax on currency translation differences during the year	–	–	3	–	–	–	–	3	–	–	3
Hedging of net investments in foreign operations:											
Valuation gains/losses during the year	–	–	175	–	–	–	–	175	–	–	175
Tax on valuation gains/losses during the year	–	–	–37	–	–	–	–	–37	–	–	–37
Available for sale investments:											
Valuation gains/losses during the year	–	–	–	–	31	–	–	31	–	–	31
Tax on valuation gains/losses during the year	–	–	–	–	–8	–	–	–8	–	–	–8
Transferred to the income statement during the year	–	–	–	–	0	–	–	0	–	–	0
Tax on transfers to the income statement during the year	–	–	–	–	0	–	–	0	–	–	0
Cash flow hedges:											
Valuation gains/losses during the year	–	–	–	43	–	–	–	43	–	–	43
Tax on valuation gains/losses during the year	–	–	–	–19	–	–	–	–19	–	–	–19
Transferred to the income statement during the year[4]	–	–	–	–150	–	–	–	–150	–	–	–150
Tax on transfers to the income statement during the year[4]	–	–	–	43	–	–	–	43	–	–	43

Statement of changes in equity, Nordea Group, cont.

2017

EURm	Share capital[1]	Share premium reserve	Translation of foreign operations[5]	Cash flow hedges[6]	Available for sale investments	Defined benefit plans	Retained earnings	Total	Additional Tier 1 capital holders	Non-controlling interests	Total equity
	Attributable to shareholders of Nordea Bank AB (publ)										
			Other reserves:								
Items that may not be reclassified subsequently to the income statement											
Defined benefit plans:											
Remeasurement of defined benefit plans during the year	–	–	–	–	–	–115	–	–115	–	–	–115
Tax on remeasurement of defined benefit plans during the year	–	–	–	–	–	25	–	25	–	–	25
Other comprehensive income, net of tax	**–**	**–**	**–370**	**–83**	**23**	**–90**	**–**	**–520**	**–**	**–**	**–520**
Total comprehensive income	**–**	**–**	**–370**	**–83**	**23**	**–90**	**3,031**	**2,511**	**–**	**17**	**2,528**
Issuance of additional Tier 1 capital	–	–	–	–	–	–	–6	–6	750	–	744
Dividend for 2016	–	–	–	–	–	–	–2,625	–2,625	–	–	–2,625
Purchase of own shares[2]	–	–	–	–	–	–	–12	–12	–	–	–12
Change in non-controlling interests[3]	–	–	–	–	–	–	121	121	–	150	271
Balance at 31 Dec 2017	**4,050**	**1,080**	**–1,720**	**–46**	**103**	**120**	**28,811**	**32,398**	**750**	**168**	**33,316**

1) Total shares registered were 4,050 million.
2) Refers to the change in the holding of own shares related to the Long Term Incentive Programme, trading portfolio and Nordea's shares within portfolio schemes in Denmark. The number of own shares were 13.7 million. The total holdings of own shares related to LTIP were 10.2 million.
3) Refers to the sale of 25% of Nordea Liv & Pension, Livforsikringsselskab A/S in Denmark.
4) The transfer is due to that the hedged item is affecting the income statement.
5) Relates to foreign exchange risk. Of the balance per 31 December 2017, EUR 521m relates to hedging relationship for which hedge accounting is applied and EUR -m relates to hedging relationships for which hedge accounting is no longer applied.
6) For more detailed information see Note G18.

Cash flow statement

EURm	2018	2017
Operating activities		
Operating profit	3,953	3,998
Adjustment for items not included in cash flow	1,238	3,514
Income taxes paid	–1,024	–950
Cash flow from operating activities before changes in operating assets and liabilities	**4,167**	**6,562**
Changes in operating assets		
Change in loans to central banks	–2,052	–190
Change in loans to credit institutions	–1,463	136
Change in loans to the public	–2,884	7,541
Change in interest-bearing securities	–90	4,305
Change in financial assets pledged as collateral	237	–2,915
Change in shares	4,984	–5,801
Change in derivatives, net	4,687	–4,816
Change in investment properties	–218	–171
Change in other assets	–1,672	2,890
Changes in operating liabilities		
Change in deposits by credit institutions	–622	9,432
Change in deposits and borrowings from the public	–5,461	–1,681
Change in liabilities to policyholders	–1,531	2,163
Change in debt securities in issue	12,856	–8,373
Change in other liabilities	–8,307	3,201
Cash flow from operating activities	**2,631**	**12,274**
Investing activities		
Sale of business operations	646	228
Investment in associated undertakings and joint ventures	–81	–957
Sale of associated undertakings	90	20
Acquisition of property and equipment	–32	–129
Sale of property and equipment	14	11
Acquisition of intangible assets	–608	–685
Sale of intangible assets	–	42
Net divestment in debt securities, held to maturity	–	–8
Purchase/sale of other financial fixed assets	–	–21
Cash flow from investing activities	**29**	**–1,499**
Financing activities		
Issued subordinated liabilities	641	–
Issued Additional Tier 1 capital	–	750
Paid interest on additional Tier 1 capital	–7	–
Amortised subordinated liabilities	–669	–750
Divestment/repurchase of own shares incl change in trading portfolio	–6	–12
Dividend paid	–2,747	–2,625
Cash flow from financing activities	**–2,788**	**–2,637**
Cash flow for the year	**–128**	**8,138**
Cash and cash equivalents at beginning of the year	46,213	41,860
Translation difference	–76	–3,785
Cash and cash equivalents at the end of year	46,009	46,213
Change	**–128**	**8,138**

Cash flow statement, Nordea Group, cont.

Comments on the cash flow statement

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

Operating activities

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

EURm	2018	2017
Depreciation		
Impairment charges	307	236
Loan losses	175	5
Unrealised gains/losses	217	422
Capital gains/losses (net)	–401	–47
Change in accruals and provisions	994	–182
Translation differences	–94	–625
Change in bonus potential to policyholders, Life	–447	58
Change in technical reserves, Life	–20	2,056
Change in fair value on the hedge items, assets/liabilities (net)	–144	–957
Other	412	134
Total	**1,238**	**3,514**

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	2018	2017
Interest payments received	7,412	7,748
Interest expenses paid	–3,138	–3,475

Investing activities

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

Financing activities

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

Cash and cash equivalents

The following items are included in Cash and cash equivalents:

EURm	31 Dec 2018	31 Dec 2017
Cash and balances with central banks	41,578	43,081
Loans to central banks, payable on demand	2,759	2,004
Loans to credit institutions, payable on demand	1,672	779
Assets held for sale	–	349
Total	**46,009**	**46,213**

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

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

Loans to credit institutions, payable on demand include liquid assets not represented by bonds or other interest-bearing securities. Loans to central banks, payable on demand includes instruments where Nordea has the right to resell immediately.

Reconciliation of liabilities arising from financing activities

The opening balance of subordinated liabilities was EUR 10,459m. During the period cash flows related to bonds were EUR –750m and the effects of FX changes and other was EUR –722m ending up in a closing balance of EUR 8,987m.

Glossary

Allowances in relation to credit impaired loans (stage 3)
Allowances for impaired loans (stage 3) divided by impaired loans measured at amortised cost (stage 3) before allowances.

Allowances in relation to loans in stage 1 and 2
Allowances for not impaired loans (stage 1 and 2) divided by not impaired loans measured at amortised cost (stage 1 and 2) before allowances.

Basic earnings per share
Net profit for the year divided by the weighted average number of outstanding shares, non-controlling interests excluded.

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

Diluted earnings per share
Net profit for the year divided by the weighted average number of outstanding shares after full dilution, non-controlling interests excluded.

Economic capital (EC)
Economic Capital is Nordea's interal estimate of required capital and measures the capital required to cover unexpected losses in the course of its business with a certain probability. EC uses advanced internal models to provide a consistent measurement for Credit Risk, Market Risk, Operational Risk, Business risk and Life Insurance Risk arising from activities in Nordea's various business areas.

The aggregation of risks across the group gives rise to diversification effects resulting from the differences in risk drivers and the improbability that unexpected losses occur simultaneously.

Equity per share
Equity as shown on the balance sheet after full dilution and non-controlling interests excluded divided by the number of shares after full dilution.

Impairment rate (Stage 3), gross
Impaired loans (Stage 3) before allowances divided by total loans measured at amortised cost before allowances.

Impairment rate (Stage 3), net
Impaired loans (Stage 3) after allowances divided by total loans measured at amortised cost before allowances.

Loan loss ratio
Net loan losses (annualised) divided by closing balance of loans to the public (lending) measured at amortised cost.

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

Own funds
Own funds include the sum of the Tier 1 capital and the supplementary capital consisting of subordinated loans, after deduction of the carrying amount of the shares in wholly owned insurance companies and the potential deduction for expected shortfall.

Price to Book
Nordea's stock market value relative to its book value of total equity.

Return on equity
Net profit for the year as a percentage of average equity for the year. Additional Tier 1 capital, accounted for in equity, is in the calculation considered as being classified as a financial liability. Net profit for ther period excludes non-controlling interests and interest expense on Additional Tier 1 capital (discretionary interest accrued). Average equity including net profit for the year and dividend until paid, and excludes non-controlling interests and Additional Tier 1 capital.

Return on assets
Net profit for the year as a percentage of total assets at 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 operational risks of the Group's undertakings, in accordance with regulations governing capital adequacy, excluding assets in insurance companies, carrying amount of shares which have been deducted from the capital base and intangible assets.

ROCAR, % (Return on capital at risk)
Net profit excluding items affecting comparability, in percentage of Economic Capital. For Business areas it is defined as Operating profit after standard tax in percentage of Economic capital.

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 investments in insurance companies, 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 allowance rate (Stage 1, 2 and 3)
Total allowances divided by total loans measured at amortised cost before allowances.

Total allowances in relation to impaired loans (provisioning ratio)
Total allowances divided by impaired loans before allowances.

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

Total shareholders return (TSR)
Total shareholders return measured as growth in the value of a shareholding during the year, assuming the dividends are reinvested at the time of the payment to purchase additional shares.

G1. Accounting policies

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1. Basis for presentation

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

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

On 21 February 2019 the Board of Directors approved the financial statements, subject to final approval of the Annual General Meeting on 28 March 2019.

The accounting policies, basis for calculations and presentations are unchanged in comparison with the Annual Report 2017, except from changed accounting policies and presentation described below in the section "Changed accounting policies and presentation". The comparable figures for 2017 are presented in accordance with IAS 39, for more information see Note G1 in the Annual Report 2017, mainly within section 13.

2. Changed accounting policies and presentation

The new accounting requirements implemented during 2018 and their impact on Nordea's financial statements are described below.

IFRS 9 "Financial instruments"

The new standard IFRS 9 "Financial instruments" covers classification and measurement, impairment and general hedge accounting and replaces the earlier requirements covering these areas in IAS 39. The classification, measurement and impairment requirements in IFRS 9 were implemented by Nordea as from 1 January 2018. Nordea has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39 (see further description in section 10).

The total negative impact on equity from IFRS 9 amounts to EUR 183m after tax and was recognised as an opening balance adjustment 1 January 2018. For more information about the IFRS 9 transition impact on 1 January 2018, see below. Nordea has not restated the comparative figures for 2017.

Classification and measurement

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

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

Nordea has analysed whether the cash flows from the financial assets held per 31 December 2017 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. For contacts signed after 1 January 2018 only restructured contracts are allowed to have SPPI non-compliant features and for restructured contracts the SPPI analysis is performed for each contact separately.

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 in 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. Under IAS 39 Nordea did not calculate collective provisions for off balance sheet exposures or the financial instruments classified into the measurement category Financial assets at fair value through other comprehensive income.

G1. Accounting policies, cont.

The new classification and measurement requirements in IFRS 9 have resulted in the following classification of assets and liabilities at transition per 1 January 2018:

Classification of assets and liabilities under IFRS 9

Assets

1 Jan 2018, EURm	Amortised cost (AC)	Fair value through profit or loss (FVPL): Mandatorily	Fair value through profit or loss (FVPL): Designated at fair value through profit or loss (Fair value option)	Fair value through profit or loss (FVPL): Derivatives used for hedging	Fair value through other comprehensive income (FVOCI)	Non-financial assets and associated undertakings/joint ventures	Assets held for sale	Total
Cash and balances with central banks	43,081	–	–	–	–	–	–	43,081
Loans	246,966	76,427	–	–	–	–	–	323,393
Interest-bearing securities	3,093	28,027	7,832	–	36,342	–	–	75,294
Financial instruments pledged as collateral	–	6,489	–	–	–	–	–	6,489
Shares	–	17,180	–	–	–	–	–	17,180
Assets under pooled schemes and unit-linked investment contracts	–	25,229	499	–	–	151	–	25,879
Derivatives	–	44,415	–	1,696	–	–	–	46,111
Fair value changes of the hedged items in portfolio hedge of interest rate risk	163	–	–	–	–	–	–	163
Investments in associated undertakings and joint ventures	–	–	–	–	–	1,207	–	1,207
Intangible assets	–	–	–	–	–	3,983	–	3,983
Properties and equipment	–	–	–	–	–	624	–	624
Investment properties	–	–	–	–	–	1,448	–	1,448
Deferred tax assets	–	–	–	–	–	159	–	159
Current tax assets	–	–	–	–	–	121	–	121
Retirement benefit assets	–	–	–	–	–	250	–	250
Other assets	1,523	10,272	–	–	–	646	–	12,441
Prepaid expenses and accrued income	999	–	–	–	–	464	–	1,463
Assets held for sale	–	–	–	–	–	–	22,186	22,186
Total assets	**295,825**	**208,039**	**8,331**	**1,696**	**36,342**	**9,053**	**22,186**	**581,472**

Liabilities

1 Jan 2018, EURm	Amortised cost (AC)	Fair value through profit or loss (FVPL): Mandatorily	Fair value through profit or loss (FVPL): Designated at fair value through profit or loss (Fair value option)	Fair value through profit or loss (FVPL): Derivatives used for hedging	Non-financial liabilities	Liablities held for sale	Total
Deposit by credit institutions	34,078	5,905	–	–	–	–	39,983
Deposits and borrowings from the public	163,330	9,075	29	–	–	–	172,434
Deposits in pooled schemes and unit-linked investment contracts	–	–	26,333	–	–	–	26,333
Liabilities to policyholders	–	–	3,486	–	15,926	–	19,412
Debt securities in issue	122,511	–	56,603	–	–	–	179,114
Derivatives	–	41,607	–	1,106	–	–	42,713
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,450	–	–	–	–	–	1,450
Current tax liabilities	–	–	–	–	389	–	389
Other liabilities	2,883	24,421	–	–	1,261	–	28,515
Accrued expenses and prepaid income	246	–	–	–	1,357	–	1,603
Deferred tax liabilities	–	–	–	–	717	–	717
Provisions	–	–	–	–	377	–	377
Retirement benefit liabilities	–	–	–	–	281	–	281
Subordinated liabilities	8,987	–	–	–	–	–	8,987
Liabilities held for sale	–	–	–	–	–	26,031	26,031
Total liabilities	**333,435**	**81,008**	**86,451**	**1,106**	**20,308**	**26,031**	**548,339**

G1. Accounting policies, cont.

The new classification and measurement requirements in IFRS 9 have resulted in the following reclassification and remeasurement of assets and liabilities at transition per 1 January 2018:

Reclassification of assets and liabilities at transition

Assets, EURm	Amortised cost (AC)	Fair value through profit or loss (FVPL): Mandatorily	Fair value through profit or loss (FVPL): Designated at fair value through profit or loss (Fair value option)	Derivatives used for hedging	Fair value through other comprehensive income (FVOCI)	Non-financial assets and associated undertakings/ joint ventures	Assets held for sale	Total
Balance at 31 Dec 2017 under IAS 39	**295,639**	**118,240**	**98,469**	**1,696**	**36,342**	**9,040**	**22,186**	**581,612**
Required reclassification from Fair value option to AC[1]	234	–	–234	–	–	–	–	–
Required reclassification from Fair value option to FVPL mandatorily[2]	–	89,904	–89,904	–	–	–	–	–
Required reclassification from AC to FVPL mandatorily[1]	–23	23	–	–	–	–	–	–
Reclassification of provisions on loans held at fair value	128	–128	–	–	–	–	–	–
Impact from companies accounted for under the equity method	–	–	–	–	–	–28	–	–28
Remeasurement[3]	–153	–	–	–	–	41	–	–112
Balance at 1 Jan 2018 under IFRS 9	**259,825**	**208,039**	**8,331**	**1,696**	**36,342**	**9,053**	**22,186**	**581,472**

Liabilities, EURm	Amortised cost (AC)	Fair value through profit or loss (FVPL): Mandatorily	Fair value through profit or loss (FVPL): Designated at fair value through profit or loss (Fair value option)	Derivatives used for hedging	Non-financial liabilities	Liabilities held for sale	Total
Balance at 31 Dec 2017 under IAS 39	**333,435**	**81,008**	**86,451**	**1,106**	**20,265**	**26,031**	**548,296**
Remeasurement under IFRS 9[4]	–	–	–	–	43	–	43
Balance at 1 Jan 2018 under IFRS 9	**333,435**	**81,008**	**86,451**	**1,106**	**20,308**	**26,031**	**548,339**

1) The reclassification relates to Loans and is required by the classification criteria in IFRS 9. These loans were reclassified to amortised cost as the business model for these loans under IFRS 9 is to hold them and collect contractual cash flows. Under IAS 39 these loans were designated at fair value through profit or loss as they were considered to be part of Markets' portfolio of assets and liabilities which were managed on a fair value basis. The fair value of these loans 31 December 2018 does not significantly differ from the carrying amount at the same date which was EUR 91m. The changes in fair value of these loans during 2018 was EUR 143m and the effective interest rate 1 January 2018 was in the range 0.36%–3.56%. The interest income from these loans during 2018 amounts to EUR 2m and was presented in the income statement on the row Net results from items at fair value in the income statement.

2) Interest-bearing securities of EUR 202m, shares of EUR 11,926m, loans of EUR 52,547m and assets in pooled schemes of EUR 25,229m have been reclassified from Fair value option to Fair value through profit and loss, mandatorily. The reason for this reclassification of interest-bearing securities, shares and loans is that these assets have cash flows that were not solely payments of principle and interest and therefore based on classification criteria mandatorily should be measured at fair value through profit or loss. The reason for the reclassification of the pooled schemes was that these assets are managed on a fair value basis and therefore based on the classification criteria mandatorily should be measured at fair value through profit or loss.

3) Amortised cost (AC) consists of remeasurement of collective and individual provisions of EUR 153m and FVOCI consist of new provisions of EUR 2m and an equal but opposite fair value measurement. Non financial assets consist of an increase of deferred tax assets of EUR 41m.

4) Increase in provision for off-balance sheet items of EUR 48m and decrease of deferred tax liability of EUR 5m.

G1. Accounting policies, cont.

The assets to test for impairment are 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 will have individually calculated provisions, while for insignificant assets the assessment is based on a statistical model. In stage 1, the provisions equal the 12 months expected loss. In stage 2 and 3, the provisions 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. For assets held at transition, Nordea has 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 recognised after transition, changes to the lifetime Probability of Default (PD) are used as the trigger. Nordea has concluded it is not possible to calculate the lifetime PDs at origination without the use of hindsight for assets already recognised on the balance sheet at transition. For assets evaluated based on lifetime PDs, Nordea has 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 are also transferred to stage 2.

Nordea's model for calculating collective provisions under IAS 39 defined a loss event as one notch deterioration in rating/scoring, while the triggering event for moving items from stage 1 to stage 2 under IFRS 9 requires several notches deterioration. The provisions under IFRS 9 are calculated as the exposure at default times the probability of default times the loss given default. For assets in stage 1 this calculation is only based on the coming 12 months, while it for assets in stage 2 is based on the expected lifetime of the asset.

For assets where there has been a significant increase in credit risk, Nordea earlier, under IAS 39, held provisions based on the losses estimated to occur during the period between the date when the loss event occurred and the date when the loss event is identified on an individual basis, the so called "Emergence period", while IFRS 9 requires provisions equal to the lifetime expected loss.

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

The quantitative impact from the new impairment requirements on total allowances and provisions for on- and off-balance exposures, including debt instruments accounted for at fair value through other comprehensive income (FVOCI), was an increase of EUR 203m. Equity was reduced by EUR 183m including the expected impact from companies accounted for under the equity method. The impact on the Common Equity Tier 1 capital ratio, after adjustment of the shortfall deduction and before transition rules, was insignificant. Nordea has not applied the transitional rules issued by the EU allowing a phase in of the impact on common equity tier-1 capital. There was no material impact to large exposures. The impact on provisions is disclosed in the table below.

Impairment calculations under IFRS 9 requires more experienced credit judgement by the reporting entities than was required by IAS 39 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. Nordea has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39 (see further description in section 10). If Nordea instead had elected to apply the new hedge accounting requirement in IFRS 9 that would not have resulted in any significant impact on Nordea's financial statements, capital adequacy, large exposures, risk management or alternative performance measures. The reason is that Nordea generally uses macro (portfolio) hedge accounting.

IFRS 15 "Revenue from Contracts with Customers"

The new standard IFRS 15 "Revenue from Contracts with Customers" outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes earlier revenue recognition standards and interpretations within IFRS, such as IAS 18 "Revenue". The standard does not apply to financial instruments, insurance contracts or lease contracts.

The standard was implemented by Nordea as from 1 January 2018 using the modified retrospective approach, meaning that the cumulative effect of the change was recognised as an adjustment to equity in the opening balance 2018. Comparable figures for 2017 are not restated.

The new standard had an impact on Nordea's accounting policies for loan origination fees, as such fees are amortised as part of the effective interest of the loans to a larger extent than before. The total negative impact on equity from IFRS 15

Reclassification of provisions at transition

EURm	Held to maturity	Loans and receivables	Amortised cost (AC)	Available for sale	Fair value through other comprehensive income (FVOCI)	Off-balance	Total
Balance at 31 Dec 2017 under IAS 39	**–**	**2,333**	**–**	**–**	**–**	**91**	**2,424**
Reclassification to AC	–	–2,156	2,156	–	–	–	0
Reclassification to FVPL	–	–177	–	–	–	–	–177
Remeasurement under IFRS 9, collective provisions	–	–	143	–	2	48	193
Remeasurement under IFRS 9, individual provisions	–	–	10	–	–	–	10
Balance at 1 Jan 2018 under IFRS 9	**–**	**–**	**2,309**	**–**	**2**	**139**	**2,450**

G1. Accounting policies, cont.

amounts to EUR 61m after tax and was recognised as an opening balance adjustment 1 January 2018.

IAS 1 "Presentation of Financial Statements"

As a result of IFRS 9, IASB have amended IAS 1 "Presentation of Financial Statements". These amendments were implemented by Nordea as from 1 January 2018.

As a result of the amendments in IAS 1, Nordea presents interest income on two rows in the income statement, Interest income calculated using the effective interest rate method and Other interest income. On the row Interest income calculated using the effective interest method, Nordea presents interest income from financial assets measured at amortised cost and at fair value through other comprehensive income. This line item also includes the net paid or received interest on hedging instruments relating to these assets. All other interest income is presented on the income statement row Other interest income. The comparative figures for 2017 have been restated.

Other amended requirements

The following new and amended standards and interpretations were implemented by Nordea 1 January 2018 but have not had any significant impact on the financial statements of Nordea:

- Amendments to IFRS 4: Applying IFRS 9 Financial Instruments with
- IFRS 4 Insurance contracts
- Amendments to IFRS 2: Classification and Measurement of Share based Payment Transactions
- Amendments to IAS 40: Transfers of Investment Property
- Annual Improvements to IFRS Standards 2014-2016 Cycle

As from 1 October 2018 Nordea is applying certain 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. Earlier Nordea applied certain complementary rules in the Swedish Annual Accounts Act for Credit Institutions and Securities Companies (1995:1559), the accounting regulations of the Swedish Financial Supervisory Authority (FFFS 2008:25 including amendments) and the Supplementary Accounting Rules for Groups (RFR 1) from the Swedish Financial Reporting Board. These changes have not had any significant impact on Nordea's financial statements.

3. Changes in IFRSs not yet applied

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

IFRS 16 "Leases"

The IASB has published the new standard, IFRS 16 "Leases". The new standard changes the accounting requirements for lessees. All leases (except for short term- and small ticket leases) should be accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding liability, and the lease payments should be recognised as amortisation and interest expense. The accounting requirements for lessors are unchanged. Additional disclosures are also required. The new standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted. The standard was endorsed by the EU-commission in 2017.

The main impact on Nordea's financial statements will come from the accounting of property leases. Such leasing contracts will be accounted for on the balance sheet to a larger extent than today. The right of use asset, presented as "Properties and equipment" on the balance sheet, will amount to EUR 1.5bn. The increase of total assets will be EUR 1.2bn considering also a reclassification of already existing prepaid lease expenses. There is no significant impact on the income statement or equity, although the presentation will change in the income statement. The impact on the CET1 ratio is negative by 12 basis points following an increase in REA. See note G49 "IFRS 16" for more information on the impact from IFRS 16.

IFRS 17 "Insurance contracts"

The IASB has published the new standard IFRS 17 "Insurance contracts". The new standard will change the accounting requirements for recognition, measurement, presentation and disclosure of insurance contracts.

The measurement principles will change from a non-uniform accounting policy based on the local accounting policies in the life insurance subsidiaries to a uniform accounting policy based on the three measurement models Building Block Approach (BBA), Variable Fee Approach (VFA) and Premium Allocation Approach (PAA). The model application depends on the terms of the contracts (long term, long term with variable fee or short term). The three measurement models include consistent definitions of the contractual cash-flows, risk adjustment margin and discounting. These definitions are based on the similar principles as the measurement principles for technical provisions in the Solvency II capital requirement directives. Unearned future premiums will be recognised as a provision on the balance sheet and released to revenue when the insurance service is provided. Any unprofitable contracts will be recognized in the income statement at the time when the contract is signed and approved.

IFRS 17 is effective for annual report period beginning on or after 1 January 2021 with earlier application permitted. However, due to comments from the global insurance industry the IASB board has proposed to amend IFRS 17 including a one-year deferral of IFRS 17 effective date to 1 January 2022. The standard is not yet endorsed by the EU-commission. Nordea does not currently intend to early adopt the standard. Nordea's current assessment is that the new standard will not have any significant impact on Nordea's capital adequacy or large exposures in the period of initial application. It is not yet possible to conclude on the impact on Nordea's financial statements.

Other changes in IFRS

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

G1. Accounting policies, cont.

- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendments, Curtailment or Settlement
- Amendments to IAS 28: Long-term Interest in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015-2017 Cycle
- Amendments to References to the Conceptual Framework in IFRS Standards
- Amendments to IFRS 3: Definition of business
- Amendments to IAS 1 and IAS 8: Definitions of Material

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 impact 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:
  - goodwill and
  - 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 actuarial calculations of insurance contracts
- the valuation of investment properties
- the classification of leases
- the classification of additional tier 1 instruments
- assessing control for consolidation purposes
- the translations of assets and liabilities denominated in foreign currencies
- the valuation of deferred tax assets
- claims in civil lawsuits.

Fair value measurement of certain financial instruments

Nordea's accounting policy for determining the fair value of financial instruments is described in section 11 "Determination of fair value of financial instruments" and Note G40 "Assets and liabilities at fair value". Critical judgements that have a significant impact on the recognised amounts for financial instruments are exercised when determining fair value of OTC derivatives and other financial instruments that lack quoted prices or recently observed market prices. Those judgements relate to the following areas:

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

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

In all of these instances, decisions are based upon professional judgement in accordance with Nordea's accounting and valuation policies. The fair value of financial assets and liabilities measured at fair value using a valuation technique, level 2 and 3 in the fair value hierarchy, was EUR 178,960m (EUR 189,157m) and EUR 136,412m (EUR 141,819m) respectively at the end of the year.

Sensitivity analysis disclosures covering fair values of financial instruments with significant unobservable inputs can be found in Note G40 "Assets and liabilities at fair value".

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

Impairment testing of goodwill

Nordea's accounting policy for goodwill is described in section 16 "Intangible assets" and Note G20 "Intangible assets" lists the cash generating units to which goodwill has been allocated. Nordea's total goodwill amounted to EUR 1,816m (EUR 1,994m) at the end of the year.

The estimation of future cash flows and the calculation of the rate used to discount those cash flows are subject to estimation uncertainty. The forecast of future cash flows is sensitive to the cash flow projections for the near future (generally 3-5 years) and to the estimated sector growth rate for the period beyond 3-5 years. The growth rates are based on historical data, updated to reflect the current situation, which implies estimation uncertainty.

The rates used to discount future expected cash flows are based on the long-term risk-free interest rate plus a risk premium (post tax). The risk premium is based on external information of overall risk premiums in relevant countries.

For information on the sensitivity to changes in relevant parameters, see Note G20 "Intangible assets".

Impairment testing of loans to the public/credit institutions

Nordea's accounting policy for impairment testing of loans is described in section 14 "Loans to the public/credit institutions".

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances. Nordea's total lending before impairment allowances was EUR 329,306m (EUR 325,879m) at the end of the year. For more information, see Note G13 "Loans and impairment".

When calculating allowances for individually significant impaired loans, judgement is exercised to estimate the amount and timing of the expected cash flows to be received from the customers under different scenarios, including the valuation of any collateral received. Judgement is also applied when assigning the likelihood of the different scenarios occurring.

Judgement is exercised to assess when an exposure has experienced a significant increase in credit risk. If this is the case, the provision should reflect the lifetime expected losses, as opposed to a 12-month expected loss for exposures not having increased significantly in credit risk. Judgement is also exercised in the choice of modelling approaches covering other parameters used when calculating the expected losses, such as the expected lifetime used in stage 2, as well as in the

G1. Accounting policies, cont.

assessment of whether the parameters based on historical experience are relevant for estimating future losses.

The statistical models used to calculate provisions are based on macro-economic scenarios, which requires management to exercise judgement when identifying such scenarios and when assigning the likelihood of the different scenarios occurring. Judgement is also exercised in the assessment of to what extent the parameters for the different scenarios, based on historical experience, are relevant for estimating future losses.

Effectiveness testing of cash flow hedges

Nordea's accounting policies for cash flow hedges are described in section 10 "Hedge accounting".

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

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

Actuarial calculations of pension liabilities and plan assets related to employees

Nordea's accounting policy for post-employment benefits is described in section 23 "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 Sweden, Norway and Denmark the discount rate is determined with reference to covered bonds and in Finland with reference to 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 G32 "Retirement benefit obligations" together with a description of the sensitivity to changes in assumptions. The defined benefit obligation was EUR 3,494m (EUR 3,454m) at the end of the year.

Actuarial calculations of insurance contracts

Nordea's accounting policy for insurance contracts is described in section 19 "Liabilities to policyholders".

A valuation of insurance liabilities includes estimations and assumptions, both financial and actuarial. One of the important financial assumptions is the interest rate used for discounting future cash flows. Important actuarial assumptions are those on mortality and disability, which affect the size and timing of the future cash flows. The financial and actuarial assumptions are, to a large extent, stipulated in local legislation and therefore not under Nordea's discretion. Also, assumptions about future administrative and tax expenses have an impact on the calculation of policyholder liabilities.

The insurance liability was EUR 15,001m (EUR 15,931m) at the end of the year. The carrying amount's sensitivity to different assumptions is disclosed in Note G27 "Liabilities to policyholders".

Valuation of investment properties

Nordea's accounting policies for investment properties are described in section 18 "Investment properties".

Investment properties are measured at fair value. As there normally are no active markets for investment properties, the fair values are estimated based on discounted cash flow models. These models are based on assumptions on future rents, vacancy levels, operating and maintenance costs, yield requirements and interest rates.

The carrying amounts of investment properties were EUR 1,607m (EUR 1,448m) at the end of the year. See Note G22 "Investment properties" for more information on amounts and parameters used in these models.

Classification of leases

Nordea's accounting policies for leases are described in section 15 "Leasing".

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

The central district properties in Finland, Norway and Sweden that Nordea has divested are leased back. The duration of the lease agreements was initially 3-25 years with renewal options. The lease agreements include no transfers of ownerships of the assets by the end of the lease term, nor any economic benefit from appreciation in value of the leased properties. In addition, the lease term is not for the major part of the assets' economic life. As a result, Nordea has classified these leases as operating leases. This judgement is a critical judgement that has a significant impact on the carrying amounts in the financial statement. The carrying amount of these properties at the time of disposal was EUR 1.5bn.

More information on lease contracts can be found in Note G21 "Leasing".

Classification of additional tier 1 instruments

Nordea has issued perpetual subordinated instruments where the interest payments to the holders are at the discretion of Nordea and non-accumulating. Some of these instruments also include a requirement for Nordea to pay interest if the instruments are no longer allowed to be included in tier 1 capital. If there is a requirement to pay interest based on the occurrence or non-occurrence of an uncertain future event that is beyond the control of both the issuer and the holder of the instrument, the instrument shall be classified as a financial liability. The inclusion of the subordinated loan in tier 1 capital is decided by the regulators and is thus beyond the control of Nordea and the holders of the instrument. Nordea classifies the instruments as financial liabilities. Instruments without such clauses are classified as equity as there is no requirement for Nordea to pay interest or principal to the holders of the instrument.

Assessing control for consolidation purposes

One decisive variable when assessing if Nordea controls another entity is whether Nordea is exposed to variability in returns from the investment. For structured entities where voting rights are not the dominant factor when determining control, critical judgement has to be exercised when defining when Nordea is exposed to significant variability in returns.

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Nordea's critical judgement is that Nordea is normally exposed to variability in returns when Nordea receives more than 30% of the return produced by the structured entity. This is only relevant for structured entities where Nordea also is the investment manager and thus have influence over the return produced by the structured entity.

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

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

Valuation of deferred tax assets

Nordea's accounting policy for the recognition of deferred tax assets is described in section 21 "Taxes" and Note G11 "Taxes".

The valuation of deferred tax assets is influenced by management's assessment of Nordea's future profitability and sufficiency of future taxable profits and future reversals of existing taxable temporary differences. These assessments are updated and reviewed at each balance sheet date, and are, if necessary, revised to reflect the current situation.

The carrying amount of deferred tax assets was EUR 164m (EUR 118m) at the end of the year.

Claims in civil lawsuits

Within the framework of the normal business operations, Nordea faces a number of claims in civil lawsuits and disputes, most of which involve relatively limited amounts. Presently, none of the current disputes are considered likely to have any significant adverse effect on Nordea or its financial position. See also Note G31 "Provisions" and Note G36 "Contingent liabilities".

5. Principles of consolidation

Consolidated entities

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

All group undertakings are consolidated using the acquisition method, except for the forming of Nordea in 1997–98 when the holding in Nordea Bank Finland Plc was consolidated using the pooling method. Under the acquisition method, the acquisition is regarded as a transaction whereby the parent company indirectly acquires the group undertaking's assets and assumes its liabilities and contingent liabilities. The group's acquisition cost is established in a purchase price allocation analysis. In such analysis, the cost of the business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the acquirer, in exchange for the identifiable net assets acquired. Costs directly attributable to the business combination are expensed.

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

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

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

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

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

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

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

Note P21 "Investments in group undertakings" lists the major group undertakings in the Nordea Group.

Investments in associated undertakings and joint ventures

The equity method of accounting is used for associated undertakings where the share of voting rights is between 20 and 50 per cent and/or where Nordea has significant influence. Significant influence is the power to participate in the financial and operating decisions of the investee but is not control or joint control over those policies.

The equity method of accounting is also used for joint ventures where Nordea has joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Investments within Nordea's investment activities, which are classified as a venture capital organisation within Nordea, are measured at fair value in accordance with the rules set out in IAS 28 and IAS 39. Further information on the equity method is disclosed in section 6 "Recognition of operating income and impairment".

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

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

Note G19 "Investments in associated undertakings and joint ventures" lists the major associated undertakings in the Nordea Group.

Structured entities

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

Power can exist due to agreements or other types of influence over a structured entity. Nordea normally has power

G1. Accounting policies, cont.

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

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

Further information about consolidated and unconsolidated structured entities is disclosed in note G47 "Interests in structured entities".

Currency translation of foreign entities/branches

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

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

Any remaining equity in foreign branches is converted at the closing rates with translation differences recognised in other comprehensive income.

Information on the most important exchange rates is disclosed in the separate section 29 "Exchange rates".

6. Recognition of operating income and impairment

Net interest income

Interest income and expense are calculated and recognised based on the effective interest rate method or, if considered appropriate, based on a method that results in an interest income or interest expense that is a reasonable approximation of using the effective interest rate method as basis for the calculation. The effective interest includes fees considered to be an integral part of the effective interest rate of a financial instrument (generally fees received as compensation for risk). The effective interest rate equals the rate that discounts the estimated future cash flows to the net 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 and Nordea Life & Pensions are classified as "Net result from items at fair value" in the income statement. Also, the interest on the net funding of the operations in Markets is recognised on this line.

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

Interest income is presented on two rows in the income statement, Interest income calculated using the effective interest rate method and Other interest income. On the row Interest income calculated using the effective interest method, Nordea present interest income from financial assets measured at amortised cost or at fair value through other comprehensive income. This line items also includes the effect from hedge accounting relating to these assets. All other interest income is presented on the income statement row Other interest income, and consists mainly of interest income on lending held at fair value in Denmark.

Net fee and commission income

Nordea earns commission income from different services provided to customers. The recognition of commission income depends on the purpose for which the fees are received.

The major part of the revenues classified as "Commission income" constitutes revenue from contracts with customers according to IFRS 15. Fee income is recognised either when or as performance obligations are satisfied.

Asset management commissions are generally recognised over time as services are performed and are normally based on assets under management. These fees are recognised based on the passage of time as the amount, and the right to the fee, corresponds to the value received by the customer. Variable fees that are based on relative performance compared with a benchmark are in asset management rare and they are normally fixed and recognised at least each reporting date. Variable fees that are not fixed at the reporting date cannot generally be recognised as the outcome is uncertain and subject to market development.

Life & Pension commission income includes fee income, referred to as expense loading, from insurance contracts and investment contracts with policyholders. Investments contracts are contracts that do not include enough insurance risk to be classified as insurance contracts. The expense loading is the part of the premium income considered to be compensation for the contract administration. The fee income is recognised over time when the services are performed. These contracts do generally not include any up-front fees.

Fees categorised as Deposit Products, Brokerage, securities issues and corporate finance, Custody and issuer service and Payment commissions are recognised both over time and at a point of time dependent on when the performance obligations are satisfied. Card fees are categorised as interchange fees that are recognised at a point of time, when the customer uses the services, and cardholder fees that are recognised over time or at a point of time if the fee is transaction based.

Lending fees that are not part of the effective interest of a financial instrument are recognised at a point of time. The amount of loan syndication fees, as well as other transaction-based fees, received are recognised at a point when the per-

G1. Accounting policies, cont.

formance obligation is satisfied, i.e. when the syndication or transaction has been performed. Fees received on bilateral transactions are generally amortised as part of the effective interest of the financial instruments recognised.

Income from issued financial guarantees, and expenses for bought financial guarantees, are amortised over the duration of the instruments and classified as "Fee and commission income" and "Fee and commission expense" respectively. Other fee income is generally transaction based.

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

Initial contract costs for obtaining contracts are recognised as an asset and amortised if the costs are expected to be recovered.

Net result from items at fair value

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

Realised and unrealised gains and losses derive from:

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

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

Also, the ineffective portion of cash flow hedges and net investment hedges as well as recycled gains and losses on financial instruments classified into the category Financial assets at fair value through other comprehensive income are recognised in "Net result from items at fair value".

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

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

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

The income recognition and descriptions of the lines relating to life insurance are described in section 7 "Income recognition life insurance" below.

Profit from companies accounted for under the equity method

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

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

The change in Nordea's share of the net assets is generally based on monthly reporting from the associated undertakings and joint ventures. For some associated undertakings and joint ventures not individually significant the change in Nordea's share of the net assets is based on the external reporting of the associated undertakings and the joint ventures and affects the financial statements of Nordea in the period in which the information is available. The reporting from the associated undertakings and the joint ventures is, if applicable, adjusted to comply with Nordea's accounting policies.

Other operating income

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

Net loan losses

Impairment losses from financial assets classified into the categories Amortised cost and Fair value through other comprehensive income (see section 13 "Financial instruments"), in the items "Loans to central banks", "Loans to credit institutions", "Loans to the public" and "Interest-bearing securities" on the balance sheet, are reported as "Net loan losses" together with losses from financial guarantees. Losses are reported net of any collateral and other credit enhancements. Nordea's accounting policies for the calculation of impairment losses on loans can be found in section 14 "Loans to the public/credit institutions".

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

Impairment of securities held as financial non-current assets

Impairment on investments in associated undertakings and joint ventures are classified as "Impairment of securities held as financial non-current assets" in the income statement. The policies covering impairment of financial assets classified into the category Amortised cost are disclosed in section 13

G1. Accounting policies, cont.

"Financial instruments" and section 14 "Loans to the public/credit institutions".

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

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

7. Income recognition life insurance

Premiums received, and repayments to policyholders, related to the saving part of the life insurance contracts are reported as increases or decreases of liabilities to policyholders. See further information in section 19 "Liabilities to policyholders".

The total income from life insurance mainly consists of the following components:

- Cost result
- Insurance risk result
- Risk and performance margin
- Investment return on additional capital in life insurance

The result from these components is, except for the cost result and the risk and performance margin relating to Unit Linked and Investment contracts, included in "Net result from items at fair value".

The cost result is the result of expense loading from policyholders and is included in the item "Fee and commission income", together with the risk and performance margin relating to Unit Linked and Investment contracts. The related expenses are included in the items "Fee and commission expense" and "Operating expenses". The policyholder's part of a positive or negative cost result (profit sharing) is included in the note line "Change in technical provisions, Life insurance" within Note G5 "Net result from items at fair value".

The insurance risk result consists of income from individual risk products and from unbundled life insurance contracts as well as Health and personal accident insurance. The risk premiums are amortised over the coverage period as the provisions are reduced when insurance risk is released. A large part of the unbundled risk result from traditional life insurance is subject to profit sharing, which means that the policyholders receive a part of a net income or a net deficit. The risk income and the risk expenses are presented gross on the lines "Insurance risk income, Life insurance" and "Insurance risk expense, Life insurance" in Note G5 "Net result from items at fair value". The policyholder's part of the result is included in the line "Change in technical provisions, Life insurance" in the note.

Gains and losses derived from investments in Nordea Life & Pensions are split on the relevant lines in Note G5 "Net result from items at fair value" as for any other investment in Nordea. The lines include investment return on assets held to cover liabilities to policyholders and return on the additional capital allocated to Nordea Life & Pensions (Shareholders capital in the Nordea Life & Pensions group).

The note line "Change in technical provisions, Life insurance" in Note G5 "Net result from items at fair value" includes:

- Investment returns on assets held to cover liabilities to policyholders (including liabilities from traditional life insurance, unit linked insurance and investment contracts), individually transferred to policyholders' accounts according to the contracts.
- Additional bonus (discretionary participation feature) to policyholders concerning traditional life insurance contracts or any other transfers to the policyholders to cover a periodical deficit between the investment result and any agreed minimum benefit to the policyholders.
- Risk and performance margin regarding traditional life insurance products according to local allocation rules in each Nordea Life & Pensions unit and according to contracts with policyholders. The recognition of a risk and performance margin in the income statement is mainly conditional on a positive result for traditional life insurance contracts. Risk and performance margins not possible to recognise in the current period due to poor investment results can, in some countries, partly or wholly be deferred to years with higher returns.
- The policyholders' part of the cost- and risk result regarding traditional life insurance contracts or unit linked contracts.

The note line "Change in collective bonus potential, Life insurance" in Note G5 "Net result from items at fair value" relates only to traditional life insurance contracts. The line includes policyholders' share of investment returns not yet individualised. The line includes also additional bonus (discretionary participation feature) and amounts needed to cover a periodical deficit between the investment result and any minimum benefits to the policyholders.

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

Derivative instruments, quoted securities and foreign exchange spot transactions are recognised on and derecognised (and an asset or a liability is recognised as "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.

Loans where cash flows are modified, or part of a restructuring are derecognised, and a new loan recognised, if the terms and conditions of the new loan is substantially different from the old loan. This is normally the case if the present value of the cash flows of the new loan discounted by the original interest rate is more than 10% different from the present value of the remaining expected cash flows of the old loan. The same principles apply to financial liabilities.

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

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

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deposit to the counterpart, i.e. on settlement date. Financial liabilities under trade date accounting are generally derecognised and a liability is recognized as “Other liabilities” on the balance sheet on trade date.

For further information, see sections “Securities borrowing and lending agreements” and “Repurchase and reverse repurchase agreements” within section 13 “Financial instruments”, as well as Note G43 “Transferred assets and obtained collaterals”.

9. Translation of assets and liabilities denominated in foreign currencies

The functional currency of each entity (subsidiary or branch) is decided based upon the primary economic environment in which the entity operates. 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 denominated in foreign currencies 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”.

10. Hedge accounting

As a part of Nordea’s risk management policy, Nordea has identified a series of risk categories with corresponding hedging strategies using derivative instruments, as set out in the Market risk section in the chapter "Risk Management" in the Board of Directors' report and Note G18.

When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, Nordea applies one of three types of hedge accounting:

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

Nordea has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39.

The EU carve out version 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.

At inception, Nordea formally documents how the hedging relationship meets the hedge accounting criteria, including the economic relationship between the hedged item and the hedging instrument, the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship on an ongoing basis.

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.

Transactions that are entered into in accordance with Nordea’s hedging objectives but do not qualify for hedge accounting, are economic hedge relationships.

Fair value hedge accounting

Fair value hedge accounting is applied when derivatives are hedging changes in fair value of a recognised asset or liability attributable to a specific risk in accordance with Nordea’s risk management policies set out in the Market risk section in the chapter "Risk Management"in the Board of Directors' report and Note G18. The risk of changes in fair value of assets and liabilities in Nordea’s financial statements originates mainly from loans, securities and deposits with a fixed interest rate, causing interest rate risk. Changes in fair value from derivatives as well as changes in fair value of the hedged item attributable to the risks being hedged are recognised separately in the income statement in the item “Net result from items at fair value”. Given the hedge is effective, the change in fair value of the hedged item and the hedging instrument will offset.

The changes in fair value of the hedged item attributable to the risks hedged with the derivative instrument are reflected in an adjustment to the carrying amount of the hedged item, which is also recognised in the income statement. The fair value change of the hedged items held at amortised cost in a portfolio hedge of interest rate risks is reported separately from the portfolio in the item “Fair value changes of the hedged items in portfolio hedge of interest rate risk” on the balance sheet.

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

Hedged items

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

Hedging instruments

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

Hedge effectiveness

When assessing hedge effectiveness retrospectively Nordea measures the fair value of the hedging instruments and compares the change in fair value of the hedging instrument to the change in fair value of the hedged item. The effectiveness measurement is made on a cumulative basis.

If the hedging relationship does not fulfil the hedge accounting requirements, the 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.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The effect of changes in Nordea’s or a counterparty’s credit risk on the fair value of the hedging instrument or hedged items

G1. Accounting policies, cont.

- Disparity between expected and actual prepayments of the loan portfolio

Cash flow hedge accounting

In accordance with Nordea's risk management policies set out in the Market risk section in the chapter "Risk Management" in the Board of Directors' report and Note G18, cash flow hedge accounting is applied when hedging the exposure to variability in future interest payments on instruments with variable interest rates and for the hedging of currency exposures. The portion of the gain or loss on the hedging instrument, that is determined to be an effective hedge, is recognised in other comprehensive income and accumulated in the cash flow hedge reserve in equity. The ineffective portion of the gain or loss on the hedging instrument is recycled to the item "Net result from items at fair value" in the income statement.

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

Hedged items

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

Hedging instruments

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

Hedge effectiveness

The hypothetical derivative method is used when measuring the effectiveness retrospectively 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 hedging relationship does not fulfil the hedge accounting requirements, the hedge accounting is terminated. 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.

The possible sources of ineffectiveness for cash flow hedges are generally the same as for those for fair value hedges described above. However, for cash flow hedges, prepayment risk is less relevant, and the causes of hedging ineffectiveness arise from the changes in the timing and the amount of forecast future cash flows.

Hedges of net investments

In accordance with Nordea's risk management policies set out in the Market risk section in the chapter "Risk Management" in the Board of Directors' report and Note G18, Nordea hedges its translation risk. Translation risk is defined as the risk of loss from equity capital investment in foreign operations that are denominated in a foreign currency other than the Group reporting currency (EUR). The hedging instruments used by Nordea are FX swaps.

Translation differences on financial instruments that are designated hedging instruments in a hedge of a net investment in a group undertaking are recognised in other comprehensive income, to the extent the hedge is effective. This is performed in order to offset the translation differences affecting other comprehensive income when consolidating the group undertaking into Nordea. Hedge ineffectiveness can arise to the extent the hedging instruments exceed in nominal terms the risk exposure from the foreign operations. Any ineffectiveness is recognised in the income statement in the item "Net result from items at fair value".

See also section 9 "Translation of assets and liabilities denominated in foreign currencies".

11. Determination of fair value of financial instruments

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

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

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

The trade frequency and volume are monitored regularly in order to assess if markets are active or non-active. Nordea is predominantly using published price quotations to establish fair value for items disclosed under the following balance sheet items:

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

G1. Accounting policies, cont.

- Debt securities in issue (issued mortgage bonds in Nordea Kredit Realkreditaktieselskab)

If quoted prices for a financial instrument fail to represent actual and regularly occurring market transactions or if quoted prices are not available, fair value is established by using an appropriate valuation technique. The adequacy of the valuation technique, including an assessment of whether to use quoted prices or theoretical prices, is monitored on a regular basis.

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

Nordea is predominantly using valuation techniques to establish fair value for items disclosed under the following balance sheet items:
- Loans to the public (mortgage loans in Nordea Kredit Realkreditaktieselskab)
- Interest-bearing securities (when quoted prices in an active market are not available)
- Shares (when quoted prices in an active market are not available)
- Derivatives (OTC-derivatives)

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

Note G40 "Assets and liabilities at fair value" provides a breakdown of fair values of financial instruments measured on the basis of:
- quoted prices in active markets for the same instrument (level 1),
- valuation technique using observable data (level 2), and
- valuation technique using non-observable data (level 3).

The valuation models applied by Nordea are consistent with accepted economic methodologies for pricing financial instruments and incorporate the factors that market participants consider when setting a price.

New valuation models are subject to approval by the Model Risk Committee and all models are reviewed on a regular basis.

For further information, see Note G40 "Assets and liabilities at fair value".

12. 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

13. Financial instruments
Classification of financial instruments
Each financial instrument has been classified into one of the following categories:

Financial assets:
- Amortised cost
- Financial assets at fair value through profit or loss:
  - Mandatorily measured at fair value through profit and loss
  - Designated at fair value through profit or loss (fair value option)
- Financial asset at fair value through other comprehensive income

Financial liabilities:
- Amortised cost
- Financial liabilities at fair value through profit or loss:
  - Mandatorily measured at fair value through profit and loss
  - Designated at fair value through profit or loss (fair value option)

The classification of a financial assets 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).

Financial assets with cash flows that are not solely payments of principle and interest (SPPI) are measured at fair value through profit and loss. All other assets are classified based on the business model. Instruments included in a portfolio with a business model where the intention is to keep the instruments and collect contractual cash flows are measured at amortised cost. Instruments included in a business model where the intention is to both keep the instruments to collect the contractual cash flows and sell the instruments are measured at fair value through other comprehensive income. Financial assets included in any other business model are measured at fair value through profit and loss.

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

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. In the table "Classification of assets and liabilities under IFRS 9" above the classification of the financial instruments on Nordea's balance sheet into the different categories under IFRS 9 is presented.

Amortised cost
Financial assets and liabilities measured at amortised cost are initially recognised on the balance sheet at fair value, includ-

G1. Accounting policies, cont.

ing transaction costs. Subsequent to initial recognition, the instruments within this category are measured at amortised cost. In an amortised cost measurement, the difference between acquisition cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method. Amortised cost is defined as the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and for financial assets, adjusted for any loss allowance. For more information about the effective interest rate method see Note G1 section 6, "Net interest income". For information about impairment under IFRS 9, see section 14 below.

Interest on assets and liabilities classified at amortised cost is recognised in the item "Interest income" and "Interest expense" in the income statement.

This category consists of mainly all loans and deposits, except for reversed repurchase/repurchase agreement and securities borrowing/lending agreements in Markets and the mortgage loans in Nordea Kredit Realkreditaktieselskab. This category also includes interest bearing securities mainly related to a portfolio of interest bearing securities in Life & Pension in Norway, subordinated liabilities and debt securities in issue, except for bonds issued in Nordea Kredit Realkreditaktieselskab and issued structured bonds in Markets.

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; Mandatorily measured at fair value through profit and loss and Designated at fair value through profit or loss (fair value option).

The sub-category Mandatorily measured at fair value through profit and loss contains mainly all assets in Markets, trading liabilities in Markets, interest-bearing securities included in part of the liquidity buffer, derivative instruments, shares, the mortgage loans in the Danish subsidiary Nordea Kredit Realkreditaktieselskab and financial assets under "Assets in pooled schemes and unit-linked investment contracts". Deposits in pooled schemes and unit-linked investment contracts are contracts with customers and policyholders where the total risk is born by the policy holders. The deposits are invested in different types of financial asset on behalf of the customer and policyholders.

The major parts of the financial assets/liabilities classified into the category Designated at fair value through profit or loss are issued bonds in Nordea Kredit Realkreditaktieselskab and assets and liabilities in Nordea Life & Pensions.

Liabilities in Nordea Kredit Realkreditaktieselskab are classified into the category Designated at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch. When Nordea grants mortgage loans to customers in accordance with the Danish mortgage finance law Nordea at the same time issues bonds with matching terms, so called "match funding". The customers can repay the loans either through repayments of the principal or by purchasing the issued bonds and return them to Nordea as a settlement of the loan. The bonds play an important part in the Danish money market and Nordea consequently buys and sells own bonds in the market. The loans are measured at fair value through profit and loss and if the bonds were measured at amortised cost this would give rise to an accounting mismatch. To avoid such an accounting mismatch Nordea measures the bonds at fair value with all changes in fair value including changes in credit risk recognised in profit or loss.

All assets in Nordea Life & Pension held under investment contracts are classified into the category Designated at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch with the liabilities to the policyholders that are measured at fair value. The investment contracts (unit-linked) classified as "Liabilities to policyholders" on the balance sheet are managed at fair value and consequently classified into the category Designated at fair value through profit or loss. Changes in own credit risk is recognised in profit and loss as recognising this change in other comprehensive income would create an accounting mismatch. Assets held under insurance contracts (defined in Note 1 section 19 "Liabilities to policyholders"), except for a portfolio of interest bearing securities in Norway, are classified into the category Designated at fair value through profit or loss to reduce an accounting mismatch with the liabilities to policyholders that are generally measured at current value.

Also, assets in pooled schemes and unit-linked investment contracts that are not mandatorily measured at fair value through profit and loss are classified into the category Designated at fair value through profit or loss to avoid an accounting mismatch with the related deposits. The deposits in pooled schemes and unit-linked investment contracts are managed at fair value and consequently also classified into the category Designated at fair value through profit or loss. The value of these deposits is directly linked to assets in the contacts and there is consequently no effect from changes in own credit risk in these contracts.

Nordea also applies the fair value option on issued structured bonds in Markets as these instruments include embedded derivatives not closely related to the host contract. The change in fair value on these issues structured bonds is recognised in profit and loss except for the changes in credit risk that is recognised in other comprehensive income.

Interest income and interest expense related to all balance sheet items held at fair value through profit and loss in Markets and Nordea Life & Pensions are classified as "Net result from items at fair value".

Financial asset at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are measured at fair value plus transaction costs. This category mainly consists of the interest-bearing securities included in part of the liquidity buffer. Changes in fair values, except for interest, foreign exchange effects and impairment losses, are recognised in the fair value reserve in equity through other comprehensive income. Interest is recognised in the item "Interest income", foreign exchange effects in "Net result from items at fair value" and impairment losses in the item "Net loan losses" in the income statement. When an instrument is disposed of, the fair value changes that previously have been accumulated in the fair value reserve in other comprehensive income are removed from equity and recognised in the income statement in the item "Net result from items at fair value". For information about impairment under IFRS 9, see section 14 below.

Hybrid (combined) financial instruments

Hybrid (combined) financial instruments are contracts containing a host contract and an embedded derivative instrument. Such combinations arise predominantly from the issu-

G1. Accounting policies, cont.

ance of structured debt instruments, such as issued index-linked bonds.

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

For index-linked bonds issued by Markets Nordea applies the fair value option and the entire combined instrument, host contract together with the embedded derivative, is measured at fair value through profit or loss. Changes in fair values are recognised in the income statement in the item "Net result from items at fair value" and presented as "Debt securities in issue" on the balance sheet.

Securities borrowing and lending agreements

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

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

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

Repurchase and reverse repurchase agreements

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

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

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

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

Derivatives

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

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

Offsetting of financial assets and liabilities

Nordea offsets financial assets and liabilities on the balance sheet if there is a legal right to offset, in the ordinary course of business and in case of bankruptcy, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously.

Exchanged traded derivatives are generally accounted for as settled on a daily basis when cash is paid or received, and the instrument is reset to market terms. Derivative assets, derivative liabilities, cash collateral receivables and cash collateral liabilities against central counterparty clearing houses are offset on the balance sheet if the transaction currency and the central counterparty is the same. Derivative assets, derivative liabilities, cash collateral receivables and cash collateral liabilities related to bilateral OTC derivative transactions are not offset on the balance sheet.

In addition, loans and deposits related to repurchase and reversed repurchase transaction with CCP are offset on the balance sheet if the assets and liabilities relate to the same central counterparty, are settled in the same currency and have the same maturity date. Loans and deposit related to repurchase and reversed repurchase transactions that are made in accordance with the Global Master Repurchase Agreement (GMRA) are offset on the balance sheet if the assets and the liabilities relate to the same counterparty, are settled in the same currency, have the same maturity date and are settled through the same settlement institution.

Issued debt and equity instruments

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

14. Loans to the public/credit institutions

Scope

Financial instruments classified as Amortised cost or Fair value through other comprehensive income are in scope for recognising impairment due to credit risk. This includes assets recognised on the balance sheet as "Loans to central banks", Loans to credit institutions", "Loans to the public" and "Interest-bearing securities". These balance sheet lines also include assets classified as Fair value through profit or loss, which are not in scope for impairment calculations. See section 13 above and Note G39 on "Classification of financial instruments".

Off-balance sheet commitments, contingent liabilities and loan commitments are also in scope for impairment calculations.

Recognition and presentation

Amortised cost assets are recognised gross with an offsetting allowance for the expected credit losses if the loss is not regarded as final. The allowance account is disclosed net on the face of the balance sheet, but the allowance account is disclosed separately in the notes. Changes in the allowance

G1. Accounting policies, cont.

account are recognised in the income statement and classified as “Net loan losses”.

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

Provisions for off-balance sheet exposures are classified as “Provisions” on the balance sheet, with changes in provisions classified as “Net loan losses”.

Assets classified as Fair value through other comprehensive income are recognised at fair value on the balance sheet. Impairment losses calculated in accordance with IFRS 9 are recognised in the income statement and classified as “Net loan losses”. Any fair value adjustments are recognised in “Other comprehensive income”.

Impairment testing

Nordea classifies all exposures into stages on an individual basis. Stage 1 includes assets where there has been no significant increase in credit risk since initial recognition, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Nordea monitors whether there are indicators of exposures being credit impaired (stage 3) by identifying events that have a detrimental impact on the estimated future cash flows (loss event). Nordea applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in the Risk, Liquidity and Capital management section. Exposures without individually calculated allowances will be covered by the model-based impairment calculation.

For significant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is made on an individual basis. The carrying amount of the exposure is compared with the sum of the net present value of expected future cash flows. If the carrying amount is higher, the difference is recognised as an impairment loss. The expected cash flows are discounted with the original effective interest rate and include the fair value of the collaterals and other credit enhancements. The estimate is based on three different forward-looking scenarios that are probability weighted to derive the net present value.

For insignificant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is measured using the model described below but based on the fact that the exposures are already in default.

Model based allowance calculation

For exposures not impaired on an individual basis, a statistical model is used for calculating impairment losses. The provisions are calculated as the exposure at default times the probability of default times the loss given default. For assets in stage 1 this calculation is only based on the coming 12 months, while it for assets in stage 2 and 3 are based on the expected lifetime of the asset.

The provisions for exposures where there has been no significant increase in credit risk since initial recognition are based on the 12-month expected loss (stage 1). Provisions for exposures where there has been a significant increase in credit risk since initial recognition, but that are not credit impaired, are based on the lifetime expected losses (stage 2). This is also the case for the insignificant credit impaired exposures in stage 3.

Nordea uses two different models to identify whether there has been a significant increase in credit risk or not. For assets held at transition 1 January 2018, the change in internal rating and scoring data is used to determine whether there has been a significant increase in credit risk or not. Internal rating/scoring information is used to assess the risk of the customers and a deterioration in rating/scoring indicates an increase in the credit risk of the customer. Nordea has concluded it is not possible to calculate the lifetime PDs at origination without the use of hindsight for assets already recognised on the balance sheet at transition. Changes to the lifetime Probability of Default (PD) is used as the trigger for assets recognised after transition.

For assets evaluated based on lifetime PDs, Nordea uses a mix of absolute and relative changes in PD as the transfer criterion. Assets where the relative increase in lifetime PD is more than 250 percent is considered as having a significant increase in credit risk, or if the absolute increase in lifetime PD is more than 150 basis points. For assets where rating and scoring models are used, the change in rating/scoring notches is calibrated to match the significant increase in credit risk based on lifetime PD. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). Exposures more than 90 days past due will normally be classified as stage 3, but this classification will be rebutted if there is evidence the customer is not in default. Such exposures will be classified as stage 2.

Nordea does not use the “low credit risk exemption” in the banking operations but uses it for a minor portfolio of interest-bearing securities in the insurance operations.

When calculating provisions, including the staging assessment, the calculation is based on probability weighted forward looking information. Nordea applies three macro-economic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability weighted average of the expected losses under each scenario is recognised as provisions.

Write-offs

A write-off is a de-recognition of a loan or receivable from the balance sheet and a final realisation of a credit loss provision. When assets are considered as uncollectable they should be written off as soon as possible, regardless of whether the legal claim remains or not. A write-off can take place before legal actions against the borrower to recover the debt have been concluded in full. Although an uncollectable asset is removed or written-off from the balance sheet, the customer remains legally obligated to pay the outstanding debt. When assessing the recoverability of non-performing loans and determining if write-offs are required, exposures with the following characteristics are in particular focus (list not exhaustive):

- Exposures past due more than 90 days. If, following this assessment, an exposure or part of an exposure is deemed as unrecoverable, it is written-off.
- Exposures under insolvency procedure where the collateralisation of the exposure is low.
- Exposures where legal expenses are expected to absorb proceeds from the bankruptcy procedure and therefore estimated recoveries are expected to be low.
- A partial write-off may be warranted where there is reasonable financial evidence to demonstrate an inability of

G1. Accounting policies, cont.

the borrower to repay the full amount, i.e. a significant level of debt which cannot be reasonably demonstrated to be recoverable following forbearance treatment and/or the execution of collateral.
- Restructuring cases.

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 and modifications
In this context a restructured loan is defined as a loan where Nordea has granted concessions to the obligor due to its financial difficulties and where this concession has resulted in an impairment loss for Nordea. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. In the event of a recovery the payment is reported as a recovery of loan losses.

Modifications of the contractual cash flows for loans to customers in financial difficulties (forbearance) reduce the gross carrying amount of the loan. Normally this reduction is less than the existing provision and no loss is recognised in the income statement due to modifications. If significant, the gross amounts (loan and allowance) are reduced.

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

At initial recognition, all assets taken over for protection of claims are recognised at fair value and the possible difference between the carrying amount of the loan and the fair value of the assets taken over is recognised as "Net loan losses". The fair value of the asset on the date of recognition becomes its cost or amortised cost value, as applicable. In subsequent periods, assets taken over for protection of claims are valued in accordance with the valuation principles for the appropriate type of asset. Investment properties are then measured at fair value. Financial assets that are foreclosed are generally classified into the categories Fair value through profit or loss and measured at fair value. Changes in fair values are recognized in the income statement under the line "Net result from items at fair value".

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

15. Leasing

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

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

Nordea as lessee
Finance leases
Finance leases are recognised as assets and liabilities on the balance sheet at the amount equal to the fair value, or if lower, the present value of the minimum lease payments of the leased assets at the inception of the lease. The assets are reported in accordance with the nature of the assets. Lease payments are apportioned between finance charge and reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. A finance lease also gives rise to a depreciation expense for the leased asset. The depreciation policy is consistent with that of the assets in own use. Impairment testing of leased assets is performed following the same principles as for similar owned assets.

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

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

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

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

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

G1. Accounting policies, cont.

goodwill, IT-development/computer software and customer related intangible assets.

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of Nordea's share of net identifiable assets of the acquired group undertaking/associated undertaking/ joint venture at the date of acquisition. Goodwill on acquisition of group undertakings and joint ventures is included in "Intangible assets". Goodwill on acquisitions of associated undertaking is not recognised as a separate asset but included in "Investments in associated undertakings". Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses. Impairment losses on goodwill cannot be reversed in subsequent periods. Goodwill related to associated undertakings and joint ventures is not tested for impairment separately but included in the total carrying amount of the associated undertakings and the joint ventures. The policies covering impairment testing of associated undertakings and joint ventures is disclosed in section 6 "Recognition of operating income and impairment".

IT-development/Computer software

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

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

Customer related intangible assets

In business combinations a portion of the purchase price is normally allocated to a customer related intangible asset, if the asset is identifiable and under Nordea's control. An intangible asset is identifiable if it arises from contractual or legal rights, or could be separated from the entity and sold, transferred, licenced, rented or exchanged. The asset is amortised over its useful life, generally over 10 years.

Impairment

Goodwill and IT-development not yet taken into use is not amortised but tested for impairment annually irrespective of any indications of impairment. Impairment testing is also performed more frequently if required due to any indication of impairment. The impairment charge is calculated as the difference between the carrying amount and the recoverable amount.

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

The recoverable amount is the higher of fair value less costs to sell and the value in use of the asset or the cash-generating unit, which is defined as the smallest identifiable group of assets that generates largely independent cash flows in relation to other assets. For goodwill and IT-development not yet taken into use, the cash generating units are defined as the operating segments. The value in use is the present value of the cash flows expected to be realised from the asset or the cash-generating unit. The cash flows are assessed based on the asset or cash-generating unit in its current condition and discounted at a rate based on the long-term risk-free interest rate plus a risk premium (post tax). If the recoverable amount is less than the carrying amount, an impairment loss is recognised. See Note G20 "Intangible assets" for more information on the impairment testing.

17. Properties and equipment

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

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

Buildings	30–75 years
Equipment	3–5 years
Leasehold improvements	Changes within buildings the shorter of 10 years and the remaining leasing term. New construction the shorter of the principles used for owned buildings and the remaining leasing term. Fixtures installed in leased properties are depreciated over the shorter of 10–20 years and the remaining leasing term.

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

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

18. Investment properties

Investment properties are primarily properties held to earn rent and/or capital appreciation. The majority of the properties in Nordea are attributable to Nordea Life & Pensions. Nordea applies the fair value model for subsequent measurement of investment properties. The best evidence of a fair value is normally given by quoted prices in an active market for similar properties in the same location and condition. As these prices are rarely available discounted cash flow projection models based on reliable estimates of future cash flows are also used.

Net rental income, gains and losses as well as fair value adjustments are recognised directly in the income statement as "Net result from items at fair value".

19. Liabilities to policyholders

Liabilities to policyholders include obligations according to insurance contracts and investment contracts with policy-

G1. Accounting policies, cont.

holders for all the companies in Nordea Life & Pensions, including companies in Sweden, Norway, Finland and Denmark.

An insurance contract is defined as "a contract under which one party (the insurer) accepts significant insurance risks from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder".

Investment contracts are contracts with policyholders that have the legal form of insurance contracts but where the insurance risk transfer has been assessed to be insignificant.

The insurance risk is generally calculated as the risk sum payable as a percentage of the reserve behind the contract at the beginning of the contract period.

The contracts can be divided into the following classes:

- Insurance contracts:
  - Traditional life insurance contracts with and without discretionary participation feature
  - Unit-Linked contracts with significant insurance risk
  - Health and personal accident
- Investment contracts:
  - Investment contracts with discretionary participation feature
  - Investment contracts without discretionary participation feature

Insurance contracts

The measurement principles under local GAAP have been maintained consequently resulting in a non-uniform accounting policies method on consolidation.

The measurement of traditional life insurance provisions in Denmark and Finland are prepared by calculating the present value of future benefits, to which the policyholders are entitled. The calculation includes assumptions about market consistent discounting rates as well as expenses and life risk. The discount rate is based on the liabilities' current term. In Denmark, the provision, in addition, includes bonus potential on paid policies and on future premiums.

In Norway the traditional life insurance provisions are mainly calculated on the basis of a prospective method. The discount rate used is equal to the original tariff rates adjusted for assumptions about expenses and risk.

The accounting policy for each company is based on the local structure of the business and is related to the solvency rules and national regulation concerning profit sharing and other requirements about collective bonus potential (not allocated provisions that protect the policyholders).

Unit-Linked contracts represent life insurance provisions relating to Unit-Linked policies written either with or without an investment guarantee. Unit-Linked contracts classified as insurance contracts include the same insurance risk elements as traditional insurance contracts. These contracts are mainly recognised and measured at fair value on the basis of:

- the fair value of the assets linked to the Unit-Linked contracts, and
- the estimated present value of the insurance risk which is calculated in the same way as traditional insurance contracts considering the impact on every risk element included in the cash flows.

Health and personal accident provisions include premium reserves and claims outstanding. This item is recognised and measured on deferred basis, the same principle as used for general insurance contracts.

Investment contracts

Contracts classified as investment contracts are contracts with policyholders which do not transfer sufficient insurance risk to be classified as insurance contracts and are written with an investment guarantee or a discretionary participation feature.

Investment contracts with discretionary participation features are, in line with IFRS 4, accounted for as insurance contracts using local accounting principles. Nordea Life & Pension has only a small number of these contracts.

Investment contracts without discretionary participation features are recognised and measured at fair value in accordance with IAS 39 "Financial Instruments: Recognition and Measurement", equal to fair value of the assets linked to these contracts. These assets are classified into the category Designated at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch.

Discretionary participating features (DPF)

Some traditional life insurance contracts and investment contracts include a contractual right for the policyholder to receive significant benefits in addition to guaranteed benefits. Nordea has discretion to pay these additional benefits as bonus on risk result, expense result and interest rate. These DPF-contracts (Collective bonus potential) are classified as liabilities on the balance sheet.

Collective bonus potential includes amounts allocated but not attributed to the policyholders. In Finland, collective bonus potential includes the policyholder's part of the total unrealised investment gains and bonus potential on paid policies and future premiums (the difference between retrospective and market consistent prospective measurement principles of the insurance contracts). In Norway, collective bonus potential includes the policyholder's part of both the total unrealised investment gains and additional reserves. In Sweden and Denmark, the main valuation principle is fair value (insurance contracts). The policyholder's part of both realised and unrealised investment gains is therefore included on the balance sheet representing either "Change in technical provisions, Life insurance" and/or "Change in collective bonus potentials, Life insurance", depending on whether the investment result is allocated or not. Both the mentioned lines are included on the balance sheet line "Liabilities to policyholders".

Liability adequacy test

The adequacy of insurance provisions is assessed at each reporting date to ensure that the carrying amount of the liabilities is higher than the best estimate of future cash flows discounted with current interest rates. If needed, additional provisions are accounted for and recognised in the income statement.

20. Assets and deposits in pooled schemes and unit-linked investment contracts

Deposit in pooled schemes and unit-linked investment contracts are contracts with customers and policyholders where the total risk is born by the customers or the policyholders. The deposits are invested in different types of financial assets on behalf of the customers and policyholders.

Unit-Linked investment contracts include investment contracts written without any investment guarantees and that do not transfer sufficient insurance risk to be classified as insurance contracts.

G1. Accounting policies, cont.

The assets and deposits in these contracts are recognised and measured at fair value as described in section 13 "Financial instrument" above.

21. 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 expected 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, associated undertakings and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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 generally offset if there is a legally enforceable right to offset current tax assets and current tax liabilities.

22. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to shareholders of Nordea Bank Abp by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is determined by adjusting the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, consisting of rights to performance shares in the long-term incentive programmes.

The potential ordinary shares are only considered to be dilutive, on the balance sheet date, if all performance conditions are fulfilled and if a conversion to ordinary shares would decrease earnings per share. The rights are furthermore considered dilutive only when the exercise price, with the addition of future services, is lower than the period's average share price.

23. Employee benefits

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

Short-term benefits

Short term benefits consist mainly of fixed and variable salary. Both fixed and variable salaries are expensed in the period when the employees have performed services to Nordea. Nordea has also issued share-based payment programmes, which are further described in section 26 "Share-based payment".

More information can be found in Note G7 "Staff costs".

Post-employment benefits

Pension plans

The companies within Nordea have various pension plans, consisting of both defined benefit pension plans and defined contribution pension plans, reflecting national practices and conditions in the countries where Nordea operates. Defined benefit pension plans are predominantly sponsored in Sweden, Norway and Finland. 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 in Denmark, but also plans in other countries, are based on defined contribution arrangements that hold no pension liability for Nordea. All defined benefit pension plans are closed for new employees. Nordea also contributes to public pension systems.

Pension costs

Obligations for defined contribution pension plans are recognised as an expense as the employee renders services to the entity and the contribution payable in exchange for that service becomes due. Nordea's net obligation for defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in the current and prior periods. That benefit is discounted to determine its present value. Actuarial calculations including the projected unit credit method are applied to assess the present value of defined benefit obligations and related costs, based on several actuarial and financial assumptions (as disclosed in Note G32 "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

G1. Accounting policies, cont.

asset is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Social security contribution is calculated and accounted for based on the net recognised surplus or deficit by plan and is included on the balance sheet as "Retirement benefit liabilities" or "Retirement benefit assets".

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. Covered bonds are in this context considered to be corporate bonds. In countries where no such market exists the discount rate is determined by reference to government bond yields. In Sweden, Norway and Denmark the discount rate is determined with reference to covered bonds and in Finland with reference to corporate bonds. In Sweden, Norway and Denmark the observed covered bond credit spreads over the swap curve is derived from the most liquid long dated covered bonds and extrapolated to the same duration as the pension obligations using the relevant swap curves. In Finland the corporate bond credit spread over the government bond rate is extrapolated to the same duration as the pension obligation using the government bond curve.

Termination benefits

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

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

Termination benefits can include both short-term benefits, for instance a number of months' salary, and post-employment benefits, normally in the form of early retirement. Short-term benefits are classified as "Salaries and remuneration" and post-employment benefits as "Pension costs" in Note G7 "Staff costs".

24. Equity

Non-controlling interests

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

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

Additional Tier 1 capital holders

Nordea has issued perpetual subordinated instruments where the interest payments to the holders are at the discretion of Nordea and non-accumulating. Some of these instruments also include a requirement for Nordea to pay interest if the instruments are no longer allowed to be included in tier 1 capital. If there is a requirement to pay interest based on the occurrence or non-occurrence of an uncertain future event that is beyond the control of both the issuer and the holder of the instrument, the instrument shall be classified as a financial liability. The inclusion of the subordinated loan in tier 1 capital is decided by the regulators and is thus beyond the control of Nordea and the holders of the instrument. Nordea classifies the instruments as financial liabilities. Instruments without such clauses are classified as equity as there is no requirement for Nordea to pay interest or principal to the holders of the instrument.

Invested unrestricted equity/Share premium reserve

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

Other reserves

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

Retained earnings

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

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

Treasury shares

Treasury shares are not accounted for as assets. Acquisitions of treasury shares are classified as deductions of "Retained earnings" on the balance sheet. Also, own shares in trading portfolios are classified as treasury shares. Divested treasury shares are recognised as an increase of "Retained earnings".

Contracts on Nordea shares that can be settled net in cash are either financial assets or financial liabilities.

25. Financial guarantee contracts and credit commitments

Upon initial recognition, premiums received in issued financial guarantee contracts and credit commitments are recognised as prepaid income on the balance sheet. The guarantees and irrevocable credit commitments are subsequently measured, and recognised as a provision on the balance sheet, at the higher of either the received fee less amortisation, or an amount calculated in accordance with IFRS9. Changes in provisions are recognised in the income statement in the item "Net loan losses".

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

26. Share-based payment

Equity-settled programmes

Nordea has annually issued Long Term Incentive Programmes from 2007 through 2012. Employees participating in these

G1. Accounting policies, cont.

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

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

For more information see Note G7 "Staff costs".

Cash-settled programmes

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

For more information see Note G7 "Staff costs".

27. Related party transactions

Nordea defines related parties as:

- Shareholders with significant influence
- Group undertakings
- Associated undertakings and joint ventures
- 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 G7 "Staff costs".

Shareholders with significant influence

Shareholders with significant influence are shareholders that have the power to participate in the financial and operating decisions of Nordea but do not control those policies.

Group undertakings

For the definition of group undertakings see section 5 "Principles of consolidation". Further information on the undertakings included in the Nordea Group is found in Note P21 "Investments in group undertakings".

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

Associated undertakings and joint ventures

For the definition of associated undertakings and joint ventures, see section 5 "Principles of consolidation".

Further information on the associated undertakings and the joint ventures included in the Nordea Group is found in Note G19 "Investments in associated undertakings and joint ventures".

Key management personnel

Key management personnel include the following positions:

- The Board of Directors
- The Chief Executive Officer (CEO)
- The Group Executive Management (GEM)

For information about compensation, pensions and other transactions with key management personnel, see Note G7 "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 Nordea Group as well as companies significantly influenced by close family members to these key management personnel. Other related parties also include Nordea's pension foundations.

Information concerning transactions between Nordea and other related parties is found in Note G45 "Related-party transactions".

28. Presentation of disposal groups held for sale

Assets and liabilities related to disposal groups are presented on the separate balance sheet lines "Assets held for sale" and "Liabilities held for sale" respectively as from the classification date. Financial instruments continue to be measured under IAS 39, while non-financial assets are held at the lower of carrying amount and fair value. Comparative figures are not restated.

29. Exchange rates

	Jan–Dec 2018	Jan–Dec 2017
EUR 1 = SEK		
Income statement (average)	10.2608	9.6378
Balance sheet (at end of year)	10.2330	9.8438
EUR 1 = DKK		
Income statement (average)	7.4533	7.4387
Balance sheet (at end of year)	7.4672	7.4449
EUR 1 = NOK		
Income statement (average)	9.6033	9.3317
Balance sheet (at end of year)	9.9470	9.8403
EUR 1 = RUB		
Income statement (average)	74.0484	65.9190
Balance sheet (at end of year)	79.3826	69.3920

G2. Segment reporting

Operating segments

Measurement of Operating segments' performance

The measurement principles and allocation between operating segments follow the information reported to the Chief Operating Decision Maker (CODM), as required by IFRS 8. In Nordea the CODM has been defined as Group Executive Management. The main differences compared to the section "Business area results" in this report are that the information for CODM is prepared using plan exchange rates and to that different allocation principles between operating segments have been applied.

Basis of segmentation

Compared with the 2017 Annual Report changes in the basis of segmentation were made following the decision to reorganise the segment Business & Commercial Banking into new operating segments and also reorganise the Segment Wholesale Banking into new operating segements. Commercial & Business Banking consists of the two new operating segments Business Banking and Business Banking Direct, instead of the earlier operating segments Commercial Banking and Business Banking. In Wholesale Banking the earlier reported segment Shipping Offshore & Oil Services has been merged into Coporate & Investment Banking and the new segment Financial Institutions Group & International Banks has been established. The changes are reflected in the reporting to the Chief Operating Decision Maker (CODM) and are consequently part of the segment reporting in Note G2. Comparative figures have been restated accordingly.

Financial results are presented for the four main business areas Personal Banking, Commercial & Business Banking, Wholesale Banking and Wealth Management, with further breakdown on operating segments, and for the operating segment Group Finance & Treasury. Other operating segments below the quantitative thresholds in IFRS 8 are included in Other operating segments. Group functions and eliminations, as well as the result that is not fully allocated to any of the operating segments, are shown separately as reconciling items.

Reportable Operating segments

Personal Banking serves Nordea's household customers in the Nordic markets, through various channels offering a full range of financial services and solutions. The business area includes advisory and service staff, channels, product units, back office and IT under a common strategy, operating model and governance across markets.

Business Banking and Business Banking Direct work with a relationship-driven customer service model with a customer-centric value proposition for Nordea's corporate customers. The business area also consists of Transaction Banking, which include Cards, Trade Finance and Cash Management, and Nordea Finance. These units services both personal and corporate customers across the Nordea Group.

Wholesale Banking provides banking and other financial solutions to large Nordic and international corporates as well as institutional and public companies. The division Corporate & Investment Banking is a customer oriented organisation serving the largest globally operating corporates. The division Financial Institutions Group & International Banks is responsible for Nordea's customers within the financial sector, and offers single products such as funds and equity products as well as consulting services within asset allocation and fund sales. Nordea Bank Russia offers a full range of bank services to corporate customers in Russia. Capital Markets unallocated includes the result in Capital Markets which is not allocated to the main business areas.

Asset & Wealth management provides high quality investment, savings and risk management products. It also manages customers' assets and gives financial advice to affluent and high net worth individuals as well as to institutional investors. The division Private Banking provides wealth planning, full-scale investment advice, credit, and estate planning services to wealthy individuals, businesses and their owners, trusts and foundations. The division Asset Management is responsible for all actively managed investment products including internally managed investment funds and mandates as well as selected externally managed funds, and for serving the institutional asset management customers. Life & Pensions serves Nordea's Retail Private Banking and corporate customers with a full range of pension, endowment and risk products as well as tailor-made advice for bank distribution. Life & Pensions unallocated includes the result in Life & Pensions which is not allocated to the main business areas.

Group Finance & Treasury's main objective is to manage the Group's funding and to support the management and control of the Nordea Group. The main income in Group Finance & Treasury originates from Group Treasury & ALM.

G2. Segment reporting, cont.

Income statement 2018

EURm	Personal Banking	Commercial & Business Banking	Wholesale Banking	Asset & Wealth Manage-ment	Group Finance & Treasury	Other Operating segments	Total operating segments	Recon-ciliation	Total Group
Net interest income	2,067	1,276	858	65	52	13	4,331	–7	4,324
Net fee and commission income	1,219	566	475	1,449	–19	0	3,690	–697	2,993
Net result from items at fair value	170	298	407	166	68	–14	1,095	–7	1,088
Profit from associated undertakings accounted for under the equity method	0	9	–	13	8	91	121	3	124
Other income	8	21	1	21	1	128	180	296	476
Total operating income	**3,464**	**2,170**	**1,741**	**1,714**	**110**	**218**	**9,417**	**–412**	**9,005**
- of which internal transactions[1]	–538	–247	–473	–16	1,227	47	0	–	–
Staff costs	–768	–439	–501	–458	–129	–25	–2,320	–678	–2,998
Other expenses	–1,005	–700	–352	–300	131	25	–2,201	802	–1,399
Depreciation, amortisation and impairment charges of tangible and intangible assets	–141	–15	–55	–9	–4	0	–224	–258	–482
Total operating expenses	**–1,914**	**–1,154**	**–908**	**–767**	**–2**	**0**	**–4,745**	**–134**	**–4,879**
Profit before loan losses	**1,550**	**1,016**	**833**	**947**	**108**	**218**	**4,672**	**–546**	**4,126**
Net loan losses	–79	–24	–92	–6	0	21	–180	7	–173
Operating profit	**1,471**	**992**	**741**	**941**	**108**	**239**	**4,492**	**–539**	**3,953**
Income tax expense	–353	–238	–178	–226	–23	–58	–1,076	204	–872
Net profit for the year	**1,118**	**754**	**563**	**715**	**85**	**181**	**3,416**	**–335**	**3,081**
Balance sheet 31 Dec 2018, EURbn									
Loans to the public[2]	143	82	49	7	–	1	282	26	308
Deposits and borrowings from the public[2]	69	41	36	9	–	1	156	9	165

Income statement 2017

EURm	Personal Banking	Commercial & Business Banking	Wholesale Banking	Asset & Wealth Manage-ment	Group Finance & Treasury	Other Operating segments	Total operating segments	Recon-ciliation	Total Group
Net interest income	2,210	1,232	826	80	75	131	4,554	112	4,666
Net fee and commission income	1,295	649	552	1,577	–9	28	4,092	–723	3,369
Net result from items at fair value	49	255	628	291	97	9	1,329	–1	1,328
Profit from associated undertakings accounted for under the equity method	1	13	–	0	0	1	15	8	23
Other income	6	31	4	18	1	6	66	17	83
Total operating income	**3,561**	**2,180**	**2,010**	**1,966**	**164**	**175**	**10,056**	**–587**	**9,469**
- of which internal transactions[1]	–479	–253	–311	–7	1,058	–8	0	–	–
Staff costs	–792	–500	–597	–487	–127	–48	–2,551	–661	–3,212
Other expenses	–989	–727	–308	–334	140	–99	–2,317	695	–1,622
Depreciation, amortisation and impairment charges of tangible and intangible assets	–110	–14	–28	–12	0	0	–164	–104	–268
Total operating expenses	**–1,891**	**–1,241**	**–933**	**–833**	**13**	**–147**	**–5,032**	**–70**	**–5,102**
Profit before loan losses	**1,670**	**939**	**1,077**	**1,133**	**177**	**28**	**5,024**	**–657**	**4,367**
Net loan losses	–43	–84	–224	1	0	–11	–361	–8	–369
Operating profit	**1,627**	**855**	**853**	**1,134**	**177**	**17**	**4,663**	**–665**	**3,998**
Income tax expense	–391	–205	–205	–261	–42	–4	–1,108	158	–950
Net profit for the year	**1,236**	**650**	**648**	**873**	**135**	**13**	**3,555**	**–507**	**3,048**
Balance sheet 31 Dec 2017, EURbn									
Loans to the public[2]	141	80	48	8	–	4	281	29	310
Deposits and borrowings from the public[2]	68	41	40	10	–	4	163	9	172

1) IFRS 8 requires information on revenues from transactions between operating segments. Nordea has defined inter-segment revenues as internal interest income and expense related to the funding of the operating segments by the internal bank in Group Corporate Centre.

2) The volumes are only disclosed separate for operating segments if separately reported to the Chief Operating Decision Maker.

G2. Segment reporting, cont.

Break-down of Personal Banking

Income statement, EURm	Personal Banking Denmark 2018	Personal Banking Denmark 2017	Personal Banking Finland 2018	Personal Banking Finland 2017	Personal Banking Norway 2018	Personal Banking Norway 2017	Personal Banking Sweden 2018	Personal Banking Sweden 2017	Personal Banking Other[1] 2018	Personal Banking Other[1] 2017	Total Personal Banking 2018	Total Personal Banking 2017
Net interest income	576	637	424	441	375	366	709	770	–17	–4	2,067	2,210
Net fee and commission income	312	363	366	390	122	120	432	423	–13	–1	1,219	1,295
Net result from items at fair value	112	–6	18	21	14	11	25	20	1	3	170	49
Profit from associated undertakings accounted for under the equity method	–	–	–	–	–	–	–	–	0	1	0	1
Other income	–3	–2	1	4	2	1	5	1	3	2	8	6
Total operating income	**997**	**992**	**809**	**856**	**513**	**498**	**1,171**	**1,214**	**–26**	**1**	**3,464**	**3,561**
- of which internal transactions	–172	–113	–92	–73	–163	–179	–110	–116	–1	2	–538	–479
Staff costs	–201	–203	–129	–153	–84	–79	–153	–163	–201	–194	–768	–792
Other expenses	–384	–371	–333	–319	–166	–162	–387	–371	265	234	–1,005	–989
Depreciation, amortisation and impairment charges of tangible and intangible assets	–10	–14	–7	–7	–2	–3	–4	–5	–118	–81	–141	–110
Total operating expenses	**–595**	**–588**	**–469**	**–479**	**–252**	**–244**	**–544**	**–539**	**–54**	**–41**	**–1,914**	**–1,891**
Profit before loan losses	**402**	**404**	**340**	**377**	**261**	**254**	**627**	**675**	**–80**	**–40**	**1,550**	**1,670**
Net loan losses	–24	–4	–33	–12	–2	–4	–19	–17	–1	–6	–79	–43
Operating profit	**378**	**400**	**307**	**365**	**259**	**250**	**608**	**658**	**–81**	**–46**	**1,471**	**1,627**
Income tax expense	–91	–96	–74	–88	–62	–60	–146	–158	20	11	–353	–391
Net profit for the year	**287**	**304**	**233**	**277**	**197**	**190**	**462**	**500**	**–61**	**–35**	**1,118**	**1,236**
Balance sheet 31 Dec, EURbn												
Loans to the public	36	36	32	32	29	27	46	46	–	–	143	141
Deposits and borrowings from the public	17	17	21	21	8	8	23	22	–	–	69	68

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

Break-down of Commercial & Business Banking

Income statement, EURm	Business Banking 2018	Business Banking 2017	Business Banking Direct 2018	Business Banking Direct 2017	Commercial & Business Banking Other[1] 2018	Commercial & Business Banking Other[1] 2017	Total Commercial & Business Banking 2018	Total Commercial & Business Banking 2017
Net interest income	1,045	1,008	206	214	25	10	1,276	1,232
Net fee and commission income	462	522	166	176	–62	–49	566	649
Net result from items at fair value	290	250	17	19	–9	–14	298	255
Profit from associated undertakings accounted for under the equity method	5	9	–	–	4	4	9	13
Other income	1	1	0	0	20	30	21	31
Total operating income	**1,803**	**1,790**	**389**	**409**	**–22**	**–19**	**2,170**	**2,180**
- of which internal transactions	–241	–258	–5	–3	–1	8	–247	–253
Staff costs	–170	–186	–51	–56	–218	–258	–439	–500
Other expenses	–664	–709	–195	–197	159	179	–700	–727
Depreciation, amortisation and impairment charges of tangible and intangible assets	–5	–5	–2	–2	–8	–7	–15	–14
Total operating expenses	**–839**	**–900**	**–248**	**–255**	**–67**	**–86**	**–1,154**	**–1,241**
Profit before loan losses	**964**	**890**	**141**	**154**	**–89**	**–105**	**1,016**	**939**
Net loan losses	–14	–88	–3	10	–7	–6	–24	–84
Operating profit	**950**	**802**	**138**	**164**	**–96**	**–111**	**992**	**855**
Income tax expense	–228	–195	–33	–39	23	29	–238	–205
Net profit for the year	**722**	**607**	**105**	**125**	**–73**	**–82**	**754**	**650**
Balance sheet 31 Dec, EURbn								
Loans to the public	70	68	12	12	–	–	82	80
Deposits and borrowings from the public	30	30	11	11	–	–	41	41

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

G2. Segment reporting, cont.

Break-down of Wholesale Banking

	Corporate & Investment Banking		Financial Institutions Group & International Banks		Banking Russia		Capital Markets unallocated		Wholesale Banking Other[1]		Total Wholesale Banking	
Income statement, EURm	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Net interest income	814	769	24	1	59	93	–4	–28	–35	–9	858	826
Net fee and commission income	399	455	133	150	11	16	–65	–69	–3	0	475	552
Net result from items at fair value	146	92	139	183	9	14	117	352	–4	–13	407	628
Profit from associated undertakings accounted for under the equity method	–	–	–	–	–	–	–	–	–	–	–	–
Other income	0	0	0	0	0	0	1	1	0	3	1	4
Total operating income	**1,359**	**1,316**	**296**	**334**	**79**	**123**	**49**	**256**	**–42**	**–19**	**1,741**	**2,010**
- of which internal transactions	–314	–256	–42	–41	–54	–66	–58	55	–5	–3	–473	–311
Staff costs	–99	–101	–10	–8	–23	–31	–218	–272	–151	–185	–501	–597
Other expenses	–377	–384	–201	–218	–18	–17	92	146	152	165	–352	–308
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	0	0	0	–2	–3	0	0	–53	–25	–55	–28
Total operating expenses	**–476**	**–485**	**–211**	**–226**	**–43**	**–51**	**–126**	**–126**	**–52**	**–45**	**–908**	**–933**
Profit before loan losses	**883**	**831**	**85**	**108**	**36**	**72**	**–77**	**130**	**–94**	**–64**	**833**	**1,077**
Net loan losses	–43	–203	0	0	–49	–20	0	0	0	–1	–92	–224
Operating profit	**840**	**628**	**85**	**108**	**–13**	**52**	**–77**	**130**	**–94**	**–65**	**741**	**853**
Income tax expense	–201	–151	–20	–26	3	–13	19	–31	21	16	–178	–205
Net profit for the year	**639**	**477**	**65**	**82**	**–10**	**39**	**–58**	**99**	**–73**	**–49**	**563**	**648**
Balance sheet 31 Dec, EURbn												
Loans to the public	45	44	2	2	2	2	–	–	–	–	49	48
Deposits and borrowings from the public	25	27	10	12	1	1	–	–	–	–	36	40

1) Wholesale Banking Other includes the areas International Divisions, COO and HR.

Break-down of Asset & Wealth Management

	Private Banking		Asset Management		Life & Pensions unallocated		Wealth Management Other[1]		Total Asset & Wealth Management	
Income statement, EURm	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Net interest income	72	82	–3	0	0	0	–4	–2	65	80
Net fee and commission income	425	451	903	965	319	367	–198	–206	1,449	1,577
Net result from items at fair value	31	56	9	0	127	234	–1	1	166	291
Profit from associated undertakings accounted for under the equity method	0	0	0	0	13	0	0	0	13	0
Other income	5	5	9	10	11	13	–4	–10	21	18
Total operating income	**533**	**594**	**918**	**975**	**470**	**614**	**–207**	**–217**	**1,714**	**1,966**
- of which internal transactions	–13	–8	1	2	0	0	–4	–1	–16	–7
Staff costs	–162	–162	–165	–164	–85	–117	–46	–44	–458	–487
Other expenses	–213	–259	–131	–113	–68	–84	112	122	–300	–334
Depreciation, amortisation and impairment charges of tangible and intangible assets	–1	–9	0	0	–6	–4	–2	1	–9	–12
Total operating expenses	**–376**	**–430**	**–296**	**–277**	**–159**	**–205**	**64**	**79**	**–767**	**–833**
Profit before loan losses	**157**	**164**	**622**	**698**	**311**	**409**	**–143**	**–138**	**947**	**1,133**
Net loan losses	–6	1	0	0	0	0	0	0	–6	1
Operating profit	**151**	**165**	**622**	**698**	**311**	**409**	**–143**	**–138**	**941**	**1,134**
Income tax expense	–36	–38	–149	–161	–75	–94	34	32	–226	–261
Net profit for the year	**115**	**127**	**473**	**537**	**236**	**315**	**–109**	**–106**	**715**	**873**
Balance sheet 31 Dec, EURbn										
Loans to the public	7	8	–	–	–	–	–	–	7	8
Deposits and borrowings from the public	9	10	–	–	–	–	–	–	9	10

1) Wealth Management Other includes the areas Savings, COO and HR.

G2. Segment reporting, cont.

Reconciliation between total operating segments and financial statements

	Total operating income, EURm		Operating profit, EURm		Loans to the public, EURbn		Deposits and borrowings from the public, EURbn	
	2018	2017	2018	2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Total Operating segments	9,417	10,056	4,492	4,663	282	281	156	163
Group functions[1]	31	25	–139	–203	–	–	–	–
Unallocated items	279	20	137	86	29	28	11	9
Eliminations	–7	–13	–	–	–	–	–	–
Differences in accounting policies[2]	–715	–619	–537	–548	–3	1	–2	0
Total	**9,005**	**9,469**	**3,953**	**3,998**	**308**	**310**	**165**	**172**

1) Consists of Group Risk Management and Control, Group Internal Audit, Chief of staff office, Group Corporate Centre and Group Compliance.
2) Impact from different classification of assets/liabilities held for sale, plan exchange rates and internal allocation principles used in the segment reporting.

Total operating income split on product groups

EURm	2018	2017
Banking products	5,644	5,742
Capital Markets products	931	1,354
Savings products & Asset management	1,440	1,542
Life & Pensions	468	622
Other	522	209
Total	**9,005**	**9,469**

Banking products consists of three different product types. Account products includes account based products such as lending, deposits, cards and Netbank services. Transaction products consists of cash management as well as trade and project finance services. Financing products includes asset based financing through leasing, hire purchase and factoring as well as sales to finance partners such as dealers, vendors and retailers.

Capital Markets products contains financial instruments, or arrangements for financial instruments, that are available in the financial marketplace, including currencies, commodities, stocks and bonds.

Savings products & Asset management includes Investment funds, Discretionary Management, Portfolio Advice, Equity Trading and Pension Accounts. Investment Funds is a bundled product where the fund company invests in stocks, bonds, derivatives or other standardised products on behalf of the fund's shareholders. Discretionary Management is a service providing the management of an investment portfolio on behalf of the customer and Portfolio Advise is a service provided to support the customers' investment decisions.

Life & Pensions includes life insurance and pension products and services.

Geographical information

	Total operating income, EURm		Assets, EURbn	
	2018	2017	31 Dec 2018	31 Dec 2017
Sweden	2,503	2,062	144	167
Finland	1,729	1,963	133	104
Norway	1,660	1,688	86	103
Denmark	2,490	2,789	168	174
Other	623	967	20	34
Total	**9,005**	**9,469**	**551**	**582**

Nordea's main geographical markets comprise the Nordic countries. Revenues and assets are distributed to geographical areas based on the location of the customers' operations. Goodwill is allocated to different countries based on the location of the business activities of the acquired entities.

G3. Net interest income

Interest income

EURm	2018	2017
Interest income calculated using the effective interest rate method	5,843	6,132
Other interest income	1,410	1,443
Interest income	**7,253**	**7,575**

EURm	2018	2017
Loans to credit institutions	414	303
Loans to the public	5,857	6,230
Interest-bearing securities	429	418
Other interest income	553	624
Interest income[1]	**7,253**	**7,575**

1) Of which contingent leasing income amounts to EUR 70m (EUR 65m). Contingent leasing income in Nordea consists of variable interest rates, excluding the fixed margin. If the contingent leasing income decreases there will be an offsetting impact from lower funding expenses.

G3. Net interest income, cont.

Interest expense

EURm	2018	2017
Deposits by credit institutions	–272	–182
Deposits and borrowings from the public	–409	–367
Debt securities in issue	–2,559	–2,583
Subordinated liabilities	–335	–337
Other interest expenses[1]	646	560
Interest expense	**–2,929**	**–2,909**
Net interest income	**4,324**	**4,666**

1) The net interest income from derivatives, measured at fair value, related to Nordea´s funding. This can have both a positive and negative impact on other interest expenses, for further information see Note G1 "Accounting policies".

Interest from categories of financial instruments

EURm	2018	2017[1]
Financial assets at fair value through other comprensive income	253	274
Financial assets at amortised cost	5,675	5,858
Financial assets at fair value through profit or loss (related to hedging instruments)	–85	0
Interest income calculated using the effective interest rate method	**5,843**	**6,132**
Financial assets at fair value through profit or loss	1,410	1,443
Other interest income	**1,410**	**1,443**
Interest income	**7,253**	**7,575**
Financial liabilities at amortised cost	–3,046	–2,884
Financial liabilities at fair value through profit or loss	117	–25
Interest expense	**–2,929**	**–2,909**

1) The comparable figures for 2017 are based on the IAS 39 requirements but are comparable with the figures for 2018 which are based on IFRS 9 requirements.

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

G4. Net fee and commission income

EURm	2018	2017
Asset management commissions	1,440	1,543
- of which income	1,741	1,883
- of which expense	–301	–340
Life & Pension	258	313
- of which income	290	372
- of which expense	–32	–59
Deposit Products	23	27
- of which income	23	27
Brokerage, securities issues and corporate finance	173	224
- of which income	280	292
- of which expense	–107	–68
Custody and issuer services	49	59
- of which income	90	101
- of which expense	–41	–42
Payments	302	307
- of which income	419	434
- of which expense	–117	–127
Cards	218	228
- of which income	341	363
- of which expense	–123	–135

EURm	2018	2017
Lending Products	399	465
- of which income	425	487
- of which expense	–26	–22
Guarantees	116	143
- of which income	133	150
- of which expense	–17	–7
Other	15	60
- of which income	104	123
- of which expense	–89	–63
Total	**2,993**	**3,369**

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 383m (EUR 450m).

Fee income, not included in determining the effective interest rate, from fiduciary activities that result in the holding or investing of assets on behalf of customers amounts to EUR 2,311m (EUR 2,547m). The corresponding amounts for fee expenses is EUR –32m (EUR –59m).

G4. Net fee and commission income, cont.

Break down by Business Areas

EURm, 2018	Personal Banking	Commercial & Business Banking	Wholesale Banking	Asset & Wealth Management	Group Finance & Treasury	Other & Elimination	Nordea Group
Asset management commissions	160	34	11	1,235	0	0	1,440
Life & Pension	51	22	4	181	0	0	258
Deposit Products	11	11	1	0	0	0	23
Brokerage, securities issues and corporate finance	25	20	102	31	–5	0	173
Custody and issuer services	8	7	35	9	–10	0	49
Payments	88	163	55	0	–4	0	302
Cards	181	22	15	0	0	0	218
Lending Products	118	100	181	0	0	0	399
Guarantees	6	40	70	0	0	0	116
Other	23	18	–3	–13	–1	–9	15
Total	**671**	**437**	**471**	**1,443**	**–20**	**–9**	**2,993**

G5. Net result from items at fair value

EURm	2018	2017
Equity related instruments	226	370
Interest related instruments and foreign exchange gains/losses	684	712
Other financial instruments (including credit and commodities)	55	20
Investment properties	0	–3
Life insurance[1,2]	123	229
Total	**1,088**	**1,328**

1) Internal transactions not eliminated against other lines in the Note. The line Life insurance consequently provides the true impact from the Life insurance operations.

2) Premium income amounts to EUR 840m (EUR 2,833m)

Break-down of life insurance

EURm	2018	2017
Equity related instruments	–515	1,344
Interest related instruments and foreign exchange gains/losses	–65	715
Other financial instruments	0	4
Investment properties	125	195
Change in technical provisions	20	–2,056
Change in collective bonus potential	512	7
Insurance risk income	91	177
Insurance risk expense	–45	–157
Total	**123**	**229**

Net result from categories of financial instruments

EURm	2018
Financial assets at fair value through other comprehensive income	–45
Financial assets designated at fair value through profit or loss	–41
Financial liabilities designated at fair value throuh profit or loss	1,385
Financial assets and liabilities mandatorily at fair value through profit or loss[1]	–1,885
Financial assets at amortised cost[2]	104
Financial liabilities at amortised cost	315
Foreign exchange gains/losses excluding currency hedges	512
Non-financial assets and liabilities	743
Total	**1,088**

1) Of which amortised deferred day one profit amounts to EUR 39m.

2) Gain or loss recognised in the income statement arising from derecognition of financial assets measured at amortised cost amounts to EUR 53m of which EUR 53m are gains and EUR 0m are losses. The reason for derecognition is that the assets have been prepaid by the customer or sold.

Net result from categories of financial instruments[1]

EURm	2017
Available for sale assets, realised	0
Financial instruments designated at fair value through profit or loss	33
Financial instruments held for trading[2]	434
Financial instruments under fair value hedge accounting	43
- of which net result on hedging instruments	–906
- of which net result on hedged items	949
Financial assets measured at amortised cost[3]	–2
Financial liabilities measured at amortised cost	–39
Foreign exchange gains/losses excluding currency hedges	635
Other	–5
Financial risk income, net Life insurance[4]	209
Insurance risk income, net Life insurance	20
Total	**1,328**

1) The figures disclosed for Life (financial risk income and insurance risk income) are disclosed on gross basis, i.e. before eliminations of intra-group transactions.

2) Of which amortised deferred day one profits amounts to EUR 54m.

3) Of which EUR -2m related to instruments classified into the category "Loans and receivables" and EUR -m related to instruments classified into the category "Held to maturity".

4) Premium income amounts to EUR 2,833m. .

G6. Other operating income

EURm	2018	2017
Divestments of shares[1]	385	7
Income from real estate	2	2
Sale of tangible and intangible assets	9	9
Other	80	65
Total	**476**	**83**

1) Gain related to sale of Nordea Liv & Pension Denmark EUR 262m, gain related to divestment of UC EUR 87m and sale of Ejendomme EUR 36m.

G7. Staff costs

EURm	2018	2017
Salaries and remuneration (specification below)[1]	–2,361	–2,508
Pension costs (specification below)	–292	–302
Social security contributions	–434	–496
Other staff costs[2]	89	94
Total	**–2,998**	**–3,212**

Salaries and remuneration

To executives[3]		
- Fixed compensation and benefits	–22	–24
- Performance-related compensation	–11	–11
- Allocation to profit-sharing	0	0
Total	**–33**	**–35**
To other employees	–2,328	–2,473
Total	**–2,361**	**–2,508**

1) Of which allocation to profit-sharing 2018 EUR 57m (EUR 27m), consisting of a new allocation of EUR 46m (EUR 29m) and an adjustment related to prior years of EUR 10m (EUR -2m).

2) Including capitalisation of IT-project with EUR 190m (EUR 211m).

3) Executives include the Board of Directors (including deputies), CEO, deputy CEO, executive vice presidents and Group Executive Management in the parent company as well as the Board of Directors (including deputies), managing directors and executive vice presidents in operating group undertakings. Former board members (including deputies), CEOs, deputy CEOs, managing directors and executive vice presidents, in the parent company and operating subsidiaries, are also included. Executives amount to 130 (150) individuals.

Pension costs[1]

EURm	2018	2017
Defined benefits plans (Note G32)[2]	–43	–44
Defined contribution plans	–249	–258
Total	**–292**	**–302**

1) Pension cost for executives, as defined in footnote 3 above, amounts to EUR 3m (EUR 3m) and pension obligations to EUR 13m (EUR 14m).

2) Excluding social security contributions. Including social security contributions EUR 54m (EUR 51m).

G7. Staff costs, cont.

Remuneration to the Board of Directors, CEO and Group Executive Management

Board remuneration

The Annual General Meeting (AGM) 2018 resolved the annual remuneration to the Board of Directors (The Board) amounting to for the Chairman EUR 294,600, to the Deputy Chairman EUR 141,300 and to other members EUR 91,950. The annual remuneration was unchanged in comparison with 2017.

In addition, annual remuneration paid for board committee work on the Compliance Committee, the Board Audit Committee and the Board Risk Committee amounts to EUR 48,650 for the committee chairmen and EUR 29,600 for the other members. The remuneration for board committee work on the Board Remuneration Committee amounts to EUR 36,050 for the committee chairman and EUR 25,750 for the other members.

Separate remuneration is not paid to members who are employees of the Nordea Group.

There are no commitments for severance pay, pension or other remuneration to the members of the Board, except for a pension commitment to one Board member previously employed by Nordea.

Remuneration to the Board of Directors[1]

EUR	2018	2017
Chairman of the Board:		
Björn Wahlroos	320,045	320,009
Vice Chairman of the Board:		
Marie Ehrling[3]	–	42,682
Lars G Nordström	180,323	157,742
Other Board members[2]:		
Tom Knutzen[3]	–	30,896
Nigel Hinshelwood[5]	120,818	–
Torbjörn Magnusson[5]	91,552	–
Robin Lawther	127,879	125,264
Sarah Russell	140,467	134,804
Silvija Seres	121,435	120,379
Kari Stadigh[4]	34,566	137,351
Birger Steen	140,467	134,804
Pernille Erenbjerg	121,434	93,965
Lars Wollung[4]	29,882	92,031
Maria Varsellona	121,434	93,965
Total	**1,550,302**	**1,483,892**

1) The Board remuneration consists of a fixed annual fee and a fixed annual fee for committee work. The fees are approved in EUR and paid out in four equal instalments, in SEK up until the third quarter and in EUR for the fourth quarter. For accounting purposes, the amounts paid out in SEK are converted back into EUR, using the average exchange rate each year.

2) Employee representatives excluded.

3) Resigned as member of the Board as from the AGM 2017.

4) Resigned as member of the Board as from the AGM 2018.

5) New member of the Board as from the AGM 2018.

G7. Staff costs, cont.

Remuneration to the Chief Executive Officer and Group Executive Management (excl. LTIP)

	Fixed salary[1]		GEM Executive Incentive Programme[2]		Benefits[1]		Total	
EUR	2018	2017	2018	2017	2018	2017	2018	2017
Chief Executive Officer (CEO):								
Casper von Koskull[3]	1,334,678	1,354,462	691,000	735,925	92,571	24,744	2,118,249	2,115,131
Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO):								
Torsten Hagen Jørgensen[4]	1,258,392	1,228,571	775,699	818,181	58,399	54,048	2,092,490	2,100,800
Group Executive Management (GEM):								
9 (8) individuals excluding CEO and Deputy CEO[5]	5,600,291	5,273,893	3,298,847	3,625,087	86,987	99,802	8,986,125	8,998,782
Total	**8,193,361**	**7,856,926**	**4,765,546**	**5,179,193**	**237,957**	**178,594**	**13,196,864**	**13,214,713**

1) The fixed salary is paid in local currencies and converted to EUR based on the average exchange rate each year. The fixed salary includes holiday pay and car allowance where applicable. Benefits are included at taxable values after salary deductions (if any).

2) Up until 2012 the CEO and members of GEM were offered a Variable Salary Part (VSP) and a share based Long Term Incentive Programme (LTIP). Since 2013, a GEM Executive Incentive Programme (GEM EIP) has been offered. The outcome from GEM EIP 2018 has been expensed in full in 2018 but will be paid out over a five-year deferral period with forfeiture clauses compliant to remuneration regulations. The GEM EIP 2018 is indexed with Nordea's total shareholder return (TSR) excluding dividends during the deferral period.

3) The annual fixed base salary as CEO is in 2018 SEK 13,054,000, converted to EUR 1,354,462 as from 1 October 2018. Benefits includes costs related to relocation to Finland of EUR 53,112.

4) The annual fixed base salary as Group COO and Deputy CEO is in 2018 DKK 8,560,000 (EUR 1,148,487). Car and holiday allowance amount to DKK 669,695 (EUR 89,852). Benefits 2017 have been restated.

5) Remuneration to GEM members is included for the period they have been appointed. On 28 February 2018 one GEM member left Nordea and one has resigned as GEM member by 30 November 2018, before leaving Nordea. Three new GEM members were appointed during the year, on 1 March 2018, 1 September 2018 and 1 December 2018.

Long Term Incentive Programmes (LTIP) 2011–2012

	Number of outstanding shares[1]		
	LTIP 2012	LTIP 2011	Total
Chief Executive Officer (CEO):			
Casper von Koskull	19,312	7,501	26,813
Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO):			
Torsten Hagen Jørgensen	17,912	6,712	24,624
Total	**37,224**	**14,213**	**51,437**
Former Chief Executive Officer (Former CEO):			
Christian Clausen	27,413	10,362	37,775
Total	**64,637**	**24,575**	**89,212**

1) The LTIPs were fully expensed in May 2015. All shares in LTIPs are fully vested and consequently not conditional. 60% of the vested shares are deferred with forfeiture clauses in line with regulatory requirements and allotted over a five-year period, for LTIP 2011 starting May 2014 and for LTIP 2012 starting May 2015. The numbers of outstanding shares are presented as of 31 December 2018. No other GEM members have outstanding LTIP shares by 31 December 2018.

Salary and benefits

The BRC prepares alterations in salary levels and outcome of GEM Executive Incentive Programme (GEM EIP) as well as other changes in the remuneration package for the Chief Executive Officer (CEO), the Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO) and members of Group Executive Management (GEM), for resolution by the Board.

GEM EIP 2018, which is based on specific targets, can be a maximum of 100% of the fixed base salary. In accordance with remuneration regulations 40% of GEM EIP 2018 will be paid out in 2019, 30% will be deferred to 2022 and 30% to 2024. When amounts are paid out 50% will be subject to retention for 12 months.

Benefits include primarily car benefits, tax consultation and housing.

Chief Executive Officer (CEO)

Casper von Koskull was appointed CEO 1 November 2015. The remuneration to the CEO consists of three components: Fixed salary, GEM Executive Incentive Programme (GEM EIP) and benefits.

The annual fixed base salary as CEO was decided to be SEK 13,054,000 and was converted to EUR 1,354,462 as from 1 October 2018.

GEM EIP 2018 is based on specific targets and can amount to a maximum of 100% of the fixed base salary. For 2018 the outcome of the GEM EIP amounted to EUR 691,000.

The benefits for 2018 amounted to EUR 92,571 and include primarily car benefits and tax consultation, housing (as from 1 October 2018) and costs related to relocation to Finland.

The total earned remuneration for 2018, as CEO, based on the three components (excluding pension) amounted to EUR 2,118,249.

The CEO took part of the LTIPs from 2010 to 2012.

Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO)

Torsten Hagen Jørgensen was appointed Group COO and Deputy CEO 1 November 2015. The remuneration to the Group COO and Deputy CEO consists of three components: Fixed salary, GEM EIP and benefits.

The annual fixed base salary as Group COO and Deputy CEO was decided to be DKK 8,560,000 (EUR 1,148,487).

GEM EIP 2018 is based on specific targets and can amount to a maximum of 100% of the fixed base salary. For 2018 the outcome of the GEM EIP amounted to EUR 775,699.
The benefits for 2018 amounted to EUR 58,399 and include primarily housing benefits.

G7. Staff costs, cont.

The total earned remuneration for 2018, as Group COO and Deputy CEO, based on the three components (excluding pension) amounted to EUR 2,092,490.

The Group COO and Deputy CEO took part of the LTIPs until 2012.

Pension

Chief Executive Officer (CEO)

During the period 1 January 2018 to 30 September 2018 the CEO had a defined contribution plan in accordance with the Swedish collective agreement BTP1, with a complementing defined contribution plan on top of the collective agreement. The pension contribution in total was 30% of the fixed salary. Following the re-domiciliation to Finland the CEO is, as from 1 October 2018, covered by the Finnish statutory pension scheme and in addition has a defined contribution plan corresponding to 8.5% of the fixed salary.

Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO)

The Group COO and Deputy CEO has a defined contribution plan. The pension contribution is 30% of the fixed base salary.

Group Executive Management (GEM)

The pension agreements for the other GEM members vary according to local country practices. Pension agreements are defined contribution plans or a combination of defined contribution and defined benefit plans.

As per 31 December 2018 three members have pensions in accordance with the Swedish collective agreement, one in BTP1 (defined contribution plan) and two in BTP2 (defined benefit plan), with complementing defined contribution plans on top of the collective agreement. The pension contribution is in total 30% of the fixed salary.

One member has pension in accordance with the local country statutory pension system in Finland. According to the statutory pension rules the part of GEM EIP 2017 outcome paid or retained in 2018 is included in the pensionable income

Three members have a defined contribution plan in accordance with local practises in Denmark. The pension contribution is in total 30% of the fixed base salary.

Two members do not have a pension agreement with Nordea.

Pension expense and pension obligation

	2018		2017	
EUR	Pension expense[1]	Pension obligation[2]	Pension expense[1]	Pension obligation[2]
Chief Executive Officer (CEO):				
Casper von Koskull	313,663	357,936	406,339	336,341
Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO):				
Torsten Hagen Jørgensen	344,546	–	345,224	–
Group Executive Management (GEM):				
9 (8) individuals excluding CEO and Deputy CEO[3]	872,073	777,583	870,088	649,295
Board members[4]:				
Lars G Nordström	–	312,465	–	324,843
Total	**1,530,282**	**1,447,984**	**1,621,651**	**1,310,479**
Former Chairman of the Board and CEO:				
Vesa Vaino[5]	–	4,844,682	–	5,215,266
Total	**1,530,282**	**6,292,666**	**1,621,651**	**6,525,745**

1) The pension expense is related to pension premiums paid in defined contribution agreements and pension rights earned during the year in defined benefit agreements (Current service cost and Past service cost and settlements as defined in IAS 19). Of the total pension expense EUR 1,471,537 (EUR 1,593,796) relates to defined contribution agreements. Contributions to the Finnish statutory pension schemes are reported as part of the social charges and thus excluded from the above disclosure.

2) The pension obligation (value of defined benefit pension plan liabilities) is calculated in accordance with IAS 19. The obligation is dependent on changes in actuarial assumptions and inter annual variations can therefore be significant. IAS 19 includes an assumption about future increases in salary, which leads to that the pension obligations disclosed are the earned pension rights calculated using the expected salary levels at retirement. The pension plans are funded, meaning that these obligations are backed with plan assets with fair value generally on a similar level as the obligations.

3) Members of GEM included for the period they are appointed. The pension obligation is the value of pension liabilities towards three Swedish GEM members as of 31 December 2018.

4) Employee representatives excluded. The pension obligation is in accordance with the collective pension agreement BTP2 and earned during the employment period for one Swedish board member.

5) The pension obligation for Former Chairman of the Board and CEO is mainly due to defined benefit pension rights earned in, and funded by, banks forming Nordea. The decrease in the pension obligation is mainly due to pension payments in 2018.

Notice period and severance pay

In accordance with the employment contract the CEO has a notice period of 12 months and Nordea a notice period of 12 months. The CEO has a severance pay equal to 12 months' salary to be reduced by the salary he receives from another employment during these 12 months.

The Group COO and Deputy CEO and nine GEM members have a notice period of 6 months and Nordea a notice period of 12 months. A severance pay of up to 12 months' salary is provided to be reduced by the salary the executive receives from another employment during the severance pay period.

Additional disclosures on remuneration

The Board of Directors report includes a separate section on remuneration, page 79.

Additional disclosures for all Nordea employees will be published in a separate report on www.nordea.com no later than one week before the Annual General Meeting 28 March 2019.

G7. Staff costs, cont.

Loans to key management personnel

Loans to key management personnel, as defined in Note G1 section 27, amount to EUR 5m (EUR 4m). Interest income on these loans amounts to EUR 0m (EUR 0m).

For key management personnel who are employed by Nordea the same credit terms apply as for other employees. In Norway the employee interest rate for loans is variable and was at 31 December 2018 1.8%. In Finland the employee interest rate for loans corresponds to Nordea's funding cost with a margin of 30 basis points up to EUR 0.4m, and 60 basis points on the part that exceeds EUR 0.4m. In Sweden the employee interest rate on fixed- and variable interest rate loans is 215 basis points lower than the corresponding interest rate for external customers (with a lower limit of 50 basis points). There is currently a cap of 50 Swedish price base amounts both on fixed- and variable interest rate loans. For interest on loans above the defined caps, the same terms apply as for premium customers. 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.

Long Term Incentive Programmes

	2018			2017		
	Matching Share	Performance Share I	Performance Share II	Matching Share	Performance Share I	Performance Share II
Rights LTIP 2012						
Outstanding at the beginning of the year	147,251	441,753	147,251	221,561	664,683	221,561
Granted[1]	11,576	34,728	11,576	13,209	39,627	13,209
Forfeited	–	–	–	–4,521	–13,563	–4,521
Allotted	–89,522	–268,566	–89,522	–82,998	–248,994	–82,998
Outstanding at end of year[2]	**69,305**	**207,915**	**69,305**	**147,251**	**441,753**	**147,251**
- of which currently exercisable	–	–	–	–	–	–
Rights LTIP 2011						
Outstanding at the beginning of year	75,642	126,385	34,038	151,138	252,526	68,011
Granted[1]	5,946	9,935	2,676	8,923	14,909	4,015
Forfeited	–	–	–	–4,517	–7,548	–2,033
Allotted	–40,794	–68,160	–18,357	–79,902	–133,502	–35,955
Outstanding at end of year[2]	**40,794**	**68,160**	**18,357**	**75,642**	**126,385**	**34,038**
- of which currently exercisable	–	–	–	–	–	–
Rights LTIP 2010						
Outstanding at the beginning of year	19,193	20,275	8,634	41,311	43,640	18,585
Forfeited	–	–	–	–2,926	–3,091	–1,317
Allotted	–19,193	–20,275	–8,634	–19,192	–20,274	–8,634
Outstanding at end of year[2]	**0**	**0**	**0**	**19,193**	**20,275**	**8,634**
- of which currently exercisable	–	–	–	–	–	–

1) Granted rights are compensation for dividend on the underlying Nordea share during the year.
2) Allotment of rights have been deferred following retention requirements by the Nordic FSAs. There is no execise price for the deferred rights.

Cash-settled share-based payment transactions

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

In addition Nordea in 2013 introduced 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. The main part of EIP 2018 is paid no earlier than autumn 2022. 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 Remuneration section in the Board of Director's Report), within the Nordea Group. EIP is offered instead of Nordea's LTIP and VSP for the invited employees. The allocation of the EIP 2018 is decided during spring 2019, and a reservation of EUR 35m excl. social costs is made 2018.

G7. Staff costs, cont.

80% of the allocated amount will be subject to TSR-indexation.

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

	Share linked deferrals	
EURm	2018	2017
Opening balance	109	110
Reclassification to liabilities held for sale	–	–1
Deferred/earned during the year	45	49
TSR indexation during the year	–15	1
Payments during the year	–49	–48
Translation differences	–1	–2
Closing balance	**89**	**109**

1) Relates to a reclassification to liabilities held for sale.

Gender distribution

In the parent company´s Board of Directors 50% (50%) were men and 50% (50%) were women. In the Board of Directors of the Nordea Group companies, 70% (73%) were men and 30% (27%) were women. The corresponding numbers for Other executives were 72% (73%) men and 28% (27%) women.

Internal Boards consist mainly of management in Nordea, employee representatives excluded.

Average number of employees, Full-time equivalents

	Total		Men		Women	
	2018	2017	2018	2017	2018	2017
Denmark	8,505	9,136	4,826	5,417	3,679	3,719
Sweden	7,055	7,462	3,494	3,851	3,561	3,611
Finland	6,459	7,032	2,404	2,622	4,055	4,410
Norway	2,962	3,127	1,598	1,758	1,364	1,369
Poland	2,980	2,060	1,636	1,044	1,344	1,016
Russia	396	606	148	207	248	399
Estonia	253	502	78	116	175	386
Latvia	–	364	–	161	–	203
Luxembourg	434	451	245	254	189	197
Lithuania	–	305	–	117	–	188
United States	116	123	56	61	60	62
Singapore	75	81	32	37	43	44
United Kingdom	58	68	35	39	23	29
Germany	44	43	26	23	18	20
China	29	31	12	13	17	18
Switzerland	10	22	5	14	5	8
Italy	9	9	6	6	3	3
Spain	5	7	3	5	2	2
Brazil	2	5	2	5	–	0
France	3	3	3	3	–	0
Total average	**29,395**	**31,437**	**14,609**	**15,753**	**14,786**	**15,684**
Total number of employees (FTEs), end of period	**28,990**	**30,399**				

G8. Other expenses

EURm	2018	2017
Information technology	–484	–565
Marketing and representation	–60	–66
Postage, transportation, telephone and office expenses	–83	–101
Rents, premises and real estate	–312	–309
Other	–460	–581
Total	**–1,399**	**–1,622**

Auditors' fees

EURm	2018	2017
PricewaterhouseCoopers[1]		
Auditing assignments	–10	–7
Audit-related services	–1	–1
Tax advisory services	0	–1
Other assignments	–1	–2
Total	**–12**	**–11**

1) Of which Tax services EUR 0m (EUR 0.1m) and Other assignments EUR 0.5m (EUR 0,4m) refers to PricewaterhouseCoopers Oy in year 2018 and Öhrlings PricewaterhouseCoopers AB in year 2017.

G9. Depreciation, amortisation and impairment charges of tangible and intangible assets

EURm	2018	2017
Depreciation/amortisation		
Properties and equipment	–113	–106
Intangible assets	–194	–157
Total	**–307**	**–263**
Impairment charges		
Intangible assets	–175	–5
Total	**–175**	**–5**
Total	**–482**	**–268**

G10. Net loan losses

Based on IFRS 9

EURm, 2018	Loans to central banks and credit institutions[2]	Loans to the public[2]	Off balance sheet items[3]	Total
Net loan losses, stage 1	3	–14	–5	–16
Net loan losses, stage 2	10	51	–10	51
Net loan losses, non-defaulted	**13**	**37**	**–15**	**35**
Stage 3, defaulted				
Net loan losses, individually assessed, model based[1]	3	–47	–1	–45
Realised loan losses	–1	–465	–13	–479
Decrease of provisions to cover realised loan losses	–	280	13	293
Recoveries on previous realised loan losses	2	42	–	44
New/increase in provisions	–	–494	–60	–554
Reversals of provisions	0	456	77	533
Net loan losses, defaulted	**4**	**–228**	**16**	**–208**
Net loan losses	**17**	**–191**	**1**	**–173**

Based on IAS 39

EURm, 2017	Loans to central banks and credit institutions[2]	Loans to the public[2]	Off balance sheet items[3]	Total
Realised loan losses	–	–426	–9	–435
Decrease of provisions to cover realised loan losses	–	300	9	309
Recoveries on previous realised loan losses	–	54	–	54
New/increase in provisions	–1	–908	–92	–1,001
Reversals of provisions	1	642	61	704
Net loan losses	**0**	**–338**	**–31**	**–369**

1) Includes individually identified assets where the provision has been caclulated based on statistical models.
2) Provisions included in Note G13 "Loans and impairment".
3) Provisions included in Note G31 "Provisions".

G11. Taxes

Income tax expense

EURm	2018	2017
Current tax	–891	–1,022
Deferred tax	19	72
Total	**–872**	**–950**

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 in Finland (2017: Sweden) as follows:

EURm	2018	2017
Profit before tax	3,953	3,998
Tax calculated at a tax rate of 20.0% (22.0%)	–791	–880
Effect of different tax rates in other countries	–175	–23
Interest on subordinated debt	–18	–55
Income from associated undertakings	0	0
Tax-exempt income	158	21
Non-deductible expenses	–30	–3
Adjustments relating to prior years	17	–12
Utilization of non-capitalized tax losses carry-forwards from previous periods	0	2
Change of tax rate	10	–
Not creditable foreign taxes	–43	–
Tax charge	**–872**	**–950**
Average effective tax rate	22%	24%

Deferred tax

	Deferred tax assets		Deferred tax liabilities	
EURm	2018	2017	2018	2017
Deferred tax related to:				
Tax losses carry-forward	105	11	–	–
Loans to the public	36	29	363	367
Derivatives	2	16	355	238
Intangible assets	3	5	63	37
Investment properties	–	0	34	91
Retirement benefit assets/obligations	39	22	30	43
Liabilities/provisions	66	83	32	24
Foreign tax credits	101	61	–	–
Other	7	4	24	35
Netting between deferred tax assets and liabilities	–195	–113	–195	–113
Total	**164**	**118**	**706**	**722**

EURm	2018	2017
Unrecognised deferred tax assets		
Unused tax losses carry-forward with no expire date	44	44
Total	**44**	**44**

G12. Earnings per share

	2018	2017
Earnings:		
Profit attributable to shareholders of Nordea Bank Abp (Nordea Bank AB (publ)), EURm	3,070	3,031
Number of shares (in millions):		
Number of shares outstanding at beginning of year	4,050	4,050
Average number of own shares	–14	–12
Weighted average number of basic shares outstanding	**4,036**	**4,038**
Adjustment for diluted weighted average number of additional ordinary shares outstanding[1]	1	1
Weighted average number of diluted shares outstanding	**4,037**	**4,039**
Basic earnings per share, EUR	0.76	0.75
Diluted earnings per share, EUR	0.76	0.75

1) Relates to the Long Term Incentive Programmes (LTIP). For further information on these programmes, see Note G1 "Accounting policies" section 22.

G13. Loans and impairment

EURm	31 Dec 2018[1]	31 Dec 2017[2]
Loans measured at fair value through profit and loss	77,521	76,766
Loans measured at amortised cost, not impaired (stage 1 and 2)	247,204	243,045
Impaired loans (stage 3)	4,581	6,068
- of which servicing	2,097	3,593
- of which non-servicing	2,484	2,475
Loans before allowances	**329,306**	**325,879**
- of which central banks and credit institutions	18,977	13,389
Allowances for impaired loans (stage 3)	–1,599	–1,936
- of which servicing	–720	–1,103
- of which non-servicing	–879	–833
Allowances for not impaired loans (stage 1 and 2)	–441	–397
Allowances	**–2,040**	**–2,333**
- of which central banks and credit institutions	–15	–1
Loans, carrying amount	**327,266**	**323,546**

1) Based on IFRS 9.
2) Based on IAS 39. Comparative figures for 2017 include impaired loans and allowance for loans measured at fair value. For 2018, these loans are not disclosed as impaired loans or allowances but rather as adjustments to fair value through "Net result from items at fair value" in the income statement.

Nordea has granted EUR 138 bn (EUR 138 bn) in mortgage credits.
No intermediary credits or public sector credits have been granted.

Carrying amount of loans measured at amortised cost, before allowances

	Central banks and credit institutions				The public				Total			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2018	**11,161**	**88**	**6**	**11,255**	**218,421**	**14,040**	**5,397**	**237,858**	**229,582**	**14,128**	**5,403**	**249,113**
Origination and acquisition	932	6	–	938	37,466	1,058	491	39,015	38,398	1,064	491	39,953
Transfers between stage 1 and stage 2, (net)	4	–4	–	0	–279	288	–	9	–275	284	0	9
Transfers between stage 2 and stage 3, (net)	–	0	0	0	–	–245	285	40	0	–245	285	40
Transfers between stage 1 and stage 3, (net)	0	–	0	0	–49	–	83	34	–49	0	83	34
Repayments and disposals	–2,808	–7	–11	–2,826	–45,978	–3,336	–1,462	–50,776	–48,786	–3,343	–1,473	–53,602
Write-offs	–	–	–1	–1	–	–	–466	–466	0	0	–467	–467
Other changes	5,922	–53	6	5,875	9,611	2,946	324	12,881	15,533	2,893	330	18,756
Translation differences	47	0	–	47	–2,032	–60	–6	–2,098	–1,985	–60	–6	–2,051
Closing balance at 31 Dec 2018	**15,258**	**30**	**0**	**15,288**	**217,160**	**14,691**	**4,646**	**236,497**	**232,418**	**14,721**	**4,646**	**251,785**

G13. Loans and impairment, cont.

Movement of allowance accounts for loans measured at amortised cost

EURm	Central banks and credit institutions Stage 1	Stage 2	Stage 3	Total	The public Stage 1	Stage 2	Stage 3	Total	Total Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2018[1]	**–8**	**–17**	**–7**	**–32**	**–125**	**–343**	**–1,809**	**–2,277**	**–133**	**–360**	**–1,816**	**–2,309**
Origination and acquisition	–3	0	–	–3	–30	–21	–9	–60	–33	–21	–9	–63
Transfers from stage 1 to stage 2	0	–1	–	–1	7	–63	–	–56	7	–64	0	–57
Transfers from stage 1 to stage 3	–	–	–	0	0	–	–90	–90	0	0	–90	–90
Transfers from stage 2 to stage 1	0	5	–	5	–13	52	–	39	–13	57	0	44
Transfers from stage 2 to stage 3	–	–	–	0	–	16	–97	–81	0	16	–97	–81
Transfers from stage 3 to stage 1	0	–	2	2	–4	–	12	8	–4	0	14	10
Transfers from stage 3 to stage 2	–	–	–	0	–	–7	73	66	0	–7	73	66
Changes in credit risk without stage transfer	1	4	0	5	8	42	28	78	9	46	28	83
Repayments and disposals	5	1	2	8	16	36	34	86	21	37	36	94
Write-off through decrease in allowance account	–	–	–	0	–	–	280	280	0	0	280	280
Other changes	–	–	–	0	0	–	–22	–22	0	0	–22	–22
Translation differences	0	0	0	0	0	1	4	5	0	1	4	5
Closing balance at 31 Dec 2018	**–5**	**–8**	**–3**	**–16**	**–141**	**–287**	**–1,596**	**–2,024**	**–146**	**–295**	**–1,599**	**–2,040**

1) At the transition to IFRS 9 on 1 January 2018 Nordea reclassified EUR 177m from loans held at amortised cost and recognised an increasing remeasurement of EUR 153m. See Note G1 section 2 for more information.

Movements of allowance accounts for impaired loans

EURm	Central banks and credit institutions Individually assessed	Collectively assessed	Total	The public Individually assessed	Collectively assessed	Total	Total Individually assessed	Collectively assessed	Total
Opening balance at 1 Jan 2017	**0**	**–2**	**–2**	**–1,913**	**–511**	**–2,424**	**–1,913**	**–513**	**–2,426**
Provisions	–	–1	–1	–751	–157	–908	–751	–158	–909
Reversals of previous provisions	–	1	1	385	257	642	385	258	643
Changes through the income statement	**0**	**0**	**0**	**–366**	**100**	**–266**	**–366**	**100**	**–266**
Allowances used to cover realised loan losses	–	–	–	300	–	300	300	–	300
Reclassification	–	–	–	11	2	13	11	2	13
Translation differences	0	2	2	32	12	44	32	14	46
Closing balance at 31 Dec 2017	**0**	**0**	**0**	**–1,936**	**–397**	**–2,333**	**–1,936**	**–397**	**–2,333**

G13. Loans and impairment, cont.

Rating/scoring information on loans measured at amortised cost

Rating/scoring grade	Average PD, %	Gross carrying amount 31 Dec 2018			
		Stage 1	Stage 2	Stage 3[1]	Total
7	0.01	9,958	116	0	10,074
6+ / A+	0.03	50,773	192	1	50,966
6 / A	0.05	20,574	184	2	20,760
6– / A–	0.09	15,502	283	2	15,787
5+ / B+	0.10	15,538	478	2	16,018
5 / B	0.20	23,251	582	1	23,834
5– / B–	0.27	15,228	636	3	15,867
4+ / C+	0.49	17,516	725	5	18,246
4 / C	0.69	22,549	1,066	6	23,621
4– / C–	1.30	15,214	998	4	16,216
3+ / D+	3.24	4,844	1,605	13	6,462
3 / D	6.00	4,862	1,789	14	6,665
3– / D–	8.26	2,612	1,187	13	3,812
2+ / E+	10.91	1,708	1,169	67	2,944
2 / E	17.44	900	1,136	19	2,055
2– / E–	22.13	360	335	4	699
1+ / F+	32.82	223	262	13	498
1 / F	32.48	265	549	28	842
1– / F–	37.34	570	720	31	1,321
Standardised/Unrated	0.24	10,029	319	95	10,443
0+ / 0 / 0– (default)	100.00	211	186	4,258	4,655
Total		**232,687**	**14,517**	**4,581**	**251,785**

1) The stage classification and calculation provision for each exposure is based on the situation as per end of October 2018, while the exposure amount and rating grades are based on the situation as per end of December 2018. Some of the exposures in default according to the rating grade as per end of December were not in default as per end of October, and hence this is reflected in the stage classification.

Key ratios[1]

	31 Dec 2018[2]
Impairment rate (stage 3), gross, basis points	182
Impairment rate (stage 3), net, basis points	118
Total allowance rate (stage 1, 2 and 3), basis points	81
Allowances in relation to impaired loans (stage 3), %	35
Allowances in relation to loans in stage 1 and 2, basis points	1

	31 Dec 2017[3]
Impairment rate, gross, basis points	186
Impairment rate, net, basis points	127
Total allowance rate, basis points	72
Allowances in relation to impaired loans, %	32
Total allowances in relation to impaired loans, %	38
Non-servicing loans, not impaired, EURm	253

1) For definitions, see Glossery on page 95.
2) Based on IFRS 9.
3) Based on IAS 39.

For additional information on credit risks, see Note G46 "Credit risk disclosures".

G14. Interest-bearing securities

EURm	31 Dec 2018	31 Dec 2017
State, municipalities and other public bodies	18,756	16,833
Mortgage institutions	28,077	27,214
Other credit institutions	24,736	26,107
Corporates	4,601	5,140
Other	52	–
Total	**76,222**	**75,294**

Provisions for credit risks amount to EUR 2m (EUR 0m).

G15. Financial instruments pledged as collateral

Financial instruments pledged as collateral

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

EURm	31 Dec 2018	31 Dec 2017
Interest-bearing securities	7,568	6,489
Total	**7,568**	**6,489**

For information on transferred assets and reverse repos, see Note G41 "Financial instruments set off on balance or subject to netting agreements".

G16. Shares

EURm	31 Dec 2018	31 Dec 2017
Shares	4,407	8,599
Fund units, equity related	5,679	5,954
Fund units, interest related	2,366	2,627
Total	**12,452**	**17,180**
- of which Financial instruments pledged as collateral (Note G15)	–	–
Total	**12,452**	**17,180**

G17. Assets and deposits in pooled schemes and unit-linked investment contracts

EURm	31 Dec 2018	31 Dec 2017
Assets		
Interest-bearing securities	1,284	1,705
Shares and fund units	23,076	23,639
Properties	158	151
Other assets	65	384
Total	**24,583**	**25,879**
Liabilities		
Pooled schemes	3,964	4,317
Unit linked investment contracts	21,689	22,016
Total	**25,653**	**26,333**

The Life Group and Nordea Denmark, branch of Nordea Bank AB, have assets and liabilities included on their balance sheet where customers are bearing the risk. Since the assets and liabilities legally belong to the entities, these assets and liabilities are included on the Group's balance sheet.

G18. Derivatives and Hedge accounting

Nordea enters into derivatives for trading and risk management purposes. Nordea may take positions with the expectation of profiting from favourable movements in prices, rates or indices. The trading portfolio is treated as trading risk for risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

	Fair value		
31 Dec 2018, EURm	Positive	Negative	Total nom. amount
Derivatives not used for hedge accounting	33,915	38,624	6,571,710
Fair value hedges	1,959	402	160,440
Cash flow hedges	1,143	437	20,795
Net investment hedges	8	84	8,544
Total derivatives	**37,025**	**39,547**	**6,761,489**

	Fair value		
31 Dec 2017, EURm	Positive	Negative	Total nom. amount
Derivatives not used for hedge accounting	44,415	41,607	7,376,437
Fair value hedges	1,118	483	94,050
Cash flow hedges	525	590	15,654
Net investment hedges	53	33	9,219
Total derivatives	**46,111**	**42,713**	**7,495,360**

Derivatives not used for hedge accounting

	Fair value		
31 Dec 2018, EURm	Positive	Negative	Total nom. amount
Interest rate derivatives			
Interest rate swaps	17,438	17,476	3,824,871
FRAs	26	8	1,036,172
Futures and forwards	25	27	137,399
Options	5,252	6,025	371,954
Total	**22,741**	**23,536**	**5,370,396**
Equity derivatives			
Equity swaps	192	138	10,886
Futures and forwards	4	2	1,255
Options	303	638	15,273
Total	**499**	**778**	**27,414**
Foreign exchange derivatives			
Currency and interest rate swaps	5,214	9,076	397,180
Currency forwards	4,807	4,360	625,264
Options	108	116	19,879
Other	0	0	0
Total	**10,129**	**13,552**	**1,042,323**
Other derivatives			
Credit default swaps (CDS)	536	756	130,921
Commodity derivatives	0	0	92
Other derivatives	10	2	564
Total	**546**	**758**	**131,577**
Total derivatives not used for hedge accounting	**33,915**	**38,624**	**6,571,710**

	Fair value		
31 Dec 2017, EURm	Positive	Negative	Total nom. amount
Interest rate derivatives			
Interest rate swaps	23,589	19,804	4,827,481
FRAs	39	18	984,287
Futures and forwards	32	48	148,995
Options	6,421	6,285	324,604
Other	4	2	4,009
Total	**30,085**	**26,157**	**6,289,376**
Equity derivatives			
Equity swaps	113	150	11,301
Futures and forwards	3	6	1,147
Options	355	642	13,845
Total	**471**	**798**	**26,293**
Foreign exchange derivatives			
Currency and interest rate swaps	6,203	7,816	352,287
Currency forwards	5,465	4,748	605,787
Options	150	107	23,485
Total	**11,818**	**12,671**	**981,559**
Other derivatives			
Credit default swaps (CDS)	2,009	1,975	78,650
Commodity derivatives	3	3	235
Other derivatives	29	3	324
Total	**2,041**	**1,981**	**79,209**
Total derivatives not used for hedge accounting	**44,415**	**41,607**	**7,376,437**

Hedge Accounting

Risk management

Nordea manages its identified market risks according to the risk management framework and strategy described in the Market risk section in the chapter "Risk management" in the Board of Directors' report .

Nordea classifies its exposures to market risk into either trading (the Trading Book) or non-trading (the Banking Book) portfolios and are managed separately.

The Trading Book consists of all positions in financial instruments held by Nordea either with trading intent, or in order to hedge positions held with trading intent. Positions held "with trading intent" are those held intentionally for short-term resale or with the intention of benefiting from actual or expected short-term price differences between buying and selling prices, or from other price or interest rate variations.

The Banking Book comprises all positions not held in the Trading Book. All hedges qualifying for hedge accounting are performed in the Banking Book. The hedging instruments and risks hedged are futher described below per risk and hedge accounting type.

Interest rate risk

Nordea's primary business model is to collect deposits and use these funds to provide loans and other funding products and debt instruments to its customers. Interest rate risk is the impact that changes in interest rates could have on Nordea's margins, profit or loss, and equity. Interest risk arises from mismatch of interest from interest bearing liabilities and assets such as deposits, issued debt, securities and loan portfolio.

As part of Nordea's risk management strategy, the Board

G18. Derivatives and Hedge accounting, cont.

has established limits on the non-trading interest rate gaps for the interest rate sensitivities. These limits are consistent with Nordea's risk appetite and Nordea aligns its hedge accounting objectives to keep exposures within those limits. Nordea's policy is to monitor positions on a daily basis. For further information on measurement of risks, see the Market risk section in the chapter "Risk management" in the Board of Directors' report .

For hedge accounting relationships related to interest rate risk, the hedged item is the benchmark rate. The hedging ratio is one-to-one, and is established by matching the notional of the derivatives against the principle of the hedged item.

The benchmark rate is determined as a change in present value of the future cash flows using benchmark rate discount curves. The benchmark rate is separately identifiable and reliably measurable and is typically the most significant component of the overall change in fair value or cash flows.

Fair value hedges

In order to reduce or eliminate changes in the fair value of financial assets and financial liabilities due to movements in interest rates, Nordea enters into fair value hedging relationships as described in Note G1 section 10. Nordea uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments and loans and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate loan (i.e. notional amount, maturity, payment and reset dates).

The below table presents the accumulated fair value adjustments arising from continuing hedging relationships, irrespective of whether there has been a change in hedge designation during the year.

Hedged items

	Interest rate risk	
EURm	2018	2017
Fair value hedges		
Carrying amount of hedged assets[1]	46,773	41,818
- of which accumulated amount of fair value hedge adjustment[3]	169	163
Carrying amount of hedged liabilties[2]	81,424	67,040
- of which accumulated amount of fair value hedge adjustment[3]	1,273	1,450

1) Presented on the balance sheet rows Loans to central banks, Loan to credit institutions, Loans to the public, Interest-bearing securities and Fair value changes of the hedged items in portfolio hedge of interest rate risk.
2) Presented on the balance sheet rows Deposit by credit institutions, Deposit and borrowing from the public, Debt securities in issue and Fair value changes of the hedged items in portoflio hedge of interest rate risk.
3) Of which all relates to continuing portfolio hedges of interest rate risk.

The following table provides information about the hedging instruments included in the line item Derivatives on the balance sheet:

Derivatives used for hedge accounting

	Fair value		
31 Dec 2018, EURm	Positive	Negative	Total nom. amount
Fair value hedges			
Interest rate risk	1,959	402	160,440

	Fair value		
31 Dec 2017, EURm	Positive	Negative	Total nom. amount
Fair value hedges			
Interest rate risk	1,118	483	94,050

The below table presents the changes in the fair value of the hedged items and changes in fair value of the hedging instruments used as the basis for recognising ineffectiveness. These changes are recognised on the row "Net result from items at fair value" in the income statement.

Hedge ineffectiveness

	Interest rate risk	
EURm	2018	2017
Fair value hedges		
Changes in fair value of hedging instruments	–237	–906
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	194	949
Hedge ineffectiveness recognised in the income statement[1]	–43	43

1) Recognised on the row Net result from items at fair value.

Cash flow hedges

For Nordea's cash flow hedge accounting relationships, the hedged risk is the variability in future interest cash flows due to changes in market interest rates. In order to reduce or eliminate variability in future interest payments, Nordea primarily uses interest rate swaps as hedging instruments according to Nordea's policies and risk management strategy described in Note G1 section 10 and in the Market risk section in the chapter "Risk management" in the Board of Directors' report.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the interest rate swaps match the terms of the future interest cash flows (i.e. notional amount and expected payment date).

The below tables provide information about the hedging instruments as well as the outcome of the cash flow hedges addressing interest rate risk including the notional and the carrying amounts of the hedging instruments and the changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions.

Derivatives used for hedge accounting

	Fair value		
31 Dec 2018, EURm	Positive	Negative	Total nom. amount
Cash flow hedges			
Interest rate risk	6	0	190

	Fair value		
31 Dec 2017, EURm	Positive	Negative	Total nom. amount
Cash flow hedges			
Interest rate risk	0	4	520

G18. Derivatives and Hedge accounting, cont.

In the below table, the fair value adjustments arising from continuing hedging relationships, irrespective of whether there has been a change in hedge designation during the year, are specified.

Hedge ineffectiveness

	Interest rate risk	
EURm	2018	2017
Cash flow hedges		
Changes in fair value of hedging instruments	16	–4
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	–16	4
Hedge ineffectiveness recognised in the income statement[1]	–	–
Hedging gains or losses recognised in OCI	16	–4

1) Recognised on the row Net result from items at fair value.

Cash flow hedge reserve

	Interest rate risk	
EURm	2018	2017
Balance at 1 Jan	–3	–
Cash flow hedges:		
Valuation gains/losses during the year	16	–4
Tax on valuation gains/losses during the year	–3	1
Transferred to the income statement during the year	–6	–
Tax on transfers to the income statement during the year	1	–
Other comprehensive income, net of tax	8	–3
Total comprehensive income	8	–3
Balance at 31 Dec	**5**	**–3**
of which relates to continuing hedges for which hedge accounting is applied	5	–3
of which relates to hedging relationships for which hedge accounting is no longer applied	–	–

The maturity profile of Nordea's hedging instruments used to hedge interest rate risk (both fair value and cash flow hedge accounting) follows below:

Maturity profile of the nominal amount of hedging instrumens

31 Dec 2018, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging interest rate risk	–	5,024	19,030	108,380	25,517	157,951
Net cash outflows	**–**	**5,024**	**19,030**	**108,380**	**25,517**	**157,951**

31 Dec 2017, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging interest rate risk	–	3,925	11,368	55,953	18,102	89,348
Net cash outflows	**–**	**3,925**	**11,368**	**55,953**	**18,102**	**89,348**

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign exchange risk (FX risk) from trading activities is limited through a VaR limit while FX risk from structural exposures are limited through a stress loss limit for the CET1-ratio impact from FX fluctuations in a severed but plausible stress scenario (see the Market risk section in the chapter "Risk management" in the Board of Directors' report).

Nordea's issuance of credits and borrowing can be denominated in the currency of the borrower or investor. Borrowing, investing and lending are not always executed in the same currency and thus exposes Nordea to a foreign exchange risk. Differences in exposures to individual currencies that exist between different transactions are matched by predominantly entering into cross currency interest rate swaps. 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.

In addition to the above, Nordea also has exposure to structural foreign currency risk through its foreign operations that have a functional currency other than Nordea's presentation currency, EUR (i.e. a translation risk). Fluctuation of the spot exchange rates will cause Nordea's reported net investment in foreign operations to vary and the CET1-ratio to fluctuate from the currency mismatch between equity and Risk Exposure Amounts (REA). Nordea applies hedge accounting when it hedges its investments in fully consolidated foreign operations whose functional currency is not EUR.

For hedge accounting relationships related to currency risk, the hedged item is a foreign currency component. The hedging ratio is one-to-one and is established by matching the notional of the derivatives against the principal of the hedged item.

The currency component is determined as the change in present value of the future cash flows using foreign exchange curves. The foreign currency component is separately identifiable and reliably measurable and is typically the most significant component of the overall change in fair value or cash flows.

Cash flow and net investment hedges

The below tables provide information about the hedging instruments as well as the outcome of the cash flow and net investment hedges addressing currency risks including the notional and the carrying amounts of the hedging instruments and the changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions.

G18. Derivatives and Hedge accounting, cont.

Derivatives used for hedge accounting

31 Dec 2018, EURm	Fair value Positive	Fair value Negative	Total nom. amount
Cash flow hedges			
Foreign exchange risk	1,137	437	20,605
Net investment hedges			
Foreign exchange risk	8	84	8,544
Total derivatives used for hedge accounting	**1,145**	**521**	**29,149**

31 Dec 2017, EURm	Fair value Positive	Fair value Negative	Total nom. amount
Cash flow hedges			
Foreign exchange risk	525	586	15,134
Net investment hedges			
Foreign exchange risk	53	33	9,219
Total derivatives used for hedge accounting	**578**	**619**	**24,353**

In the below table, the fair value adjustments arising from continuing hedge relationships, irrespective of whether there has been a change in hedge designation during the year, are specified.

Hedge ineffectiveness

EURm	Foreign exchange risk 2018	Foreign exchange risk 2017
Cash flow hedges		
Changes in fair value of hedging instruments	704	47
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	–704	–47
Hedge ineffectiveness recognised in the income statement[1]	–	–
Hedging gains or losses recognised in OCI	704	47
Net investment hedges		
Changes in fair value of hedging instruments	67	175
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	–67	–175
Hedge ineffectiveness recognised in the income statement[1]	–	–
Hedging gains or losses recognised in OCI	67	175

1) Recognised on the row Net result from items at fair value.

Cash flow hedge reserve

EURm	Foreign exchange risk 2018	Foreign exchange risk 2017
Balance at 1 Jan 2018	–43	37
Cash flow hedges:		
Valuation gains/losses during the year	704	47
Tax on valuation gains/losses during the year	–156	–20
Transferred to the income statement during the year	–670	–150
Tax on transfers to the income statement during the year	148	43
Other comprehensive income, net of tax	26	–80
Total comprehensive income	26	–80
Balance at 31 Dec 2018	**–17**	**–43**
of which relates to continuing hedges for which hedge accounting is applied	–17	–43
of which relates to hedging relationships for which hedge accounting is no longer applied	–	–

Maturity profile of the nominal amount of hedging instrumens

31 Dec 2018, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	–	2,663	11,886	13,707	3,572	31,828
Total	–	**2,663**	**11,886**	**13,707**	**3,572**	**31,828**

31 Dec 2017, EURm	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	–	–	1,220	25,402	2,953	29,575
Total	–	–	**1,220**	**25,402**	**2,953**	**29,575**

G19. Investments in associated undertakings and joint ventures

EURm	31 Dec 2018	31 Dec 2017
Acquisition value at beginning of year	1,237	590
Acquisitions during the year	335	972
Sales during the year	–3	–9
Share in earnings[1]	122	61
Dividend received	–23	–93
Reclassification	–28	–267
Translation differences	–37	–17
Acquisition value at end of year	**1,603**	**1,237**
Accumulated impairment charges at beginning of year	–2	–2
Accumulated impairment charges at end of year	**–2**	**–2**
Total	**1,601**	**1,235**

1) See table Share in earnings.

Share in earnings

EURm	31 Dec 2018	31 Dec 2017
Profit from companies accounted for under the equity method	124	23
Portfolio hedge, Eksportfinans ASA	–2	–3
Associated undertakings in Life insurance, reported as Net result from items at fair value	–	41
Share in earnings	**122**	**61**

Nordea's share of the associated undertakings' aggregated balance sheets and income statements can be summarised as follows:

EURm	31 Dec 2018	31 Dec 2017
Total assets	2,054	2,226
Net profit for the year	21	3
Other comprehensive income	0	0
Total comprehensive income	21	3

Nordea has issued contingent liabilities of EUR 26m (EUR 1m) on behalf of associated undertakings.

Associated undertakings

31 Dec 2018	Registration number	Domicile	Carrying amount 2018, EURm	Carrying amount 2017, EURm	Voting power of holding %
Eksportfinans ASA	816521432	Oslo	161	172	23
Eiendomsverdi AS	881971682	Oslo	13	–	25
Suomen Luotto-osuuskunta	0201646-0	Helsinki	2	2	27
LR Realkredit A/S	26045304	Copenhagen	7	9	39
Nordea Liv & Pension, livforsikringsselskab A/S	24260577	Ballerup	326	–	30
E-nettet Holding A/S	28308019	Copenhagen	3	3	20
Mandrague Capital Partners AB	556854-2780	Stockholm	5	–	40
Automatia Pankkiautomaatit Oy	0974651-1	Helsinki	7	8	33
PFC Technology AB	556851-3112	Stockholm	4	–	20
NF Fleet Oy	2006935-5	Espoo	9	9	20
NF Fleet AB	556692-3271	Stockholm	6	5	20
NF Fleet A/S	29185263	Copenhagen	4	5	20
NF Fleet AS	988906808	Oslo	3	2	20
Upplysningscentralen UC AB	556137-5113	Stockholm	–	3	26
Bankomat AB	556817-9716	Stockholm	7	8	20
Visa Sweden	801020-5097	Stockholm	6	29	–
Other			1	7	
Total			**564**	**262**	

Nordea's share of the joint ventures' aggregated balance sheets and income statements (excluding Luminor, see below) can be summarised as follows:

EURm	31 Dec 2018[1]	31 Dec 2017
Total assets	345	252
Net profit for the year	–4	–54
Other comprehensive income	0	1
Total comprehensive income	–4	–53

1) Estimate based on situation as of Q3 2018.

G19. Investments in associated undertakings and joint ventures, cont.

Joint ventures

31 Dec 2018	Registration number	Domicile	Carrying amount 2018, EURm	Carrying amount 2017, EURm	Voting power of holding %	Ownership %	Average number of FTE
Luminor Group AB[1]	559072-8316	Stockholm	1,037	973	50	56	3,000
Relacom Management AB[1]	556746-3103	Stockholm	–	–	61	61	3,000
Total			**1,037**	**973**			
Total associated undertakings and joint ventures			**1,601**	**1,235**			

1) The joint contol is based on a shareholders agreement where it is stated that decisions about all relevant activities in the entity is made in common.

For information about investments in group undertaking and companies where Nordea has unlimited responsibility, see Note P21 "Investments in group undertakings".

Nordea has one material joint venture, Luminor Group. The company is the result of the merger of Nordea's and DnB's business in the Baltics. Nordea has entered into an agreement to reduce the holding in Luminor Group to be executed in 2019. At 31 Dec 2018, Nordea held 56.3% of the capital in Luminor but only 50.0% of the voting rights and thus report Luminor as a joint venture.

Luminor is included in the consolidated accounts of Nordea via the equity method. Luminor applies IFRS in their consolidated accounts and the balance sheet and income statements below are based on IFRS. The figures disclosed show the entire Luminor Group, not just Nordea's share.

Balance sheet Luminor Group

EURm	31 Dec 2018	31 Dec 2017
Assets		
Cash and balances with central banks	3,275	2,620
Loans to central banks and credit institutions	204	574
Loans to the public	11,451	11,647
Interest-bearing securities	167	34
Derivatives	46	28
Other assets	167	191
Total assets	**15,310**	**15,094**
Liabilities and equity		
Deposits by credit institutions	3,939	4,761
Deposits and borrowings from the public	9,073	8,430
Debt securities in issue	350	65
Derivatives	43	33
Other liabilities	107	91
Equity	1,799	1,714
Total liabilities and equity	**15,310**	**15,094**

Income statement Luminor Group

EURm	31 Dec 2018	31 Dec 2017[1]
Interest income	309	78
Interest expense	−39	−10
Net commission income	83	21
Net result from items at fair value	32	15
Other income	4	2
Total operating income	**389**	**106**
Staff costs	−114	−30
Other administrative expenses	−115	−48
Depreciation and amortisation	−14	−2
Net loan losses	−4	−19
Operating profit	**142**	**7**
Income tax expense	−14	−13
Net profit for the year	**128**	**−6**
Other comprehensive income	2	−2
Total comprehensive income	**130**	**−4**

1) The company existed for 3 months 2017.

Reconciliation of the carrying amount in Luminor

EURm	31 Dec 2018	31 Dec 2017
Nordeas share of equity in Luminor	1,013	965
Transaction costs	23	23
Other	1	−15
Carrying amount of the holding in Luminor	**1,037**	**973**

G20. Intangible assets

Goodwill allocated to cash generating units[1]		
Banking Russia	–	161
Business Banking Denmark	141	141
Business Banking Norway	462	466
Business Banking Sweden	82	85
Corporate & Investment Banking Norway[3]	172	–
Life & Pensions, Norway[2]	–	128
Personal Banking Denmark	447	448
Personal Banking Norway[2]	388	263
Personal Banking Sweden	124	128
Shipping, Offshore & Oil services[3]	–	174
Total goodwill	**1,816**	**1,994**
Computer software	2,167	1,917
Other intangible assets	52	72
Total intangible assets	**4,035**	**3,983**

1) Excluding goodwill in associated undertakings.
2) The goodwill allocated to Life & Pensions in 2017 have been reallocated to Personal Banking Norway in 2018 to better reflect where the cash flows are generated.
3) The segment Shipping Offshore & Oil services has been merged with the segment Corporate & Institutional Banking Norway.

Movements in goodwill		
Acquisition value at beginning of year	1,995	2,248
Reclassifications	–	–169
Translation differences	–37	–84
Acquisition value at end of year	**1,958**	**1,995**
Accumulated impairment charges at beginning of year	–1	–1
Impairment charges during the year	–141	–
Accumulated impairment charges at end of year	**–142**	**–1**
Total	**1,816**	**1,994**

Movements in computer software		
Acquisition value at beginning of year	2,377	1,802
Acquisitions during the year	534	645
Sales/disposals during the year	–78	–
Transfers/reclassifications during the year	–	–23
Translation differences	–45	–47
Acquisition value at end of year	**2,788**	**2,377**
Accumulated amortisation at beginning of year	–417	–315
Amortisation according to plan for the year	–162	–123
Accumulated amortisation on sales/disposals during the year	20	–
Transfers/reclassifications during the year	–	8
Translation differences	11	13
Accumulated amortisation at end of year	**–548**	**–417**
Accumulated impairment charges at beginning of year	–43	–40
Impairment charges during the year	–32	–5
Translation differences	2	2
Accumulated impairment charges at end of year	**–73**	**–43**
Total	**2,167**	**1,917**

Impairment testing of goodwill and computer software

A cash generating unit, defined as the operating segment, is the basis for the impairment test.

The impairment test is performed for each cash generating unit by comparing the carrying amount of the net assets,

G20. Intangible assets, cont.

including goodwill and computer software under development with the recoverable amount. The recoverable amount is the value in use and is estimated based on discounted cash flows. Due to the long-term nature of the investments, cash flows are expected to continue indefinitely.

Cash flows for the coming three years are based on financial forecasts. The forecasts are based on the Nordea macro economic outlook, including information on GDP growth, inflation and benchmark rates for relevant countries. Based on these macro forecasts, business areas project how margins, volumes, sales and costs will develop the coming years. Credit losses are estimated using the long term average for the different business areas. This results in an income statement for each year. The projected cash flow for each year is the forecasted net result in these income statements, reduced by the capital needed to grow the business in accordance with the long term growth assumptions. The projections take into consideration the major projects initiated in Nordea, e.g. the transformation program. There is also an allocation of central costs to business areas to make sure the cash flows for the CGUs include indirect costs. Tax costs are estimated based on the standard tax rate. Cash flows for the period beyond the forecasting period are based on estimated sector growth rates. Growth rates are based on historical data, updated to reflect the current situation.

The derived cash flows are discounted at a rate based on the market's long-term risk-free rate of interest and yield requirements. The following growth rates and discount rates have been used:

	Discount rate[1]		Growth rate	
EURm	2018	2017	2018	2017
Sweden	6.6	7.1	2.0	1.8
Denmark	5.9	6.6	1.3	1.3
Finland	5.9	6.6	1.3	1.3
Norway	6.4	7.1	1.8	1.8
Russia	9.2	9.5	0.0	0.0

1) Post-tax

The impairment tests conducted in 2018 did not indicate any need for goodwill impairment, except for Russia as explained below. See also Note G1 "Accounting policies" section 4 for more information.

An increase in the discount rate of 1 percentage point or a reduction in the future growth rate of 1 percentage point are considered to be reasonably possible changes in key assumptions. Such a change would not result in any impairment.

Impairment

Due to the reduced business volumes in Nordea Russia combined with a continued cautious strategy going forward, the value of the Russian business does no longer sustain the recognised goodwill stemming from a significantly higher business volume and earnings level. Following this, Nordea has recognised an impairment loss of EUR 141m. With this impairment, there is no longer any goodwill recognised in relation to the Russian operations. The impairment test is based on the value in use of the Russian operations and the estimated future cash flows have been discounted with a post-tax discount rate of 9.2% (9.5%).

The goodwill has been recognised in the segment Banking Russia, which is a separate segment within Wholesale Banking. The impairment expense is recognised as a reconciliation difference in Note G2 "Segment reporting".

G21. Leasing

Nordea as a lessor

Finance leases

Nordea owns assets leased to customers under finance lease agreements. Finance lease agreements are reported as receivables from the lessee included in "Loans to the public" (see Note G13) at an amount equal to the net investment in the lease. The leased assets mainly comprise vehicles, machinery and other equipment.

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

EURm	31 Dec 2018	31 Dec 2017
Gross investments	6,436	6,547
Less unearned finance income	–786	–815
Net investments in finance leases	**5,650**	**5,732**
Less unguaranteed residual values accruing to the benefit of the lessor	–34	–14
Present value of future minimum lease payments receivable	**5,614**	**5,718**
Accumulated allowance for uncollectible minimum lease payments receivable	8	3

As of 31 December 2018 the gross investment and the net investment by remaining maturity was distributed as follows:

	31 Dec 2018	
EURm	Gross investment	Net investment
2019	1,791	1,507
2020	1,615	1,369
2021	1,348	1,196
2022	594	546
2023	503	479
Later years	585	553
Total	**6,436**	**5,650**

G21. Leasing, cont.

Operating leases

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

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

EURm	31 Dec 2018
2019	1
2020	1
2021	1
2022	0
2023	–
Later years	–
Total	**3**

Nordea as a lessee

Finance leases

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

Operating leases

Nordea has entered into operating lease agreements for premises and office equipment.

Leasing expenses during the year

EURm	2018	2017
Leasing expenses during the year	–218	–204
- of which minimum lease payments	–218	–197
- of which contingent rents	0	–7
Leasing income during the year regarding sublease payments	4	4

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

EURm	31 Dec 2018
2019	144
2020	121
2021	101
2022	88
2023	77
Later years	686
Total	**1,217**

Total sublease payments expected to be received under non-cancellable subleases amounts to EUR 12m.

G22. Investment properties

EURm	31 Dec 2018	31 Dec 2017
Carrying amount at beginning of year	1,448	3,119
Acquisitions during the year	131	425
Sales/disposals during the year	–15	–179
Fair value adjustments	57	39
Transfers/reclassifications during the year	0	–2,043
Translation differences	–14	87
Carrying amount at end of year	**1,607**	**1,448**

Amounts recognised in the income statement[1]

EURm	2018	2017
Fair value adjustments	62	72
Rental income	85	159
Direct operating expenses that generate rental income	–21	–29
Direct operating expenses that did not generate rental income	–1	–10
Total	**125**	**192**

1) Included in Net result from items at fair value.

The method applied when calculating fair value is a rate of return calculation, based on internal models. As a supplement to these values, appraisals were obtained from independent external valuers for parts of the investment properties.

Approximately 75% of the investment properties are valued using internal models based on a rate of return calculation. For the remaining 25% of the investment properties, appraisals were obtained from independent external valuers.

For further information regarding investment properties, see Note G40 "Assets and liablilities at fair value.

G23. Other assets

EURm	31 Dec 2018	31 Dec 2017
Claims on securities settlement proceeds	594	924
Cash/margin receivables	10,161	9,007
Other	3,994	2,510
Total	**14,749**	**12,441**

G24. Prepaid expenses and accrued income

EURm	31 Dec 2018	31 Dec 2017
Accrued interest income	272	297
Other accrued income	324	464
Prepaid expenses	717	702
Total	**1,313**	**1,463**

G25. Deposits by credit institutions

EURm	31 Dec 2018	31 Dec 2017
Central banks	16,456	13,751
Banks	21,579	18,401
Other credit institutions	4,384	7,831
Total	**42,419**	**39,983**

G26. Deposits and borrowings from the public

EURm	31 Dec 2018	31 Dec 2017
Deposits[1]	160,228	165,418
Repurchase agreements	4,730	7,016
Total	**164,958**	**172,434**

1) Deposits related to individual pension savings (IPS) are also included.

G27. Liabilities to policyholders

Liabilities to policyholders are obligations related to insurance contracts. These contracts are divided into contracts containing insurance risk and contracts without insurance risk. The latter are pure investments contracts.

Insurance contracts consists of Life insurance provisions and other insurance related items.

EURm	31 Dec 2018	31 Dec 2017
Traditional life insurance provisions	6,187	6,264
- of which guaranteed provisions	6,110	6,178
- of which non-guaranteed provisions	77	86
Collective bonus potential	1,937	2,249
Unit-linked insurance provisions	6,375	6,922
- of which guaranteed provisions	0	0
- of which non-guaranteed provisions	6,375	6,922
Insurance claims provision	433	422
Provisions, Health & personal accident	69	74
Total Insurance contracts	**15,001**	**15,931**
Investment contracts	3,229	3,481
- of which guaranteed provisions	3,229	3,481
- of which non-guaranteed provisions	–	–
Total	**18,230**	**19,412**

Life insurance contracts are measured and recognised in accordance with IFRS 4, i.e. the measurement and recognition principle under previous GAAP has been maintained consequently resulting in non-uniform accounting policies method on consolidation. Each market represented by Nordic and European entities measures and recognises insurance contracts using local accounting policies.

G27. Liabilities to policyholders, cont.

31 Dec 2018, EURm	Traditional life insurance provisions	Collective bonus potentials	Unit-linked insurance provisions	Insurance claims provisions	Provisions, Health & personal accident and Life risk products	Investment contracts provisions	Total
Provisions/bonus potentials, beginning of year	**6,264**	**2,249**	**6,922**	**422**	**74**	**3,481**	**19,412**
Gross premiums written	94	–	340	–	–	132	566
Transfers	34	–	–34	–	–	–	0
Addition of interest/investment return	261	–	336	–	–	–97	500
Claims and benefits	–292	–	–606	12	–3	–262	–1,151
Expense loading inclusive addition of expense bonus	–25	–	–44	–	–	–28	–97
Change in provisions/bonus potential	144	–265	122	–	–1	–	0
Other	–242	–	–656	–	–	109	–789
Translation differences	–51	–47	–5	–1	–1	–106	–211
Provisions/bonus potentials, end of year	**6,187**	**1,937**	**6,375**	**433**	**69**	**3,229**	**18,230**
Provision relating to bonus schemes/ discretionary participation feature:	99%					71%	

31 Dec 2017, EURm	Traditional life insurance provisions	Collective bonus potentials	Unit-linked insurance provisions	Insurance claims provisions	Provisions, Health & personal accident and Life risk products	Investment contracts provisions	Total
Provisions/bonus potentials, beginning of year	**19,124**	**3,606**	**14,240**	**460**	**252**	**3,528**	**41,210**
Gross premiums written	612	–	2,591	–	–	137	3,340
Transfers/reclassification[1]	–12,299	–1,179	–9,637	–44	–173	5	–23,327
Addition of interest/investment return	517	–	1,072	–	–	284	1,873
Claims and benefits	–1,262	–	–1,241	–16	–7	–271	–2,797
Expense loading including addition of expense bonus	–91	–	–95	–	–	–31	–217
Change in provisions/bonus potential	42	–121	79	26	6	–	32
Other	20	–	–47	–	–	–25	–52
Translation differences	–399	–57	–40	–4	–4	–146	–650
Provisions/bonus potentials, end of year	**6,264**	**2,249**	**6,922**	**422**	**74**	**3,481**	**19,412**
Provision relating to bonus schemes/ discretionary participation feature:	99%					72%	

1) EUR 23,316m is related to a reclassification to "Assets held for sale". See Note G42 for further information.

Insurance risks

Insurance risk is described in the "Risk, Liquidity and Capital management" section of the Board of Directors' Report. Additional quantitative information is found below

Life insurance risk and market risks in the Life insurance operations, Sensitivites

	31 Dec 2018		31 Dec 2017	
EURm	Effect on policyholders liabilities[1]	Effect on Nordeas Equity[2]	Effect on policyholders liabilities[1]	Effect on Nordeas Equity[2]
Mortality – increased living with 1 year	23.2	–17.9	23.4	–18.7
Mortality – decreased living with 1 year	–0.4	0.3	–0.5	0.4
Disability – 10% increase	8.9	–6.9	9.4	–7.5
Disability – 10% decrease	–6.3	4.9	–6.4	5.1
50 bp increase in interest rates	–287.3	–5.6	–266.1	–2.9
50 bp decrease in interest rates	288.7	5.6	266.9	2.9
12% decrease in all share prices	–680.8	–0.8	–724.1	–1.3
8% decrease in property value	–115.9	–0.8	–106.3	–0.6
8% loss on counterparts	–1.5	0.0	–4.7	0.0

1) + (plus) indicates that policyholders liabilities increase.
2) – (minus) indicates that equity decrease.

G27. Liabilities to policyholders, cont.

Liabilities to policyholders divided in guarantee levels (technical interest rate)

31 Dec 2018, EURm	Non	0 pct.	0 to 2 pct.	2 to 3 pct.	3 to 4 pct.	Over 4 pct.	Total liabilities
Technical provision	6,447	1,367	2,772	2,181	2,175	849	15,791

31 Dec 2017, EURm	Non	0 pct.	0 to 2 pct.	2 to 3 pct.	3 to 4 pct.	Over 4 pct.	Total liabilities
Technical provision	7,006	1,502	2,924	2,185	2,225	825	16,667

Risk profiles on insurance

Product	Risk types	Material effect
Traditional	Mortality	Yes
	Disability	Yes
	Return guarantees	Yes
Unit–Link	Mortality	Yes
	Disability	Yes
	Return guarantees	No
Health and personal accident	Mortality	No
	Disability	Yes
	Return guarantees	No
Financial contract	Mortality	No
	Disability	No
	Return guarantees	Yes

G28. Debt securities in issue

EURm	31 Dec 2018	31 Dec 2017
Certificates of deposit	29,693	10,743
Commercial papers	17,078	24,441
Covered bonds	107,936	111,701
Senior Non Preferred bonds	2,440	–
Other bonds	33,227	32,186
Other	48	43
Total	**190,422**	**179,114**

G29. Other liabilities

EURm	31 Dec 2018	31 Dec 2017
Liabilities on securities settlement proceeds	1,617	3,055
Sold, not held, securities	12,495	13,400
Accounts payable	152	161
Cash/margin payables	4,289	8,857
Other	4,762	3,042
Total	**23,315**	**28,515**

G30. Accrued expenses and prepaid income

EURm	31 Dec 2018	31 Dec 2017
Accrued interest	5	8
Other accrued expenses	1,423	1,357
Prepaid income	268	238
Total	**1,696**	**1,603**

G31. Provisions

EURm	31 Dec 2018	31 Dec 2017
Restructuring	193	225
Guarantees/commitments	121	91
Other	7	13
Total	**321**	**329**

Provisions for restructuring costs have been utilised by EUR 132m during 2018, and an increase of EUR 103m has been accounted for. The restructuring provision is related to the ongoing transformation of Nordea, including activities to close down Nordea's Luxembourg-based private banking business. Provisions are mainly expected to be utilised during 2019 and as for any other provision there is an uncertainty around timing and amount. The uncertainty is expected to decrease as the plans are being executed.

Loan loss provisions off-balance sheet items amount to EUR 121m. More information on these provisions can be found below.

EURm	Restructuring	Other
At beginning of year	225	13
New provisions made	103	5
Provisions utilised	–123	–8
Reversals	–9	–3
Reclassifications	0	0
Translation differences	–3	0
At end of year	**193**	**7**

G31. Provisions, cont.

Movements in provisions for off balance sheet items

	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2018[1]	**17**	**48**	**74**	**139**
Origination and acquisition	6	5	0	11
Transfers from stage 1 to stage 2	–1	12	–	11
Transfers from stage 1 to stage 3	0	–	2	2
Transfers from stage 2 to stage 1	2	–8	–	–6
Transfers from stage 2 to stage 3	–	–1	8	7
Transfers from stage 3 to stage 1	0	–	–2	–2
Transfers from stage 3 to stage 2	–	0	–2	–2
Changes in credit risk without stage transfer	–2	–10	–5	–17
Repayments and disposals	–4	–5	0	–9
Write-off through decrease in allowance account	–	–	–13	–13
Translation differences	0	0	0	0
Closing balance at 31 Dec 2018	**18**	**41**	**62**	**121**

1) The opening balance includes an adjustment of EUR 48m, due to implementation of IFRS9. More information is available in note G1 section 2.

Rating/scoring information on off balance sheet items

	Nominal amount 31 Dec 2018			
	Stage 1	Stage 2	Stage 3	Total
7	4,503	–	–	4,503
6+ / A+	12,559	5	0	12,564
6 / A	5,729	2	0	5,731
6– / A–	4,693	15	0	4,708
5+ / B+	7,563	54	0	7,617
5 / B	12,028	54	0	12,082
5– / B–	9,774	52	0	9,826
4+ / C+	9,042	136	0	9,178
4 / C	7,495	233	0	7,728
4– / C–	5,061	397	1	5,459
3+ / D+	1,652	705	0	2,357
3 / D	1,034	576	5	1,615
3– / D–	795	580	2	1,377
2+ / E+	214	290	3	507
2 / E	128	193	2	323
2– / E–	34	86	0	120
1+ / F+	35	65	1	101
1 / F	11	65	0	76
1– / F–	26	104	1	131
Standardised/Unrated	2,343	452	3	2,798
0+ / 0 / 0–	–	0	694	694
Total	**84,719**	**4,064**	**712**	**89,495**

G32. Retirement benefit obligations

EURm	31 Dec 2018	31 Dec 2017
Retirement benefit assets	246	250
Retirement benefit obligations	398	281
Net liability (–)/asset (+)	**–152**	**–31**

Nordea sponsors both defined contribution plans (DCP) and defined benefit plans (DBP). IAS 19 secures that the pension obligations net of plan assets backing these obligations are reflected on the Group's balance sheet. The major plans in each country are funded schemes covered by assets in pension funds/foundations.

The plans are structured in accordance with local regulations and legislations, local practice and, where applicable, collective agreements. Nordea's main DBPs in Sweden, Norway and Finland are all employer financed final salary and service based pension plans providing pension benefits on top of the statutory systems. All DBPs are closed for new entrants, new employees are offered DCPs. DBPs in Sweden are mainly offered in accordance with collective agreements and follow the regulations in the Pension Obligations Vesting Act (Tryggandelagen). Plan assets are held in a separate pension foundation. In Norway the DBPs are in accordance with the Nordea Norway occupational pension plan and follow the Occupational Pension Act (Foretakspensjonloven). In Norway plan assets are also held by a separate pension fund. In Finland Nordea is providing additional pension benefits on top of the statutory system in accordance with the Nordea Finland occupational pension plan and follows the regulations in the Employees' Pension Act (TyEL). Plan assets are generally held in a separate pension foundation. Minimum funding requirements differ between plans but where such requirements are based on collective agreements or internal policies the funding requirement is generally that the pension obligations measured using local requirements shall be covered in full, with a predefined surplus or alternatively safeguarded by a credit insurance contract (Sweden only). Some pension plans are not covered by funding requirements and are generally unfunded. Quarterly assessments are made to monitor the likely level of future contributions.

Defined benefit plans may impact Nordea via changes in the net present value of obligations and/or changes in the market value of plan assets. Changes in the obligation are most importantly driven by changes in assumptions on discount rates (interest rates and credit spreads), inflation, salary increases, turnover and mortality as well as relevant experience adjustments where the actual outcome differs from the assumptions. Assets are invested in diversified portfolios as further disclosed below, with bond exposures mitigating the interest rate risk in the obligations and a fair amount of real assets (inflation protected) to reduce the long term inflationary risk in liabilities.

IAS 19 pension calculations and assumptions

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

Assumptions[1]

	Swe	Nor	Fin	Den	UK
2018					
Discount rate[2]	2.17%	2.82%	1.58%	1.80%	2.56%
Salary increase	3.00%	2.75%	1.75%	2.25%[3]	–
Inflation	2.00%	1.75%	1.25%	–[3]	2.50%
Mortality	DUS14	FNH-K2013	Gompertz	FSA	S2PMA-L/S2PFA[4]
2017					
Discount rate[2]	2.49%	2.60%	1.41%	1.70%	2.31%
Salary increase	2.75%	2.75%	1.75%	2.25%[3]	–
Inflation	1.75%	1.75%	1.25%	–[3]	2.50%
Mortality	DUS14	FNH-K2013	Gompertz	FSA	S2PMA-L/S2PFA[4]

1) The assumptions disclosed for 2018 have an impact on the liability calculation by year-end 2018, while the assumptions disclosed for 2017 are used for calculating the pension expense in 2018.

2) More information on the discount rate can be found in Note G1 "Accounting policies", section 23. The sensitivities to changes in the discount rate can be found below.

3) All pensions in Denmark are salary indexed. The inflation has hence no impact on the DBO.

4) With CMI_2017 projections for 2018 calculations and CMI_2016 projections for 2017 calculations.

Sensitivities – Impact on Defined Benefit Obligation (DBO)

%	Swe	Nor	Fin	Den	UK
Discount rate - Increase 50bps	–10.5%	–7.7%	–5.9%	–4.9%	–10.5%
Discount rate - Decrease 50bps	12.1%	8.7%	6.6%	5.4%	12.1%
Salary increase - Increase 50bps	3.8%	0.4%	0.4%	4.8%	–
Salary increase - Decrease 50bps	–2.8%	–0.4%	–0.4%	–4.5%	–
Inflation - Increase 50bps	10.3%	7.7%	4.9%	–	2.0%
Inflation - Decrease 50bps	–9.2%	–6.5%	–4.5%	–	–1.8%
Mortality - Increase 1 year	4.7%	3.5%	4.3%	5.5%	4.6%
Mortality - Decrease 1 year	–4.6%	–4.5%	–4.2%	–5.4%	–4.5%

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 gives the possibility to isolate one effect from another. The method used for calculating the impact on the obligation is the same as when calculating the obligation accounted for in the financial statements. Compared with the 2017 Annual Report there have been changes in the methods used when preparing the sensitivity analysis in Sweden and Norway. The 2018 sensitivity analysis now include the impact on the liabilities held for future SWT (special wage tax) or SSC (social security contributions) in Sweden and Norway respectively. The method for calculation of sensitivities in the other countries is unchanged since 2017.

As all pensions in Denmark are salary indexed the inflation has no impact on the DBO in Denmark.

G32. Retirement benefit obligations, cont.

Net retirement benefit liabilities/assets

EURm	Swe 2018	Nor 2018	Fin 2018	Den 2018	UK 2018	Total 2018	Total 2017
Obligations	1,840	744	722	96	92	3,494	3,454
Plan assets	1,604	681	824	122	111	3,342	3,423
Net liability(–)/asset(+)	**–236**	**–63**	**102**	**26**	**19**	**–152**	**–31**
- of which retirement benefit liabilities	238	156	3	1	–	398	281
- of which retirement benefit assets	2	93	105	27	19	246	250

Movements in the obligation

2018, EURm	Swe	Nor	Fin	Den	UK	Total
Opening balance	1,704	764	776	101	109	3,454
Current service cost	28	4	4	–	–	36
Interest cost	40	19	9	2	3	73
Pensions paid	–68	–31	–43	–6	–17	–165
Past service cost and settlements	–1	9	–6	–	1	3
Remeasurement from changes in demographic assumptions	–	–	–	1	–1	0
Remeasurement from changes in financial assumptions	171	–24	–15	–2	–3	127
Remeasurement from experience adjustments	–3	12	–3	–	1	7
Translation differences	–65	–4	–	0	–1	–70
Change in provision for SWT/SSC[1]	34	–5	–	–	–	29
Closing balance	**1,840**	**744**	**722**	**96**	**92**	**3,494**
- of which relates to the active population	27%	14%	14%	–	–	20%
2017, EURm	**Swe**	**Nor**	**Fin**	**Den**	**UK**	**Total**
Opening balance	1,524	869	800	103	138	3,434
Current service cost	25	6	3	–	–	34
Interest cost	41	22	12	2	3	80
Pensions paid	–70	–35	–40	–6	–17	–168
Past service cost and settlements	14	–5	0	–	–	9
Remeasurement from changes in demographic assumptions	–	45	–	–	–5	40
Remeasurement from changes in financial assumptions	194	–70	10	4	–6	132
Remeasurement from experience adjustments	3	8	–9	–1	–	1
Translation differences	–52	–66	–	–1	–4	–123
Change in provision for SWT/SSC[1]	25	–10	–	–	0	15
Closing balance	**1,704**	**764**	**776**	**101**	**109**	**3,454**
- of which relates to the active population	27%	14%	15%	–	–	20%

1) Change in provision for special wage tax (SWT) and social security contribution (SSC) in Sweden and Norway.

The average duration of the obligation is 18 (18) years in Sweden, 14 (15) years in Norway, 12 (15) years in Finland, 11 (11) years in Denmark and 22 (24) years in UK based on discounted cash flows. The fact that all DBPs are closed for new entrants leads to lower duration. The increase in average duration during the year is due to changed assumptions.

G32. Retirement benefit obligations, cont.

Movements in the fair value of plan assets

2018, EURm	Swe	Nor	Fin	Den	UK	Total
Opening balance	1,634	666	865	127	131	3,423
Interest income (calculated using the discount rate)	38	17	11	2	3	71
Pensions paid	–	–19	–43	–6	–17	–85
Settlement	–	–	–2	–	–	–2
Contributions by employer	–	4	0	3	–	7
Remeasurement (actual return less interest income)	–5	20	–7	–3	–6	–1
Translation differences	–63	–7	0	–1	0	–71
Closing balance	**1,604**	**681**	**824**	**122**	**111**	**3,342**
2017, EURm	**Swe**	**Nor**	**Fin**	**Den**	**UK**	**Total**
Opening balance	1,591	703	861	131	152	3,438
Interest income (calculated using the discount rate)	42	18	13	3	3	79
Pensions paid	–	–20	–40	–6	–17	–83
Contributions by employer	–	7	0	3	–	10
Remeasurement (actual return less interest income)	49	15	31	–4	–3	88
Translation differences	–48	–57	–	0	–4	–109
Closing balance	**1,634**	**666**	**865**	**127**	**131**	**3,423**

Asset composition

The combined return on assets in 2018 was 2.0% (4.9%). Asset returns across all asset classes were negatively impacted during the latter part of the year, but remained overall positive. At the end of the year the equity exposure in Nordea´s pension funds/foundations represented 24% (28%) of total assets.

Asset composition in funded schemes

%	Swe 2018	Nor 2018	Fin 2018	Den 2018	UK 2018	Total 2018	Total 2017
Bonds	73%	59%	54%	87%	79%	66%	63%
- sovereign	38%	36%	29%	38%	79%	36%	34%
- covered bonds	21%	17%	5%	49%	0%	17%	13%
- corporate bonds	12%	5%	20%	0%	0%	12%	15%
- issued by Nordea entities	2%	1%	–	–	–	1%	1%
- with quoted market price in an active market	73%	59%	54%	87%	79%	66%	63%
Equity	24%	24%	28%	12%	21%	24%	28%
- domestic	6%	6%	7%	12%	6%	6%	7%
- European	6%	6%	7%	0%	7%	6%	8%
- US	6%	6%	8%	0%	7%	7%	8%
- emerging	6%	6%	6%	0%	1%	5%	5%
- Nordea shares	–	–	–	–	–	0%	0%
- with quoted market price in an active market	24%	24%	28%	12%	21%	24%	28%
Real estate[1]	0	14%	15%	0%	0%	7%	7%
- occupied by Nordea	–	–	5%	–	–	1%	1%
Cash and cash equivalents	3%	3%	3%	1%	0%	3%	2%

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

The Group expects to contribute EUR 4m to its defined benefit plans in 2019.

G32. Retirement benefit obligations, cont.

Defined benefit pension cost

The total net pension cost related to defined benefit plans recognised in the Group's income statement (as staff costs) for the year is EUR 54m (EUR 51m). Total pension costs comprise defined benefit pension costs as well as costs related to defined contribution plans (see specification in Note G7 "Staff costs").

Recognised in the income statement

2018, EURm	Swe	Nor	Fin	Den	UK	Total
Current service cost	28	4	4	–	–	36
Net interest	2	2	–2	0	0	2
Past service cost and settlements	–1	9	–4	–	1	5
SWT/SSC[1]	8	3	–	–	–	11
Pension cost on defined benefit plans (expense+/ income–)	**37**	**18**	–2	0	**1**	**54**
2017, EURm	**Swe**	**Nor**	**Fin**	**Den**	**UK**	**Total**
Current service cost	25	6	3	–	–	34
Net interest	–1	4	–1	–1	0	1
Past service cost and settlements	14	–5	0	–	–	9
SWT/SSC[1]	7	0	–	–	–	7
Pension cost on defined benefit plans (expense+/ income–)	**45**	**5**	**2**	–1	**0**	**51**

1) Cost related to special wage tax (SWT) in Sweden and social security contribution (SSC) in Norway.

Compared with the pension cost 2017, excluding past service cost and related SWT and SSC, the pension cost has increased in 2018 mainly as a consequence of the change of actuarial assumptions at the end of 2017.

Recognised in other comprehensive income

2018, EURm	Swe	Nor	Fin	Den	UK	Total
Remeasurement from changes in demographic assumptions	–	–	–	1	–1	0
Remeasurement from changes in financial assumptions	171	–24	–15	–2	–3	127
Remeasurement from experience adjustments	–3	12	–3	–	1	7
Remeasurement of plan assets (actual return less interest income)	5	–20	7	3	6	1
SWT/SSC[1]	44	–6	–	–	–	38
Pension cost on defined benefit plans (expense+/income–)	**217**	**–38**	**–11**	**2**	**3**	**173**
2017, EURm	**Swe**	**Nor**	**Fin**	**Den**	**UK**	**Total**
Remeasurement from changes in demographic assumptions	–	45	–	–	–5	40
Remeasurement from changes in financial assumptions	194	–70	10	4	–6	132
Remeasurement from experience adjustments	3	8	–9	–1	–	1
Remeasurement of plan assets (actual return less interest income)	–49	–15	–31	4	3	–88
SWT/SSC[1]	36	–6	–	–	–	30
Pension cost on defined benefit plans (expense+/income–)	**184**	**–38**	**–30**	**7**	**–8**	**115**

1) Cost related to special wage tax (SWT) in Sweden and social security contribution (SSC) in Norway.

Multiemployer plans

In 2010 the Norwegian Parliament decided to change the AFP (Avtalefestet Pensjon) plan in Norway as from 2011. The change gave rise to a new multiemployer defined benefit plan that cannot be calculated as such, as information on Nordea's share of the liabilities and pension costs in the plan is not available from Fellesordningen (the administrator). Consequently the new AFP plan has to be accounted for as a defined contribution plan in accordance with IAS 19. Information on the funded status in the plan is not available.

The new AFP plan gives the entitled employees a lifelong addition to regular pensions from the age of 62. Further, the new scheme allows the employees to continue working while receiving AFP without this affecting the pension rights. The plan is founded on the basis of a three party cooperation

G32. Retirement benefit obligations, cont.

between employer organisations, employee organisations and the Norwegian government. The government covers one third of the pension expense to the AFP plan while the member companies collectively cover the remaining two thirds of the pension expense. The premium the member firms are paying to the plan is determined to be sufficient to cover ongoing pension expenses as well to provide a basis for building up a pension fund. The purpose of the pension fund is to ensure sufficient ability to cover expected future pension obligations.

The premium rate for 2018 was 7.0% of the employees' wages below 7.1 average base amounts and 18.0% of the employees' wages above 7.1 average base amounts. Average base amounts are defined in the Norwegian National Insurance Act. The premium is calculated based on the average wages- and average base amounts from the previous year, excluding employees over the age of 61. Total premiums paid in 2018 amounts to EUR 14m. Payments to the plan during 2018 covered 2,454 employees. The premium rate for 2019 will be on the same level as for 2018. The expected premiums in 2019 amounts to EUR 14m.

The employees that meet the requirements for AFP are guaranteed AFP payments regardless of the solvency of their employers. As a result the employer members have joint responsibility for two thirds of the payable pensions to the employees that at any given time meet the requirements for AFP. Any deficit or surplus on windup of the plan or entities' withdrawal from the plan will not have any impact on Nordea.

Key management personnel

The Group's total pension obligations regarding key management personnel amounted to EUR 6m (EUR 7m) at the end of the year. These obligations are to a high degree covered by plan assets. Defined benefit pension costs (Current service cost as well as Past service cost and settlements as defined in IAS 19) related to key management personnel in 2018 were EUR 0m (EUR 0m). Complete information concerning key management personnel is disclosed in Note G7 "Staff costs".

G33. Subordinated liabilities

EURm	31 Dec 2018	31 Dec 2017
Dated subordinated debenture loans	6,603	5,947
Undated subordinated debenture loans	168	242
Hybrid capital loans	2,384	2,798
Total	**9,155**	**8,987**

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.

G34. Assets pledged as security for own liabilities

EURm	31 Dec 2018	31 Dec 2017
Assets pledged for own liabilities		
Securities etc[1]	23,465	25,881
Loans to the public	144,707	138,882
Other assets pledged	3,727	34,210
Total	**171,899**	**198,973**
The above pledges pertain to the following liabilities		
Deposits by credit institutions	13,062	14,575
Deposits and borrowings from the public	2,402	5,646
Derivatives	–	8,978
Debt securities in issue	107,647	106,379
Other liabilities and commitments	2,587	24,408
Total	**125,698**	**159,986**

1) Relates only to securities recognised on the balance sheet. Securities borrowed or bought under reverse repurchase agreements are not recognised on the balance sheet and thus not included in the amount. Such transactions are disclosed in Note G43 "Transferred assets and obtained collaterals".

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

Securities in the Life operations are also pledged as security for the corresponding insurance liabilities.

Loans to the public have been registered as collateral for issued covered bonds and mortgage bonds in line with local legislation. In the event of the company´s insolvency, the holders of these bonds have priority to the assets registered as collateral.

Other assets pledged relates to certificate of deposits pledged by Nordea to comply with authority requirements.

G35. Other Assets pledged

Other assets pledged are mainly related to securities which includes interest-bearing securities pledged as securities for payment settlements within the central banks and clearing institutions (EUR 4,788m (EUR 4,923m)). The terms and conditions require day to day securities and relate to liquidity intraday/over night. Collateral pledged on behalf of other items other than the company´s own liabilities, e.g. on behalf of a third party or on behalf of the company´s own contingent liabilities are also accounted for under this item.

G36. Contingent liabilities

EURm	31 Dec 2018	31 Dec 2017
Guarantees		
- Loan guarantees	2,434	4,443
- Other guarantees	13,949	12,892
Documentary credits	1,433	1,639
Other contingent liabilities	3	46
Total	**17,819**	**19,020**

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

Nordea Bank Abp has undertaken, in relation to certain individuals and on certain conditions, to be responsible for the potential payment liability against them in their capacity as managing directors or board member in group undertakings of Nordea Bank Abp.

A limited number of employees are entitled to severance pay if they are dismissed before reaching their normal retirement age. For further disclosures, see Note G7 "Staff costs".

Legal proceedings

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

G37. Commitments

EURm	31 Dec 2018	31 Dec 2017
Unutilised overdraft facilities	29,626	29,956
Loan commitments	43,661	44,589
Future payment obligations	100	1,441
Other commitments	1,092	1,046
Total	**74,479**	**77,032**

Reverse repurchase agreements are recognised on and derecognised from the balance sheet on settlement date. Nordea has as per 31 December 2018 signed reverse repurchase agreements that have not yet been settled and consequently are not recognised on the balance sheet. On settlement date these reverse repurchase agreements will, to the utmost extent, replace existing reverse repurchase agreements not yet derecognised as per 31 December 2018. The net impact on the balance sheet is minor. These instruments have not been disclosed as commitments.

For information about credit commitments, see Note G1 “Accounting policies”, section 25, about derivatives, see Note G18 "Derivatives and Hedge accounting" and about reverse repurchase agreements, see Note G43 "Transferred assets and obtained collaterals".

G38. Capital adequacy

As from 2018 the Capital adequacy disclosures are not part of the financial statements. The disclosures for the Group can be found on page 262 and the disclosures for the parent company on page 274.

G39. Classification of financial instruments

Assets

31 Dec 2018, EURm	Amortised cost (AC)	Financial assets at fair value through profit or loss (FVPL) Mandatorily	Designated at fair value through profit or loss (fair value option)	Derivatives used for hedging	Fair value through other comprehensive income (FVOCI)	Non-financial assets and associated undertakings / joint ventures	Total
Cash and balances with central banks	41,578	–	–	–	–	–	41,578
Loans to central banks	6,446	1,196	–	–	–	–	7,642
Loans to credit institutions	8,827	2,493	–	–	–	–	11,320
Loans to the public	234,471	73,833	–	–	–	–	308,304
Interest-bearing securities	3,384	32,682	7,134	–	33,022	–	76,222
Financial instruments pledged as collateral	–	7,026	–	–	542	–	7,568
Shares	–	12,452	–	–	–	–	12,452
Assets in pooled schemes and unit-linked investment contracts	–	24,272	153	–	–	158	24,583
Derivatives	–	33,915	–	3,110	–	–	37,025
Fair value changes of the hedged items in portfolio hedge of interest rate risk	169	–	–	–	–	–	169
Investments in associated undertakings and joint ventures	–	–	–	–	–	1,601	1,601
Intangible assets	–	–	–	–	–	4,035	4,035
Properties and equipment	–	–	–	–	–	546	546
Investment properties	–	–	–	–	–	1,607	1,607
Deferred tax assets	–	–	–	–	–	164	164
Current tax assets	–	–	–	–	–	284	284
Retirement benefit assets	–	–	–	–	–	246	246
Other assets	955	12,473	–	–	–	1,321	14,749
Prepaid expenses and accrued income	989	–	–	–	–	324	1,313
Total	**296,819**	**200,342**	**7,287**	**3,110**	**33,564**	**10,286**	**551,408**

Liabilities

31 Dec 2018, EURm	Amortised cost (AC)	Financial liabilities at fair value through profit or loss (FVPL) Mandatorily	Designated at fair value through profit or loss (fair value option)	Derivatives used for hedging	Non-financial liabilities	Total
Deposits by credit institutions	33,933	8,486	–	–	–	42,419
Deposits and borrowings from the public	158,433	6,525	–	–	–	164,958
Deposits in pooled schemes and unit-linked investment contracts	–	–	25,653	–	–	25,653
Liabilities to policyholders	–	–	3,234	–	14,996	18,230
Debt securities in issue	135,644	–	54,778	–	–	190,422
Derivatives	–	38,624	–	923	–	39,547
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,273	–	–	–	–	1,273
Current tax liabilities	–	–	–	–	414	414
Other liabilities	989	17,828	–	–	4,498	23,315
Accrued expenses and prepaid income	273	–	–	–	1,423	1,696
Deferred tax liabilities	–	–	–	–	706	706
Provisions	–	–	–	–	321	321
Retirement benefit liabilities	–	–	–	–	398	398
Subordinated liabilities	9,155	–	–	–	–	9,155
Total	**339,700**	**71,463**	**83,665**	**923**	**22,756**	**518,507**

G39. Classification of financial instruments, cont.

Assets

31 Dec 2017, EURm	Loans and receivables	Held to maturity	Financial assets at fair value through profit or loss (FVPL): Held for trading	Financial assets at fair value through profit or loss (FVPL): Designated at fair value through profit or loss	Financial assets at fair value through profit or loss (FVPL): Derivatives used for hedging	Available for sale	Non-financial assets and associated undertakings / joint ventures	Assets held for sale	Total
Cash and balances with central banks	43,081	–	–	–	–	–	–	–	43,081
Loans to central banks	4,487	–	309	–	–	–	–	–	4,796
Loans to credit institutions	6,768	–	1,824	–	–	–	–	–	8,592
Loans to the public	235,525	–	21,852	52,781	–	–	–	–	310,158
Interest-bearing securities	–	3,093	27,825	8,034	–	36,342	–	–	75,294
Financial instruments pledged as collateral	–	–	6,489	–	–	–	–	–	6,489
Shares	–	–	5,254	11,926	–	–	–	–	17,180
Assets in pooled schemes and unit-linked investment contracts	–	–	–	25,728	–	–	151	–	25,879
Derivatives	–	–	44,415	–	1,696	–	–	–	46,111
Fair value changes of the hedged items in portfolio hedge of interest rate risk	163	–	–	–	–	–	–	–	163
Investments in associated undertakings and joint ventures	–	–	–	–	–	–	1,235	–	1,235
Intangible assets	–	–	–	–	–	–	3,983	–	3,983
Properties and equipment	–	–	–	–	–	–	624	–	624
Investment properties	–	–	–	–	–	–	1,448	–	1,448
Deferred tax assets	–	–	–	–	–	–	118	–	118
Current tax assets	–	–	–	–	–	–	121	–	121
Retirement benefit assets	–	–	–	–	–	–	250	–	250
Other assets	1,523	–	10,272	–	–	–	646	–	12,441
Prepaid expenses and accrued income	999	–	–	–	–	–	464	–	1,463
Assets held for sale	–	–	–	–	–	–	–	22,186	22,186
Total	**292,546**	**3,093**	**118,240**	**98,469**	**1,696**	**36,342**	**9,040**	**22,186**	**581,612**

Liabilities

31 Dec 2017, EURm	Financial liabilities at fair value through profit or loss (FVPL): Held for trading	Financial liabilities at fair value through profit or loss (FVPL): Designated at fair value through profit or loss	Financial liabilities at fair value through profit or loss (FVPL): Derivatives used for hedging	Other financial liabilities	Non-financial liabilities	Liabilities held for sale	Total
Deposits by credit institutions	5,905	–	–	34,078	–	–	39,983
Deposits and borrowings from the public	9,075	29	–	163,330	–	–	172,434
Deposits in pooled schemes and unit-linked investment contracts	–	26,333	–	–	–	–	26,333
Liabilities to policyholders	–	3,486	–	–	15,926	–	19,412
Debt securities in issue[1]		56,603	–	122,511	–	–	179,114
Derivatives[1]	41,607	–	1,106	–	–	–	42,713
Fair value changes of the hedged items in portfolio hedge of interest rate risk	–	–	–	1,450	–	–	1,450
Current tax liabilities	–	–	–	–	389	–	389
Other liabilities	24,421	–	–	2,833	1,261	–	28,515
Accrued expenses and prepaid income	–	–	–	246	1,357	–	1,603
Deferred tax liabilities	–	–	–	–	722	–	722
Provisions	–	–	–	–	329	–	329
Retirement benefit liabilities	–	–	–	–	281	–	281
Subordinated liabilities	–	–	–	8,987	–	–	8,987
Liabilities held for sale	–	–	–	–	–	26,031	26,031
Total	**81,008**	**86,451**	**1,106**	**333,435**	**20,265**	**26,031**	**548,296**

G39. Classification of financial instruments, cont.

Financial assets designated at fair value through profit or loss

EURm	2018 Financial assets	2017 Loans
Carrying amount per end of year	7,287	52,781
Maximum exposure to credit risk per end of year	7,287	52,781
Nominal amount of credit derivatives used to mitigate the maximum exposure to credit risk per end of the year	–	–
Changes in fair value due to changes in own credit risk, during the year	–	22
Changes in fair value due to changes in own credit risk, accumulated	–	125
Change in fair value of related credit derivatives, during the year	–	–
Change in fair value of related credit derivatives, accumulated	–	–

Assets designated at fair value through profit or loss (fair value option) per 31 December 2018 consist of all assets in Nordea Life and Pension held under investment contracts, EUR 7,134m. Also, assets in pooled schemes and unit-linked investment contracts in Life, EUR 153m, are per 31 December 2018 designated at fair value through profit or loss. For more information see Note G1 section 13. Nordea does not disclose the effect of changes in credit risk on the fair values of these assets and the fair value change in related credit derivatives, as such changes in value will directly result in significantly the same change in carrying amount of the corresponding liabilities to policyholders, i.e. there is no significant impact on the income statement or equity due to changes in credit risk of these assets in Life.

Lending designated at fair value through profit or loss exposed to changes in credit risk 31 December 2017 consist of lending in the Danish group undertaking Nordea Kredit Realkreditaktieselskab, EUR 52,641m and lending in the Markets operation, EUR 140m. The fair value of lending in Nordea Kredit Realkreditaktieselskab increased by EUR 22m in 2017 due to changes in credit risk. The cumulative change per 31 December 2017 since designation is a decrease of EUR 125m. The method used to estimate the amount of change in the fair value attributable to changes in credit risk is similar to the incurred loss impairment model for amortised cost assets under IAS 39. The lending in Markets is generally of such a short term nature (mainly overnight deposits) that the effect of changes in credit risk is not significant.

Financial liabilities designated at fair value through profit or loss per 31 december 2018 consist of issued bonds in the Danish group undertakings Nordea Kredit Realkreditaktieselskab, EUR 51,616m (EUR 51,616m), issued structured bonds in Markets operation, EUR 3,162m (EUR 5,016m), deposits linked to the investment return of separate assets, EUR 3,964m (EUR 4,317m) and investment contracts and pooled schemes in Life, EUR 24,923m (EUR 25,502m). For issued structured bonds in Markets, changes in fair value due to changes in own credit risk is recognised in other comprehensive income and Nordea is calculating the change in own credit spread based on the change in Nordea's funding spread by assuming the liquidity premium for the issuance to be constant over time. The change in the credit spread is estimated by comparing the value of the trades using the initial funding spread on issuance date and actual funding spread on the reporting date. This model is assessed to provide the best estimate of the impact of own credit risk. The value of the investment contracts in Life and asset linked deposits is directly linked to the assets in the contracts and there is consequently no effect from changes in own credit risk in these contracts.

Changes in fair value due to changes in own credit risk of bonds issued in Nordea Kredit Realkreditaktieselskab, is calculated by determining the amount of changes in its fair value that is not attributable to changes in market conditions. The method used to estimate the amount of changes in market conditions is based on relevant benchmark interest rates, which are the average yields on Danish and German (EUR) government bonds. This model is assessed to provide the best estimate of the impact of own credit risk. The changes in own credit risk on issued mortgage bonds in Nordea Kredit Realkreditaktieselskab are not recognised in other comprehensive income as that would create an accounting missmatch with the corresponding change in fair value of the mortgage loans that is recognised in profit or loss. For this reason the whole change in the fair value of issued mortgage bonds in Nordea Kredit Realkreditaktieselskab is recognised in the income statement. For the issued mortgage bonds a change in the liability's credit risk and price will have a corresponding effect on the value of the loans as a change in the price of the bonds will be offset by the opposite change in the value of the prepayment option of the loans.

Financial liabilities designated at fair value through profit or loss

	2018			2017	
EURm	Liabilities where changes in credit risk is presented in OCI	Liabilites where changes in credit risk is presented in profit or loss	Total	Liabilites where changes in credit risk is presented in profit or loss	Total
Carrying amount per end of the year	3,162	80,503	83,665	86,451	86,451
Amount to be paid at maturity[1]	3,322	81,600	84,922	99,567	99,567
Changes in fair value due to changes in own credit risk, during the year	20	–54	–34	78	78
Changes in fair value due to changes in own credit risk, accumulated	10	–550	–540	–496	–496

1) Liabilities to policyholders have no fixed maturities and there is no fixed amount to be paid. For these liabilities the amount disclosed to be paid at maturity has been set to the carrying amount.

G40. Assets and liabilities at fair value

Fair value of financial assets and liabilities

EURm	31 Dec 2018 Carrying amount	31 Dec 2018 Fair value	31 Dec 2017 Carrying amount	31 Dec 2017 Fair value
Financial assets				
Cash and balances with central banks	41,578	41,578	43,081	43,081
Loans	327,435	330,681	323,709	325,372
Interest-bearing securities	76,222	76,334	75,294	75,473
Financial instruments pledged as collateral	7,568	7,568	6,489	6,489
Shares	12,452	12,452	17,180	17,180
Assets in pooled schemes and unit-linked investment contracts	24,425	24,425	25,728	25,728
Derivatives	37,025	37,025	46,111	46,111
Other assets	13,428	13,428	11,795	11,795
Prepaid expenses and accrued income	989	989	999	999
Total	**541,122**	**544,480**	**550,386**	**552,228**

Fair value of financial assets and liabilities, cont.

EURm	31 Dec 2018 Carrying amount	31 Dec 2018 Fair value	31 Dec 2017 Carrying amount	31 Dec 2017 Fair value
Financial liabilities				
Deposits and debt instruments	408,227	409,014	401,968	403,488
Deposits in pooled schemes and unit-linked investment contracts	25,653	25,653	26,333	26,333
Liabilities to policyholders	3,234	3,234	3,486	3,486
Derivatives	39,547	39,547	42,713	42,713
Other liabilities	18,817	18,817	27,254	27,254
Accrued expenses and prepaid income	273	273	246	246
Total	**495,751**	**496,538**	**502,000**	**503,520**

For information about valuation of items measured at fair value on the balance sheet, see Note G1 and the section "Determination of fair values for items measured at fair value on the balance sheet" below. 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" below.

Assets and liabilities held at fair value on the balance sheet

Categorisation into the fair value hierarchy

31 Dec 2018, EURm	Quoted prices in active markets for the same instrument (Level 1)	- of which Life	Valuation technique using observable data (Level 2)	- of which Life	Valuation technique using non-observable data (Level 3)	- of which Life	Total
Assets at fair value on the balance sheet[1]							
Loans to central banks	–	–	1,196	–	–	–	1,196
Loans to credit institutions	–	–	2,493	–	–	–	2,493
Loans to the public	–	–	73,833	–	–	–	73,833
Interest-bearing securities[2]	30,947	3,896	49,130	3,393	329	4	80,406
Shares	10,159	8,381	596	595	1,697	916	12,452
Assets in pooled schemes and unit-linked investment contracts	24,167	20,692	227	227	189	189	24,583
Derivatives	70	–	35,917	89	1,038	–	37,025
Investment properties	–	–	–	–	1,607	1,588	1,607
Other assets	–	–	12,399	–	74	–	12,473
Total	**65,343**	**32,969**	**175,791**	**4,304**	**4,934**	**2,697**	**246,068**
Liabilities at fair value on the balance sheet[1]							
Deposits by credit institutions	–	–	8,486	–	–	–	8,486
Deposits and borrowings from the public	–	–	6,525	–	–	–	6,525
Deposits in pooled schemes and unit-linked investment contracts	–	–	25,653	21,689	–	–	25,653
Liabilities to policyholders	–	–	3,234	3,234	–	–	3,234
Debt securities in issue	12,405	–	39,746	–	2,627	–	54,778
Derivatives	42	–	38,482	80	1,023	–	39,547
Other liabilities	7,192	–	10,622	–	14	–	17,828
Total	**19,639**	**–**	**132,748**	**25,003**	**3,664**	**–**	**156,051**

1) All items are measured at fair value on a recurring basis at the end of each reporting period.
2) Of which EUR 7,568m relates to the balance sheet item Financial instruments pledged as collateral.

G40. Assets and liabilities at fair value, cont.

Assets and liabilities held at fair value on the balance sheet

Categorisation into the fair value hierarchy

31 Dec 2017, EURm	Quoted prices in active markets for the same instrument (Level 1)	- of which Life	Valuation technique using observable data (Level 2)	- of which Life	Valuation technique using non-observable data (Level 3)	- of which Life	Total
Assets at fair value on the balance sheet[1]							
Loans to central banks	–	–	309	–	–	–	309
Loans to credit institutions	–	–	1,824	–	–	–	1,824
Loans to the public	–	–	74,633	–	–	–	74,633
Interest-bearing securities[2]	27,889	3,469	50,633	4,555	168	5	78,690
Shares	13,629	8,986	1,967	1,965	1,584	927	17,180
Assets in pooled schemes and unit-linked investment contracts	24,016	20,120	1,521	1,521	342	342	25,879
Derivatives	56	–	44,544	242	1,511	–	46,111
Investment properties	–	–	–	–	1,448	1,437	1,448
Other assets	–	–	10,272	–	–	–	10,272
Total	**65,590**	**32,575**	**185,703**	**8,283**	**5,053**	**2,711**	**256,346**
Liabilities at fair value on the balance sheet[1]							
Deposits by credit institutions	–	–	5,905	14	–	–	5,905
Deposits and borrowings from the public	–	–	9,104	–	–	–	9,104
Deposits in pooled schemes and unit-linked investment contracts	–	–	26,333	22,016	–	–	26,333
Liabilities to policyholders	–	–	3,486	3,486	–	–	3,486
Debt securities in issue	18,004	–	34,590	–	4,009	–	56,603
Derivatives	41	–	41,614	3	1,058	–	42,713
Other liabilities	8,701	–	15,720	–	–	–	24,421
Total	**26,746**	**–**	**136,752**	**25,519**	**5,067**	**–**	**168,565**

1) All items are measured at fair value on a recurring basis at the end of each reporting period.
2) Of which EUR 6,489m relates to the balance sheet item Financial instruments pledged as collateral.

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

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

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

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

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

All valuation models, both complex and simple models, make use of market prices and inputs. These market prices and inputs comprise interest rates, volatilities, correlations etc. Some of these prices and inputs are observable while others are not. For most non-exotic currencies the interest rates are all observable, and implied volatilities and the correlations of the interest rates and FX rates may be observable through option prices up to a certain maturity. Implied volatilities and correlations may also be observable for the most liquid equity instruments. For less liquid equity names the option market is fairly illiquid, and hence implied 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

G40. Assets and liabilities at fair value, cont.

significant the instrument is categorised as Level 3 in the fair value hierarchy.

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

For OTC derivatives valuation models are used for establishing fair value. 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 inputs are observable in active markets.

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

Nordea furthermore holds loans and issued debt securities in the subsidiary Nordea Kredit Realkreditaktieselskab at fair value. When Nordea grants mortgage loans to borrowers, in accordance with the Danish mortgage finance law, Nordea at the same time issues debt securities with matching terms, so called "match funding". Fair value of the issued debt securities is based on quoted prices. As the borrowers have the right to purchase debt securities issued by Nordea in the market and return these as repayment for their loans, the fair value of the loans is the same as the fair value of the issued bonds (due to the revaluation of the repayment option embedded in the loan) adjusted for changes in the credit risk of the borrower and the fair value of the margin associated with each loan.

Fair value of financial assets and liabilities are generally calculated as the theoretical net present value of the individual instruments. This calculation is supplemented by portfolio adjustments.

Nordea incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA) into derivative valuations. CVA and DVA reflect the impact on fair value from 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, Nordea obtains credit spreads from the credit default swap (CDS) market, and probabilities of defaults (PDs) are inferred from this data. For counterparties that do not have a liquid CDS, PDs are estimated using a cross sectional regression model, which calculates an appropriate proxy CDS spread given each counterparty's rating region and industry.

The impact of funding costs and funding benefits on valuation of uncollateralised and imperfectly collateralised derivatives is recognised as a funding fair valuation adjustment (FFVA). In addition, Nordea applies in its fair value measurement close-out-cost valuation adjustments and model risk adjustments for identified model deficiencies.

Nordea has during 2018, changed the margin reset frequency assumption in the fair value model covering a loan portfolio in Denmark. The change generated a pre-tax gain of EUR 135m accounted for as "Net result from items at fair value" in the income statement.

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

Transfers between Level 1 and 2

During the year, Nordea transferred interest-bearing securities (including such financial instruments as pledged as collateral) of EUR 6,778m (EUR 3,175m) from Level 1 to Level 2 and EUR 3,169 (EUR 1,937) from Level 2 to Level 1 of the fair value hierarchy. Nordea has also transferred derivative assets of EUR 4m (EUR 24m) and derivatives liabilities of EUR 2m (EUR 14m) from Level 2 to Level 1. Nordea has also transferred debt securities in issue of EUR 7,534m (EUR 33,613m) from Level 1 to Level 2 and EUR 384m (EUR -m) from Level 2 to Level 1. Further Nordea transferred other liabilities from Level 1 to Level 2 of EUR 1,494m (EUR -m) and EUR 128m (EUR -m) from Level 2 to Level 1. The reason for the transfers from Level 1 to Level 2 was that the instruments ceased to be actively traded during the period and fair values have now been obtained using valuation techniques with observable market inputs. The reason for the transfer from Level 2 to Level 1 was that the instruments have again been actively traded during the period and reliable quoted prices are obtained in the market. Transfers between levels are considered to have occurred at the end of the year. The reason for the transfer from Level 1 to Level 2 of debt securities in issue of EUR 33,613m and interest-bearing securities of EUR 1,046m during 2017 is an alignment of the classification process for the government bonds and mortgage bonds across different business areas within Nordea.

G40. Assets and liabilities at fair value, cont.

Movements in Level 3

2018, EURm	1 Jan 2018	Fair value gains/losses recognised in the income statement during the year: Realised	Unrealised	Recognised in OCI	Purchases/Issues	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Reclassification	Translation differences	31 Dec 2018
Interest-bearing securities	168	–2	2	–	169	–9	2	–	–	–	–1	329
- of which Life	5	–	–	–	–	–	–	–	–	–	–1	4
Shares	1,584	130	66	–	317	–333	–64	5	–	–3	–5	1,697
- of which Life	927	84	12	–	103	–135	–64	5	–	–	–16	916
Assets in pooled schemes and unit-linked investment contracts	342	4	–7	–	–55	–86	–3	–	–	–	–6	189
- of which Life	342	4	–7	–	–55	–86	–3	–	–	–	–6	189
Derivatives (net)	453	–264	–431	–	–	18	246	3	–10	–	–	15
Other assets	–	–	–	–	6	–	–	68	–	–	–	74
- of which Life	–	–	–	–	–	–	–	40	–	–	–	40
Investment properties	1,448	–	57	–	131	–15	–	–	–	–	–14	1,607
- of which Life	1,437	–	57	–	113	–5	–	–	–	–	–14	1,588
Debt securities in issue	4,009	3	–585	–23	437	–	–1,215	1	–	–	–	2,627
Other Liabilities	–	–	–	–	–	–	–	14	–	–	–	14

Unrealised gains and losses relate to those assets and liabilities held at the end of the year. The reason for the transfer out of Level 3 was that observable market data became available. The reason for the transfer into Level 3 was that observable market data was no longer available. Transfers between levels are considered to have occurred at the end of the year.

Fair value gains and losses in the income statement during the year are included in "Net result from items at fair value" (see Note G5). Assets and liabilities related to derivatives are presented net.

2017, EURm	1 Jan 2017	Fair value gains/losses recognised in the income statement during the year: Realised	Unrealised	Recognised in OCI	Purchases/Issues	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Reclassification	Translation differences	31 Dec 2017
Interest-bearing securities	210	1	7	–	28	–24	–1	–	–32	–20	–1	168
- of which Life	38	–	–	–	20	–	–	–	–32	–20	–1	5
Shares	3,785	9	–78	2	878	–692	–39	243	–47	–2,449	–28	1,584
- of which Life	3,185	7	–141	–	711	–521	–38	243	–47	–2,449	–23	927
Assets in pooled schemes and unit-linked investment contracts	155	–	6	–	37	–2	–2	152	–4	–	–	342
- of which Life	155	–	6	–	37	–2	–2	152	–4	–	–	342
Derivatives (net)	400	–152	–45	–	–	–	152	98	–1	–	1	453
Investment properties	3,119	–4	–7	–	425	–148	–	–	–6	–1,879	–52	1,448
- of which Life	3,104	–	–6	–	420	–145	–	–	–6	–1,879	–51	1,437
Debt securities in issue	–	–	–	–	–	–	–	4,009	–	–	–	4,009

G40. Assets and liabilities at fair value, cont.

The valuation processes for fair value measurements

Financial instruments

The valuation process in Nordea consists of several steps. The first step is to determine the end of day (EOD) marking of mid-prices. It is the responsibility of the business areas to determine correct prices used for the valuation process. These prices are either internally marked prices set by a trading unit or externally sourced prices. The valuation prices and valuation approaches are then controlled and tested by a valuation control function within the 1st line of defence, which is independent from the risk taking units in the front office. The cornerstone in the control process is the independent price verification (IPV). The IPV test comprises verification of the correctness of valuations by comparing the prices to independently sourced data. The result of the IPV is analysed and any findings are escalated as appropriate. The verification of the correctness of prices and inputs is as minimum carried out on a monthly basis and is for many products carried out daily. Third-party information, such as broker quotes and pricing services, is used as benchmark data in the verification. The quality of the benchmark data is assessed on a regular basis.

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

Specialised teams within the unit Balance Sheet Risk Control (BSRC) are responsible for overseeing and independently assessing the valuations performed by the 1st line of defence. These teams are responsible for 2nd line of defence oversight for valuations, with independent reporting responsibilities towards the CRO and the BAC.

Investment properties

The main part of the investment properties in Nordea is held by Nordea Life and Pension (NLP). The valuation of the investment properties in NLP is performed quarterly by the real estate departments in each entity within NLP with full or partial assistance from external valuers. For the departments that use their own methodologies the changes in price levels of the properties are compared with valuations of similar properties assessed by external valuers. The result of the valuation is presented to, and approved by, the local management in each entity. The CFO in each entity within NLP is responsible for the approval of the concepts and for the values used. The principles used in all entities are in accordance with regulations provided by the local Financial Supervisory Authorities (FSA) which are in accordance with international valuation principles and in accordance with IFRS.

In addition there is an Investment Operation Committee (IOC) which is a joint forum focusing on valuation and accounting of investment operations issues within NLP. The entities within NLP report regularly to IOC and IOC report quarterly to the Nordea Group Valuation Committee.

Investment properties in NLP are backing the liabilities to policyholders in life insurance contracts, unit-linked contracts and investment contracts, which means that the impact on Nordea's income statement and on shareholders' equity depends on the financial buffers and the profit sharing agreements in the actual unit that owns the property.

G40. Assets and liabilities at fair value, cont.

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

31 Dec 2018, EURm	Fair value	Of which Life[1]	Valuation techniques	Unobservable input	Range of fair value
Interest-bearing securities					
Mortgage and other credit institutions[2]	323	–	Discounted cash flows	Credit spread	–32/32
Corporates	6	4	Discounted cash flows	Credit spread	–0/0
Total	**329**	**4**			**–32/32**
Shares					
Private equity funds	745	457	Net asset value[3]		–84/84
Hedge funds	102	83	Net asset value[3]		–6/6
Credit Funds	398	176	Net asset value/market consensus[3]		–33/33
Other funds	292	183	Net asset value/fund prices[3]		–26/26
Other[4]	191	48	–		–16/16
Total	**1,728**	**947**			**–165/165**
Derivatives					
Interest rate derivatives	259	–	Option model	Correlations	–13/14
				Volatilities	
Equity derivatives	–25	–	Option model	Correlations	–12/8
				Volatilities	
				Dividend	
Foreign exchange derivatives	–13	–	Option model	Correlations	–0/0
				Volatilities	
Credit derivatives	–212	–	Credit derivative model	Correlations	–34/33
				Recovery rates	
				Volatilities	
Other	6	–	Option model	Correlations	–0/0
				Volatilities	
Total	**15**	**–**			**–59/55**
Debt securities in issue					
Issued structured bonds	2,627	–	Credit derivative model	Correlations	–13/13
				Recovery rates	
				Volatilities	
Total	**2,627**	**–**			**–13/13**
Other, net					
Other assets and Other liabilities, net	60	40			–7/7
Total	**60**	**40**			**–7/7**

1) Investment in financial instruments is a major part of the life insurance business, aquired to fulfill the obligations behind the insurance- and investment contracts. The gains or losses on these instruments are almost exclusively allocated to policyholders and do consequently not affect Nordea's equity.

2) Of which EUR 155m is priced at a credit spread (the difference between the discount rate and LIBOR) of 1.45% and a resonable change of this credit spread would not affect the fair value due to callability features.

3) The fair values are based on prices and net assets values delivered by external suppliers/custodians. The prices are fixed by the suppliers/custodians on the basis of the development in assets behind the investments. For private equity funds the dominant measurement methodology used by the suppliers/custodians, is consistent with the International Private Equity and Venture Capital Valuation (IPEV) guidelines issued by Invest Europe (formerly called EVCA). Approximately 40% of the private equity fund investment are internally adjusted/valued based the IPEV guidelines. These carrying amounts are in a range of 5% to 100% compared to the values received from suppliers/custodians.

4) Of which EUR 31m related to assets in pooled schemes and unit-linked investment.

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

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

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

G40. Assets and liabilities at fair value, cont.

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

31 Dec 2017, EURm	Fair value	Of which Life[1]	Valuation techniques	Unobservable input	Range of fair value
Interest-bearing securities					
Mortgage and other credit institutions[2]	162	–	Discounted cash flows	Credit spread	–1/1
Corporates	6	5	Discounted cash flows	Credit spread	–0/0
Total	**168**	**5**			**–1/1**
Shares					
Private equity funds	714	450	Net asset value[3]		–80/80
Hedge funds	118	88	Net asset value[3]		–10/10
Credit Funds	405	202	Net asset value/market consensus[3]		–28/28
Other funds	245	152	Net asset value/fund prices[3]		–21/21
Other[4]	293	226	–		–13/13
Total	**1,775**	**1,118**			**–152/152**
Derivatives					
Interest rate derivatives	332	–	Option model	Correlations	–13/14
				Volatilities	
Equity derivatives	76	–	Option model	Correlations	–14/7
				Volatilities	
				Dividend	
Foreign exchange derivatives	–2	–	Option model	Correlations	–0/0
				Volatilities	
Credit derivatives	25	–	Credit derivative model	Correlations	–14/12
				Recovery rates	
				Volatilities	
Other	22	–	Option model	Correlations	–0/0
				Volatilities	
Total	**453**	**–**			**–41/33**
Debt securities in issue					
Issued structured bonds	4,009	–	Credit derivative model	Correlations	–20/20
				Recovery rates	
				Volatilities	
Total	**4,009**	**–**			**–20/20**

1) Investment in financial instruments is a major part of the life insurance business, aquired to fulfill the obligations behind the insurance- and investment contracts. The gains or losses on these instruments are almost exclusively allocated to policyholders and do consequently not affect Nordea's equity.

2) Of which EUR 155m is priced at a credit spread (the difference between the discount rate and LIBOR) of 1.45% and a resonable change of this credit spread would not affect the fair value due to callability features.

3) The fair values are based on prices and net assets values delivered by external suppliers/custodians. The prices are fixed by the suppliers/custodians on the basis of the development in assets behind the investments. For private equity funds the dominant measurement methodology used by the suppliers/ custodians, is consistent with the International Private Equity and Venture Capital Valuation (IPEV) guidelines issued by Invest Europe (formerly called EVCA). Approximately 40% of the private equity fund investment are internally adjusted/valued based the IPEV guidelines. These carrying amounts are in a range of 31% to 100% compared to the values received from suppliers/custodians.

4) Of which EUR 191m related to assets in pooled schemes and unit-linked investment.

expectations, recovery assumptions for credit derivatives and inflation expectations. The fair values of derivatives are presented as the net of assets and liabilities.

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

G40. Assets and liabilities at fair value, cont.

Investment properties

31 Dec 2018, EURm	Fair value[1]	Of which Life	Valuation techniques	Unobservable input	Range of unobservable input	Weighted average of unobservable input
Norway	620	620	Discounted cash flows	Market rent		
				- Office	102–729 EUR/m^2	284 EUR/m^2
				- Other	126 EUR/m^2	126 EUR/m^2
				Yield requirement		
				- Office	3.9%–6.0%	4.8%
				- Other	6.5%–9.5%	7.7%
Finland[3]	881	881	Discounted cash flows[2]	Market rent		
				- Commercial	144–233 EUR/m^2	189 EUR/m^2
				- Office	123–294 EUR/m^2	208 EUR/m^2
				- Apartment	189–306 EUR/m^2	248 EUR/m^2
				- Other	231–288 EUR/m^2	260 EUR/m^2
				Yield requirement		
				- Commercial	5.8%–7.0%	6.4%
				- Office	4.3%–8.3%	6.3%
				- Apartment	3.3%–4.8%	4.0%
				- Other	4.5%–6.3%	5.4%
Sweden	245	245	Discounted cash flows[2]	Market rent		
				- Commercial	66–209 EUR/m_2	124 EUR/m^2
				- Office	233 EUR/m^2	233 EUR/m^2
				- Apartment	169–179 EUR/m^2	174 EUR/m^2
				- Other	66 EUR/m^2	66 EUR/m^2
				Yield requirement		
				- Commercial	5.3%–6.8%	5.8%
				- Office	4.6%–5.0%	4.8%
				- Apartment	3.8%–4.7%	4.0%
				- Other	7.0%–7.2%	7.1%
Other	19	–	Discounted cash flows	–	–	–
Total	**1,765**	**1,746**				

1) Split based on the valuation methodologies used in different countries.
2) The fair value is calculated by external valuers.
3) Of which EUR 158m related to investment properties in pooled schemes and unit-linked investments in Life.

G40. Assets and liabilities at fair value, cont.

Investment properties

31 Dec 2017, EURm	Fair value[1]	Of which Life	Valuation techniques	Unobservable input	Range of unobservable input	Weighted average of unobservable input
Norway	530	530	Discounted cash flows	Market rent		
				- Commercial	273 EUR/m^2	273 EUR/m^2
				- Office	194–737 EUR/m^2	283 EUR/m^2
				- Apartment	206 EUR/m^2	206 EUR/m^2
				- Other	128 EUR/m^2	128 EUR/m^2
				Yield requirement		
				- Commercial	5.7%–5.7%	5.7%
				- Office	3.9%–6.4%	5.1%
				- Apartment	4.5%–4.5%	4.5%
				- Other	6.0%–9.5%	7.0%
Finland[3]	839	839	Discounted cash flows[2]	Market rent		
				- Commercial	150–240 EUR/m^2	195 EUR/m^2
				- Office	98–300 EUR/m^2	199 EUR/m^2
				- Apartment	189–297 EUR/m^2	243 EUR/m^2
				- Other	225–279 EUR/m^2	252 EUR/m^2
				Yield requirement		
				- Commercial	5.8%–7.0%	6.4%
				- Office	4.5%–8.3%	6.4%
				- Apartment	3.3%–4.8%	4.0%
				- Other	4.5%–6.3%	5.4%
Sweden	219	219	Discounted cash flows[2]	Market rent		
				- Commercial	114–213 EUR/m_2	149 EUR/m^2
				- Office	238–239 EUR/m^2	239 EUR/m^2
				- Apartment	167–172 EUR/m^2	169 EUR/m^2
				- Other	67–82 EUR/m^2	69 EUR/m^2
				Yield requirement		
				- Commercial	5.5%–6.5%	6.0%
				- Office	4.8%–5.1%	4.9%
				- Apartment	3.8%–4.8%	4.3%
				- Other	5.8%–7.3%	6.1%
Other	11	–	Discounted cash flows	–	–	–
Total	**1,599**	**1,588**				

1) Split based on the valuation methodologies used in different countries.
2) The fair value is calculated by external valuers.
3) Of which EUR 151m related to investment properties in pooled schemes and unit-linked investments in Life.

The significant unobservable inputs used in the fair value measurement of the investment properties are market rent and yield requirement. Significant increases (decreases) in market rate or yield requirement in isolation would result in a significant lower (higher) fair value.

Movements in deferred Day 1 profit

The transaction price for financial instruments in some cases differs from the fair value at initial recognition measured using a valuation model, mainly due to that the transaction price is not established in an active market. If there are significant unobservable inputs used in the valuation technique (Level 3), the financial instrument is recognised at the transaction price and any difference between the transaction price and fair value at initial recognition measured using a valuation model (Day 1 profit) is deferred. For more information see, Note G1 "Accounting policies". The table below shows the aggregate difference yet to be recognised in the income statement at the beginning and end of the period and a reconciliation of how this aggregated difference has changed during the year (movements in deferred Day 1 profit).

G40. Assets and liabilities at fair value, cont.

Deferred day 1 profit – derivatives, net

EURm	2018	2017
Amount at beginning of year	58	23
Deferred profit/loss on new transactions	62	89
Recognised in the income statement during the year[1]	–39	–54
Amount at end of year	**81**	**58**

1) Of which EUR –m (EUR –2m) due to transfers of derivatives from Level 3 to Level 2.

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

	31 Dec 2018		31 Dec 2017		
EURm	Carrying amount	Fair value	Carrying amount	Fair value	Level in fair value hierarchy
Assets not held at fair value on the balance sheet					
Cash and balances with central banks	41,578	41,578	43,081	43,081	3
Loans	249,913	253,159	246,943	248,606	3
Interest-bearing securities	3,384	3,496	3,093	3,272	1,2
Other assets	955	955	1,523	1,523	3
Prepaid expenses and accrued income	989	989	999	999	3
Total	**296,819**	**300,177**	**295,639**	**297,481**	
Liabilities not held at fair value on the balance sheet					
Deposits and debt instruments	338,438	339,225	330,356	331,876	3
Other liabilities	989	989	2,833	2,833	3
Accrued expenses and prepaid income	273	273	246	246	3
Total	**339,700**	**340,487**	**333,435**	**334,955**	

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 Personal Banking, Commercial & Business Banking and Wholesale Banking respectively.

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

Interest-bearing securities
The fair value is EUR 3,496m (EUR 3,272m), of which EUR 0m (EUR 92m) is categorised in Level 1 and EUR 3,496m (EUR 3,180m) in Level 2. The measurement principles follow those for similar instruments that are held at fair value on the balance sheet.

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

Deposits and debt instruments
The fair value of “Deposits by credit institutions”, “Deposits and borrowings from the public”, “Debt securities in issue” and “Subordinated liabilities” has been calculated as the carrying amount adjusted for fair value changes in interest rate risk and in own credit risk. The fair value is categorised into Level 3 in the fair value hierarchy. The fair value changes related to interest rate risk is based on changes in relevant interest rates compared with corresponding nominal interest rate in the portfolios. The fair value changes in the credit risk is calculated as the difference between the credit spread in the nominal interest rate compared with the current spread that is observed in the market. This calculation is performed on an aggregated level for all long term issuances recognised in the balance sheet items “Debt securities in issue” and “Subordinated liabilities”. As the contractual maturity is short for “Deposits by credit institutions” and “Deposits and borrowing from the public” the changes in Nordea´s own credit risk related to these items is assumed not to be significant. This is also the case for short term issuances recognised in the balance sheet items “Debt securities in issue” and “Subordinated liabilities”.

Other liabilities and accrued expenses and prepaid income
The balance sheet items "Other liabilities" and "Accrued expenses and prepaid income" consist of short-term liabilities, mainly liabilities on securities settlement. The fair value is therefore considered to be equal to the carrying amount and is categorised into Level 3 in the fair value hierarchy.

G41. 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 2018, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives[3]	110,616	–73,806	36,810	–22,881	–	–10,183	3,746
Reverse repurchase agreements	37,336	–12,448	24,888	–	–24,888	–	0
Securities borrowing agreements	4,176	–	4,176	–	–2,444	–	1,732
Variation margin	453	–453	0	–	–	–	0
Total	**152,581**	**–86,707**	**65,874**	**–22,881**	**–27,332**	**–10,183**	**5,478**

				Amounts not set off but subject to master netting agreements and similar agreements			
31 Dec 2018, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet[2]	Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives[3]	107,209	–70,998	36,211	–22,881	–	–4,311	9,019
Repurchase agreements	29,092	–12,448	16,644	–	–16,644	–	0
Securities lending agreements	2,963	–	2,963	–	–3,703	–	–740
Variation margin	3,261	–3,261	0	–	–	–	0
Total	**142,525**	**–86,707**	**55,818**	**–22,881**	**–20,347**	**–4,311**	**8,279**

1) All amounts are measured at fair value, except for reversed repurchase agreements of EUR 3,217m and repurchase agreements of EUR 3,210m which are measured at amortised cost.
2) Reverse repurchase agreements and Securities borrowing agreements are on the balance sheet classified as Loans to central banks, Loans to credit institutions or Loans to the public. Repurchase agreements and Securities lending agreements are on the balance sheet classified as Deposits by credit institution or as Deposits and borrowings from the public.
3) For derivatives cleared through Central Counterparties, Nordea offsets on the balance sheet for 2018 the cash collateral receivables and liabilities against the relating derivative liabilities and derivative assets respectively when the transactions currency is the same.

				Amounts not set off but subject to master netting agreements and similar agreements			
31 Dec 2017, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	171,059	–125,509	45,550	–29,391	–	–8,868	7,291
Reverse repurchase agreements	28,926	–10,107	18,819	–	–18,819	–	0
Securities borrowing agreements	5,781	–	5,781	–	–5,781	–	0
Total	**205,766**	**–135,616**	**70,150**	**–29,391**	**–24,600**	**–8,868**	**7,291**

				Amounts not set off but subject to master netting agreements and similar agreements			
31 Dec 2017, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet[2]	Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	167,406	–125,509	41,897	–29,391	–	–9,611	2,895
Repurchase agreements	23,075	–10,107	12,968	–	–12,968	–	–
Securities lending agreements	3,917	–	3,917	–	–3,917	–	–
Total	**194,398**	**–135,616**	**58,782**	**–29,391**	**–16,885**	**–9,611**	**2,895**

1) All amounts are measured at fair value.
2) Reverse repurchase agreements and Securities borrowing agreements are on the balance sheet classified as Loans to central banks, Loans to credit institutions or Loans to the public. Repurchase agreements and Securities lending agreements are on the balance sheet classified as Deposits by credit institution or as Deposits and borrowings from the public.

G41. Financial instruments set off on balance or subject to netting agreements, cont.

Enforceable master netting arrangements and similar agreements

The fact that financial instruments are being accounted for on a gross basis on the balance sheet, would not imply that the financial instruments are not subject to master netting agreements or similar arrangements. Generally financial instruments (derivatives, repos and securities lending transactions), would be subject to master netting agreements, and as a consequence Nordea would be allowed to benefit from netting in the case of default by its counter parties, in any calculations involving counterparty credit risk.

For a description of counterparty risk see section Risk, Liquidity and Capital management, in the Board of Directors' report.

G42. Disposal groups held for sale

Balance sheet – Condensed[1]

EURm	2018	2017
Assets		
Loans to credit institutions	–	394
Interest-bearing securities	–	6,051
Financial instruments pledged as collateral	–	1,477
Shares	–	10,361
Derivatives	–	1,184
Investments	–	267
Investment property	–	1,879
Other assets	–	573
Total assets held for sale	**–**	**22,186**
Liabilities		
Deposits by credit institutions	–	643
Liabilities to policyholders	–	23,316
Derivativies	–	810
Current tax	–	921
Other liabilities	–	341
Total liabilities held for sale	**–**	**26,031**

1) Includes the external assets and liabilities held for sale.

Assets and liabilities held for sale as of 31 December 2017 relate to Nordea's earlier announced decision to sell additional 45 per cent of the shares in Danish Nordea Liv & Pension, livforsikringsselskab A/S. The disposal group was closed, and the assets and liabilities held for sale derecognise from Nordea's balance sheet, during the second quarter 2018. The disposal group is included in "Life & Pension unallocated" in Note G2 "Segment reporting".

G43. Transferred assets and obtained collaterals

Transferred assets that are not derecognised in their entirety and associated liabilities

All assets transferred continue to be recognised on the balance sheet if Nordea is still exposed to changes in the fair value of the assets. This is the case for repurchase agreements and securities lending transactions.

Repurchase agreements are a form of collateralised borrowing where Nordea sells securities with an agreement to repurchase them at a later date at a fixed price. The cash received is recognised as a deposit (liability). Securities delivered under repurchase agreements are not derecognised from the balance sheet.

Securities lending transactions are transactions where Nordea lends securities it holds to a counterpart and receives a fee.

As both repurchase agreements and securities lending transactions result in that securities are returned to Nordea, all risks and rewards of the instruments transferred are retained by Nordea, although they are not available for Nordea during the period during which they are transferred. The counterparts in the transactions hold the securities as collateral, but have no recourse to other assets in Nordea.

The securities still reported on the balance sheet and the corresponding liabilities are measured at fair value.

EURm	31 Dec 2018	31 Dec 2017
Repurchase agreements		
Interest-bearing securities	7,568	6,489
Securities lending agreements		
Shares	–	–
Total	**7,568**	**6,489**

Liabilities associated with the assets

EURm	31 Dec 2018	31 Dec 2017
Repurchase agreements	7,564	6,566
Securities lending agreements	–	–
Securitisations	–	–
Total	**7,564**	**6,566**
Net	**4**	**–77**

G43. Transferred assets and obtained collaterals, cont.

Obtained collaterals which are permitted to be sold or repledged

Nordea obtains collaterals under reverse repurchase and securities borrowing agreements which, under the terms of the agreements, can be sold or repledged. The transactions are conducted under standard agreements employed by financial markets participants. Generally, the agreements require additional collateral to be provided if the value of the securities falls below a predetermined level. Under standard terms for most repurchase transactions, the recipient of collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transactions. The fair value of the securities obtained as collateral under reverse repurchase and securities borrowing agreements are disclosed below.

EURm	31 Dec 2018	31 Dec 2017
Reverse repurchase agreements		
Received collaterals which can be repledged or sold	35,632	28,706
- of which repledged or sold	19,661	16,263
Securities borrowing agreements		
Received collaterals which can be repledged or sold	5,648	7,138
- of which repledged or sold	2,980	–
Total	**41,280**	**35,844**

G44. Maturity analysis for assets and liabilities

Expected maturity

		31 Dec 2018 Expected to be recovered or settled:			31 Dec 2017 Expected to be recovered or settled:		
EURm	Note	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
Cash and balances with central banks		41,578	–	41,578	43,081	–	43,081
Loans to central banks	G13	7,642	–	7,642	4,796	–	4,796
Loans to credit institutions	G13	10,856	464	11,320	7,143	1,449	8,592
Loans to the public	G13	77,834	230,470	308,304	85,059	225,099	310,158
Interest-bearing securities	G14	36,619	39,603	76,222	22,594	52,700	75,294
Financial instruments pledged as collateral	G15	7,568	–	7,568	3,496	2,993	6,489
Shares	G16	6,049	6,403	12,452	6,680	10,500	17,180
Assets in pooled schemes and unit-linked investment contracts	G17	17,314	7,269	24,583	16,832	9,047	25,879
Derivatives	G18	7,463	29,562	37,025	8,674	37,437	46,111
Fair value changes of the hedged items in portfolio hedge of interest rate risk		74	95	169	13	150	163
Investments in associated undertakings and joint ventures	G19	139	1,462	1,601	–	1,235	1,235
Intangible assets	G20	205	3,830	4,035	89	3,894	3,983
Properties and equipment		127	419	546	81	543	624
Investment properties	G22	16	1,591	1,607	8	1,440	1,448
Deferred tax assets	G11	17	147	164	54	64	118
Current tax assets		284	–	284	121	–	121
Retirement benefit assets	G32	–	246	246	0	250	250
Other assets	G23	14,554	195	14,749	12,391	50	12,441
Prepaid expenses and accrued income	G24	1,094	219	1,313	1,121	342	1,463
Assets held for sale	G42	–	–	–	22,186	–	22,186
Total assets		**229,433**	**321,975**	**551,408**	**234,419**	**347,193**	**581,612**
Deposits by credit institutions	G25	36,690	5,729	42,419	35,438	4,545	39,983
Deposits and borrowings from the public	G26	159,718	5,240	164,958	148,706	23,728	172,434
Deposits in pooled schemes and unit-linked investment contracts	G17	5,242	20,411	25,653	5,632	20,701	26,333
Liabilities to policyholders	G27	1,939	16,291	18,230	2,086	17,326	19,412
Debt securities in issue	G28	71,549	118,873	190,422	64,930	114,184	179,114
Derivatives	G18	8,168	31,379	39,547	7,462	35,251	42,713
Fair value changes of the hedged items in portfolio hedge of interest rate risk		616	657	1,273	571	879	1,450
Current tax liabilities		414	–	414	389	–	389
Other liabilities	G29	23,233	82	23,315	28,290	225	28,515

G44. Maturity analysis for assets and liabilities, cont

Expected maturity, cont.

		31 Dec 2018 Expected to be recovered or settled:			31 Dec 2017 Expected to be recovered or settled:		
EURm	Note	Within 12 months	After 12 months	Total	Within 12 months	After 12 months	Total
Accrued expenses and prepaid income	G30	1,646	50	1,696	1,547	56	1,603
Deferred tax liabilities	G11	40	666	706	94	628	722
Provisions	G31	250	71	321	289	40	329
Retirement benefit liabilities	G32	–	398	398	11	270	281
Subordinated liabilities	G33	536	8,619	9,155	943	8,044	8,987
Liabilities held for sale	G42	–	–	–	26,031	–	26,031
Total liabilities		**310,041**	**208,466**	**518,507**	**322,419**	**225,877**	**548,296**

Contractual undiscounted cash flows

31 Dec 2018, EURm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Interest-bearing financial assets	56,154	84,802	49,015	143,084	210,748	543,803
Non interest-bearing financial assets	–	–	–	–	61,648	61,648
Non-financial assets	–	–	–	–	10,286	10,286
Total assets	**56,154**	**84,802**	**49,015**	**143,084**	**282,682**	**615,737**
Interest-bearing financial liabilities	148,248	99,049	42,558	104,831	37,452	432,138
Non interest-bearing financial liabilities	–	–	–	–	104,805	104,805
Non-financial liabilities and equity	–	–	–	–	55,657	55,657
Total liabilities and equity	**148,248**	**99,049**	**42,558**	**104,831**	**197,914**	**592,600**
Derivatives, cash inflow	–	574,388	174,708	264,725	89,041	1,102,862
Derivatives, cash outflow	–	565,441	174,087	273,162	90,700	1,103,390
Net exposure	**–**	**8,947**	**621**	**–8,437**	**–1,659**	**–528**
Exposure	**–92,094**	**–5,300**	**7,078**	**29,816**	**83,109**	**22.609**
Cumulative exposure	**–92,094**	**–97,394**	**–90,316**	**–60,500**	**22,609**	**–**

31 Dec 2017, EURm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Interest-bearing financial assets	55,643	75,852	47,530	145,601	222,431	547,057
Non interest-bearing financial assets	–	–	–	–	87,092	87,092
Non-financial assets	–	–	–	–	9,040	9,040
Total assets	**55,643**	**75,852**	**47,530**	**145,601**	**318,563**	**643,189**
Interest-bearing financial liabilities	142,574	95,830	42,631	103,679	41,550	426,264
Non interest-bearing financial liabilities	–	–	–	–	138,692	138,692
Non-financial liabilities and equity	–	–	–	–	53,581	53,581
Total liabilities and equity	**142,574**	**95,830**	**42,631**	**103,679**	**233,823**	**618,537**
Derivatives, cash inflow	–	551,182	142,235	241,873	15,695	950,985
Derivatives, cash outflow	–	547,892	139,470	246,203	16,221	949,786
Net exposure	**–**	**3,290**	**2,765**	**–4,330**	**–526**	**1,199**
Exposure	**–86,931**	**–16,688**	**7,664**	**37,592**	**84,214**	**25,851**
Cumulative exposure	**–86,931**	**–103,619**	**–95,955**	**–58,363**	**25,851**	**–**

The table is based on contractual maturities for the balance sheet items. For derivatives, the expected cash inflows and outflows are disclosed for both derivative assets and derivative liabilities, as derivatives are managed on a net basis.

In addition to the instruments on the balance sheet items, Nordea has credit commitments amounting to EUR 73,287m (EUR 74,545m), which could be drawn on at any time. Nordea has also issued guarantees of EUR 16,383m (EUR 17,335m) which may lead to future cash outflows if certain events occur.

For further information about remaining maturity, see also the section "Risk, Liquidity and Capital management".

G45. Related-party transactions

The information below is presented from a Nordea perspective, meaning that the information shows the effect from related party transactions on the Nordea figures.

	Associated undertakings and joint ventures		Other related parties[1]	
EURm	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Assets				
Loans	498	170	–	–
Interest-bearing securities	1,635	0	–	–
Derivatives	142	2	–	–
Other assets	2	–	–	–
Total assets	**2,277**	**172**	**–**	**–**
Liabilities				
Deposits	587	17	62	77
Debt securities in issue	25	–	–	–
Derivatives	226	0	–	–
Other liabilities	107	–	–	–
Total liabilities	**945**	**17**	**62**	**77**
Off balance[2]	**1,923**	**2,075**	**–**	**–**

	Associated undertakings and joint ventures		Other related parties[1]	
EURm	2018	2017	2018	2017
Net interest income	23	1	–	–
Net fee and commission income	–15	3	–	–
Net result from items at fair value	–428	51	–	–
Other operating income	1	–	–	–
Total operating expenses	–15	–	–	–
Profit before loan losses	**–434**	**55**	**–**	**–**

1) Shareholders with significant influence and close family members to key management personell in Nordea Group as well as companies significantly influenced by key management personnel or by close family members to key management personnel in Nordea Group are considered to be related parties to Nordea. Included in this group of related parties are Sampo Oyj and Aegon Asset Management. If transactions with related companies are made in Nordea's and the related companies' ordinary course of business and on the same criteria and terms as those for comparable transactions with companies of similar standing, and if they did not involve more than normal risk-taking, the transactions are not included in the table. Nordea has thus not disclosed any transactions with shareholders with significant influence.

2) Including nominal values on derivatives.

Compensation and loans to key management personnel

Compensation and loans to key management personnel are specified in Note G7 "Staff costs".

Other related-party transactions

Starting in March 2008 Nordea takes part in a guarantee consortium to support Norwegian Eksportfinans ASA in relation to its securities portfolio. Nordea owns 23% of the company with other owners being the Norwegian state and other Nordic banks. Nordea's share of the accumulated negative fair value of the contract as of the balance sheet date amounts to approx EUR 23m. This agreement was terminated 31 December 2017 and the final payment of the Portfolio Performance Amount was paid 15 January 2018 including a termination fee.

G46. Credit risk disclosures

Credit risk management and credit risk analysis is described in the Risk, Liquidity and Capital management section of the Board of Directors´ Report. Additional information on credit risk is also disclosed in the Capital and Risk management Report (Pillar III) 2018, which is available on www.nordea.com. The first section of this note is based on accounting data for the Nordea Group, while the second part of the note is collected from the Pillar III report. The second section of the note includes a reconcilation between accounting data and credit risk data in accordance with the CRR requirements. The Pillar III report contains the disclosures required by the Capital Requirements Regulation (CRR) for the "consolidated situation", which is smaller in scope than the consolidated accounts as eg Nordea Life and Pensions are not included. The Pillar III disclosure is aligned to how Nordea manages credit risk and most adequaly reflects the credit risk in Nordea.

Credit risk disclosures based on accounting data

Allowances for credit risk

EURm	Note	31 Dec 2018	31 Dec 2017
Loans to central banks and credit institutions	G13	15	1
Loans to the public	G13	2,025	2,332
Interest bearing securities measured at fair value through other comprehensive income or amortised cost	G14	2	–
Off balance sheet items	G31	121	91
Total		**2,163**	**2,424**

Maximum exposure to credit risk

		31 Dec 2018		31 Dec 2017	
EURm	Note	Amortised cost and Fair value through other comprehensive income	Financial assets at fair value through profit or loss	Amortised cost and Fair value through other comprehensive income	Financial assets at fair value through profit or loss
Loans to central banks and credit institutions	G13	15,287	3,689	11,256	2,133
Loans to the public	G13	236,497	73,833	237,857	74,633
Interest bearing securities	G14	36,951	46,841	39,435	42,348
Derivatives	G18	–	37,025	–	46,111
Off balance sheet items	G36 + G37	89,495	175	91,880	247
Total		**378,230**	**161,563**	**380,428**	**165,472**

Forbearance

EURm	31 Dec 2018	31 Dec 2017
Forborne loans	3,561	5,357
- of which defaulted	2,267	2,896
Allowances for individually assessed impaired and forborne loans	714	802
- of which defaulted	693	796

Key ratios	31 Dec 2018	31 Dec 2017
Forbearance ratio[1]	1.1%	1.7%
Forbearance coverage ratio[2]	20%	15%
- of which defaulted	31%	27%

1) Forborne loans/Loans before allowances.
2) Individual allowances/Forborne loans.

Additional information on forbearance is disclosed in the risk management section, page 55.

Assets taken over for protection of claims[1]

EURm	31 Dec 2018	31 Dec 2017
Current assets, carrying amount:		
Land and buildings	19	9
Shares and other participations	0	1
Other assets	2	2
Total	**21**	**12**

1) In accordance with Nordea's policy for taking over assets for protection of claims, which is in compliance with the local Banking Business Acts, wherever Nordea is located. Assets, used as collateral for the loan, are generally taken over when the customer is not able to fulfil its obligations to Nordea. The assets taken over are at the latest, disposed when full recovery is reached.

Past due loans, excluding impaired loans

The table below shows loans past due 6 days or more that are not considered impaired, split by corporate and household customers. Past due is defined as a loan payment that has not been made as of its due date. Past due loans to corporate customers, not considered impaired, were at end of 2018 EUR 1,235m, up from EUR 747m one year ago, and past due loans for household customers increased to EUR 1,636m (EUR 1,286m).

G46. Credit risk disclosures, cont.

EURm	31 Dec 2018 Corporate customers	31 Dec 2018 Household customers	31 Dec 2017 Corporate customers	31 Dec 2017 Household customers
6–30 days	701	657	374	802
31–60 days	89	233	133	233
61–90 days	35	111	84	84
>90 days	410	635	156	167
Total	**1,235**	**1,636**	**747**	**1,286**
Past due not impaired loans divided by loans to the public after allowances, %	0.73	1.04	0.51	0.81

Loans to corporate customers, by size of loans

The distribution of loans to corporate by size of loans, seen in the table below, shows a high degree of diversification where approximately 66% (68%) of the corporate volume represents loans up to EUR 50m per customer.

Size in EURm	31 Dec 2018 Loans EURbn	31 Dec 2018 %	31 Dec 2017 Loans EURbn	31 Dec 2017 %
0–10	62.6	42	64.2	44
10–50	35.0	24	35.8	24
50–100	19.4	13	19.5	13
100–250	17.4	12	17.0	12
250–500	5.4	4	5.9	4
500–	7.6	5	4.6	3
Total	**147.4**	**100**	**147.0**	**100**

Interest-bearing securities

For more information about credit risk related to interest-bearing securities, see Note G14 "Interest-bearing securities" where the carrying amount of interest-bearing securities is split on different types of counterparties.

Sensitivities

One important factor in estimating expected credit losses in accordance with IFRS 9 is to assess what constitutes a significant increase in credit risk. Nordea uses a relative trigger of 250% and an absolute trigger of 150 basis points. If the relative trigger would have been set to 200% and the absolute trigger to 100 basis points, the provisions would have increased by EUR 33m. This also includes the effect of using one notch less as trigger for loans where rating/scoring is used to decide stage. For more information on the rating scal and average PDs, see Note G13.

Had the relative trigger been set to 300% and the absolute trigger been set to 200 basis points, the provisions would have decreased by EUR 41m. This also includes the effect of using one more notch as trigger for loans where rating/scoring is used to decide stage.

The provisions are sensitive to rating migration even if triggers are not reached. The table below shows the impact on provisions from a one notch downgrade on all exposures in the bank. It includes both the impact of the higher risk for all exposures as well as the impact of transferring from stage 1 to stage 2 for those exposures that reach the trigger. It also includes the impact from the exposures with one rating grade above default becoming default, which is estimated at EUR 120m. This figure is based on calculations with the statistical model rather than individual estimates that would be the case in reality for material defaulted loans.

EURm	Recognised provisions	Provisions if one notch downgrade
Personal Banking	339	472
Commercial and Business Banking	998	1,145
Wholesale Banking	752	838
Other	74	84
Group	**2,163**	**2,539**

Forward looking information

Forward looking information is used both for assessing significant increase in credit risk and in the calculation of expected credit losses. Nordea estimates three macro-economic scenarios, a baseline together with an upside and a downside scenario.

The baseline macroeconomic and financial scenario is provided by Nordea Economic Research based on an Oxford Economics model. The macro economic forecast is a combination of modelling and expert judgement, subject to thorough checks and quality control processes. The model has been built to give a good description of the historic relationships between economic variables and to capture the key linkages between those variables. The forecast period in the model is ten years and for periods beyond, a long-term average is used.

The definition of the upside and downside scenarios are based on Oxford Economics' quarterly Global Risk Survey. In this survey respondents report what they see as the top upside and downside global economic risks over the next two years. Based on these answers Oxford Economics create a number of global economic scenarios, each simulating a potential materialisation of one of these top risk factors. Oxford Economics also assign a probability to each scenario, based on the Global Risk Survey. Nordea use these scenarios and probabilities from Oxford Economics when defining the upside and downside scenarios. For 2018, the following weights have been applied: base 60%, adverse 20% and favourable 20%. The model results are assessed and, if needed, adjusted by Nordea's country responsible macro and financial analysts, using judgement based on previous similar episodes to ensure consistency across countries and asset prices. Adjustments are for instance needed when certain industries are impacted, or when sanctions are placed on individual countries, but changes have not yet been reflected in rating migrations.

Checks of the model results are performed by reviewing quantitative data before and after reactions. As part of the process to ensure accurate and consistent data deliveries from Nordea's economists, the data is also subject to a number of statistical tests.

G46. Credit risk disclosures, cont.

	Base	Adverse	Favourable
Denmark			
GDP growth, %	0.7–3.1	−0.3–3.6	0.7–3.5
Unemployment, %	3.9–4.0	4.0–5.2	3.6–4.1
Change in household consumption, %	1.2–3.5	0.8–3.1	1.0–3.8
Change in house prices, %	3.1–4.6	−1.9–5.0	0.8–6.3
Finland			
GDP growth, %	1.0–2.1	−0.2–2.7	0.6–2.5
Unemployment, %	7.0–7.2	6.9–8.0	6.7–7.2
Change in household consumption, %	1.0–2.1	0.4–1.9	0.8–2.5
Change in house prices, %	0.3–2.2	−4.6–3.2	−0.3–2.4
Norway			
GDP growth, %	1.5–2.0	0.7–2.4	1.2–2.4
Unemployment, %	3.3–3.7	3.3–4.4	3.1–3.6
Change in household consumption, %	1.4–2.1	0.5–2.1	1.4–2.5
Change in house prices, %	3.0–3.9	−1.6–8.1	−0.5–8.9
Sweden			
GDP growth, %	1.8–2.5	0.9–3.8	1.2–3.1
Unemployment, %	5.4–6.3	5.4–7.3	5.3–6.1
Change in household consumption, %	1.7–2.4	1.1–3.5	1.4–2.7
Change in house prices, %	2.1–3.8	0.4–5.4	1.1–4.4

Provisions calculated under different scenarios

	Base	Adverse	Favourable	Weighted average	Individual provisions and adjustments	Recognised provisions
Personal Banking	204	206	203	204	135	339
Commercial and Business Banking	213	220	210	214	784	998
Wholesale Banking	141	147	139	142	610	752
Other	33	33	33	33	41	74
Group	**591**	**606**	**585**	**593**	**1,570**	**2,163**

Credit risk disclosures based on Pillar III data

Exposure types[1]

EURm	31 Dec 2018	31 Dec 2017
On-balance sheet items	409,957	404,263
Off-balance sheet items	46,472	48,515
Securities financing	4,855	5,310
Derivatives	14,865	17,520
Total exposure	**476,149**	**475,608**

1) Securitisation positions are included in the table.

Link between credit risk exposure and the balance sheet

This section discloses the link between the loan portfolio as defined by accounting standards and exposure as defined in CRR. The main differences are outlined in this section to illustrate the link between the different reporting methods. Original exposure is the exposure before taking into account substitution effects stemming from credit risk mitigation, credit conversion factors (CCFs) for off-balance sheet exposure and allowances within the standardised approach. In this note, however, exposure is defined as exposure at default (EAD) for IRB exposure and exposure value for standardised exposure, unless otherwise stated. In accordance with the CRR, credit risk exposure presented in this note is divided into exposure classes where each exposure class is divided into exposure types as follows:

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

G46. Credit risk disclosures, cont.

Items presented in other parts of the Annual Report are divided as follows (in accordance with the accounting standards):
- On-balance sheet items (e.g. loans to central banks and credit institutions, loans to the public, reversed repurchase agreements, positive fair value for derivatives and interest-bearing securities).
- Off-balance sheet items (e.g. guarantees and unutilised lines of credit).

The table below shows the link between the CRR credit risk exposure and items presented in the Annual Report.

On-balance sheet items

The following items are excluded from the balance sheet, when on-balance sheet exposure is calculated in accordance with the CRR:
- Non CRR related items. Items not part of consolidated situation of CRR such as Life insurance operations (due to solvency regulation).
- Market risk related items in the trading book, such as certain interest-bearing securities and pledged instruments.
- Repos, derivatives and securities lending. These transactions are either included in the calculation of market risk in the trading book or reported as separate exposure types (derivatives or securities financing).
- Other, mainly allowances and intangible assets.

Off-balance sheet items

The following off-balance sheet items specified in the Annual Report are excluded when off-balance exposure is calculated in accordance with the CRR:
- Non CRR related items. Items not part of consolidated situation of CRR such as Life insurance operations (due to solvency regulation).
- "Assets pledged as security for own liabilities" and "Other assets pledged" (apart from leasing). These transactions are reported as securities financing (i.e. a separate exposure type).
- Derivatives

Derivatives and securities financing

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

On-balance sheet items[1]

EURm	Original exposure	Items related to market risk	Repos, derivatives, securities lending	Items not according to CRR	Other	Balance sheet
31 Dec 2018						
Cash and balances with central banks	42,912	–	–	–	–1,334	41,578
Loans to credit institutions and central banks	8,376	–	8,295	385	1,906	18,962
Loans to the public	293,515	–	20,771	–1,385	–4,597	308,304
Interest-bearing securities and pledged instruments	59,432	13,932	–	10,429	–3	83,790
Derivatives[2]	–	–	36,947	78	–	37,025
Intangible assets	–	–	–	154	3,881	4,035
Other assets and prepaid expenses	6,061	16,281	–	32,481	2,891	57,714
Total assets	**410,296**	**30,213**	**66,013**	**42,142**	**2,744**	**551,408**
Total exposure[3]	**409,957**					
31 Dec 2017						
Cash and balances with central banks	44,503	–	–	0	–1,422	43,081
Loans to credit institutions and central banks	9,396	2	3,951	218	–179	13,388
Loans to the public	293,240	–2	23,084	–3,059	–3,105	310,158
Interest-bearing securities and pledged instruments	52,482	18,272	–	11,028	–	81,782
Derivatives[2]	0	–	47,370	–1,259	–	46,111
Intangible assets	–	–	–	153	3,829	3,983
Other assets and prepaid expenses	5,831	20,691	–	55,968	620	83,109
Total assets	**405,452**	**38,963**	**74,405**	**63,049**	**–257**	**581,612**
Total exposure[3]	**404,263**					

1) Securitisation positions to an original exposure amount of 6,907 EURm and an exposure amount of 6,907 EURm are includen in the table.
2) Derivatives are included in banking and trading books, but not at book values. Counterparty risk in trading derivatives is included in the credit risk.
3) The on-balance exposures have a CCF of 100% but can still have a lower EAD due to provisions in the standardised approach, that are deducted from the original exposure when calculating EAD.

G46. Credit risk disclosures, cont.

Off-balance sheet items[1]

31 Dec 2018, EURm	Credit risk accordance with CRR	Items excluded from CRR scope of consolidation	Included in derivatives and securities financing	Off- balance sheet
Contingent liabilities	17,819	–	–	17,819
Commitments	74,315	164	–	74,479
Total	**92,134**	**164**	**–**	**92,298**

31 Dec 2018, EURm	Credit risk accordance with CRR	Items not included in accounts	Original exposure	Average conversion factor	Exposure at default EAD
Credit facilities	41,194	463	41,657	50%	21,028
Checking accounts	17,953	213	18,166	51%	9,220
Loan commitments	14,025	2,313	16,338	62%	10,054
Guarantees	16,827	–	16,827	35%	5,878
Other	2,135	–	2,135	14%	292
Total	**92,134**	**2,989**	**95,123**		**46,472**

31 Dec 2017, EURm	Credit risk accordance with CRR	Items excluded from CRR scope of consolidation	Included in derivatives and securities financing	Off- balance sheet
Contingent liabilities	18,978	42	–	19,020
Commitments	75,553	1,479	–	77,032
Total	**94,531**	**1,521**	**–**	**96,052**

31 Dec 2017, EURm	Credit risk accordance with CRR	Items not included in accounts	Original exposure	Average conversion factor	Exposure at default EAD
Credit facilities	39,725	4,231	43,956	51%	22,426
Checking accounts	19,333	48	19,381	53%	10,189
Loan commitments	16,485	1,064	17,549	52%	9,167
Guarantees	17,783	–	17,783	36%	6,361
Other	1,205	–	1,205	31%	372
Total	**94,531**	**5,343**	**99,874**		**48,515**

1) Securitisation positions are included in the table.

G46. Credit risk disclosures, cont.

Exposure classes split by exposure type

31 Dec 2018, EURm	On-balance sheet items	Off-balance sheet items	Securities financing	Derivatives	Total exposure
Government, local authorities and central banks	82,490	859	656	2,882	86,887
Institutions	36,021	776	2,637	4,444	43,878
Corporate	109,742	26,301	1,134	7,162	144,339
Retail[1]	167,572	17,159	–	72	184,803
Securitisation	6,946	1,319	–	–	8,265
Other	7,186	58	428	305	7,977
Total exposure	**409,957**	**46,472**	**4,855**	**14,865**	**476,149**

31 Dec 2017, EURm	On-balance sheet items	Off-balance sheet items	Securities financing	Derivatives	Total exposure
Government, local authorities and central banks	78,068	1,053	1,662	3,975	84,758
Institutions	33,719	817	2,475	5,422	42,433
Corporate	109,735	27,969	1,168	8,031	146,903
Retail[1]	167,876	17,051	2	79	185,008
Securitisation	6,813	1,586	–	–	8,399
Other	8,052	39	3	13	8,107
Total exposure	**404,263**	**48,515**	**5,310**	**17,520**	**475,608**

1) Includes exposures secured by real estate.

Exposure split by geography and exposure classes

31 Dec 2018, EURm	Nordic countries	- of which Denmark	- of which Finland	- of which Norway	- of which Sweden	Baltic countries	Russia	US	Other	Total
Government, local authorities and central banks	56,889	8,009	32,428	3,351	13,101	1,465	203	21,964	6,366	86,887
Institutions	34,919	18,732	267	5,916	10,004	9	205	561	8,184	43,878
Corporate	118,481	37,096	25,169	26,314	29,902	3,958	1,503	2,250	18,147	144,339
Retail[1]	179,258	51,836	39,896	31,908	55,618	3,751	18	204	1,572	184,803
Other	4,321	850	1,665	952	854	533	14	139	2,970	7,977
Total exposure[2]	**393,868**	**116,523**	**99,425**	**68,441**	**109,479**	**9,716**	**1,943**	**25,118**	**37,239**	**467,884**

31 Dec 2017, EURm	Nordic countries	- of which Denmark	- of which Finland	- of which Norway	- of which Sweden	Baltic countries	Russia	US	Other	Total
Government, local authorities and central banks	44,074	6,877	24,091	3,494	9,612	1,603	211	28,343	10,527	84,758
Institutions	32,515	14,795	184	6,261	11,275	48	128	525	9,217	42,433
Corporate	120,309	37,717	25,023	26,604	30,965	4,482	1,990	1,848	18,274	146,903
Retail[1]	180,117	52,072	41,651	30,566	55,828	1,322	14	213	3,342	185,008
Other	3,948	976	415	875	1,682	3,244	48	356	511	8,107
Total exposure[2]	**380,963**	**112,437**	**91,364**	**67,800**	**109,362**	**10,699**	**2,391**	**31,285**	**41,871**	**467,209**

1) Includes exposures secured by real estate.
2) Securitisation positions are not included in the table.

In the table below, total exposure is split by industry. The industry breakdown mainly follows the Global Industries Classification Standard (GICS) and is based on NACE codes (statistical classification codes of economic activities in the European community). The industry group which has the largest share of total exposures is other, public and organisations; they account for 59% of total exposure.

G46. Credit risk disclosures, cont.

Exposure split by industry sector[1]

EURm	31 Dec 2018	31 Dec 2017
Construction and engineering	5,721	6,136
Consumer durables (cars, appliances etc)	2,632	2,945
Consumer staples (food, agriculture etc)	11,683	11,570
Energy (oil, gas etc)	2,311	2,923
Health care and pharmaceuticals	1,768	1,425
Industrial capital goods	3,300	3,871
Industrial commercial services	14,080	15,276
IT software, hardware and services	1,956	1,826
Media and leisure	2,194	2,403
Metals and mining materials	893	997
Other financial institutions	64,370	60,322
Other materials (chemical, building materials etc)	5,218	5,336
Other, public and organisations	274,627	273,007
Paper and forest material	1,908	1,559
Real estate management and investment	44,139	44,964
Retail trade	10,193	10,960
Shipping and offshore	9,224	9,500
Telecommunication equipment	209	209
Telecommunication operators	1,409	1,452
Transportation	3,993	4,279
Utilities distribution and production	6,056	6,249
Total exposure	**467,884**	**467,209**

1) Securitisation positions are not included in the table.

At the end of 2018, the share of total exposure secured by eligible collateral remained stable at 44% (44%). The proportion has remained relatively stable during the period. Approximately 3% (3%) of total exposure was secured by guarantees and credit derivatives.

Exposure secured by collaterals, guarantees and credit derivatives

31 Dec 2018, EURm	Original exposure	EAD	- of which secured by guarantees and credit derivatives	- of which secured by collateral
Government, local authorities and central banks	87,657	86,887	350	0
Institutions	45,405	43,878	167	166
Corporate	177,749	144,339	11,175	62,918
Retail[1]	196,738	184,803	2,283	142,098
Other	8,316	7,977	6	0
Total exposure[2]	**515,865**	**467,884**	**13,981**	**205,182**

31 Dec 2017, EURm	Original exposure	EAD	- of which secured by guarantees and credit derivatives	- of which secured by collateral
Government, local authorities and central banks	86,588	84,758	522	893
Institutions	45,094	42,433	205	196
Corporate	184,070	146,903	10,849	60,677
Retail[1]	194,360	185,008	2,286	143,992
Other	8,570	8,107	41	52
Total exposure[2]	**518,682**	**467,209**	**13,903**	**205,810**

1) Includes exposures secured by real estates.
2) Securitisation positions are not included in the table.

G46. Credit risk disclosures, cont.

Collateral distribution

The table presents the distribution of collateral used in the capital adequacy calculation process. The table shows that real estate collateral had the majority share with 73% (74%) of total eligible collateral. Commerical real estate increased somewhat to 18% (17%). For the other collateral categories, the proportions remained relatively stable in 2018.

	31 Dec 2018	31 Dec 2017
Financial Collateral	1.1%	1.2%
Receivables	0.9%	0.9%
Residential Real Estate	72.9%	73.7%
Commercial Real Estate	18.3%	16.6%
Other Physical Collateral	6.8%	7.6%
Total	**100.0%**	**100.0%**

Loan-to-value

The loan-to-value (LTV) ratio is considered a useful measure to evaluate collateral's quality, i.e. the credit extended divided by the market value of the collateral pledged. In the table below, the retail mortgage exposures are distributed by LTV bucket based on the LTV ratio. In 2018, the proportion of the lowest LTV bucket increased slightly, offset by all other LTV buckets.

	31 Dec 2018		31 Dec 2017	
Retail mortgage exposure	EURbn	%	EURbn	%
<50%	110.9	81	110.3	80
50–70%	19.6	14	20.2	15
70–80%	4.3	3	4.6	3
80–90%	1.2	1	1.4	1
>90%	0.6	1	0.7	1
Total	**136.6**	**100**	**137.2**	**100**

Collateralised Debt Obligations (CDO)

Nordea acts as an intermediary in the credit derivatives market, mainly in Nordic names. Nordea also uses credit derivatives to hedge positions in corporate bonds and synthetic CDOs. When Nordea sells protection in a CDO transaction, it carries the risk of losses in the reference portfolio if a credit event occurs. When Nordea buys protection in a CDO transaction, any losses in the reference portfolio triggered by a credit event are carried by the seller of protection.

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

G47. Interests in structured entities

Structured entities are entities designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. It normally has restricted activities with a narrow and well defined objective. If Nordea controls such an entity, it is consolidated.

Consolidated structured entities

The Viking ABCP Conduit (Viking) has been established with the purpose of supporting trade receivable or accounts payable securitisations to core Nordic customers. The SPEs purchase trade receivables from the approved sellers and fund the purchases either by issuing Commercial Papers (CP) via the established Asset Backed Commercial Papers programme or by drawing funds on the liquidity facilities available. Nordea has provided liquidity facilities of maximum EUR 1,060m (EUR 1,060m) and at year-end EUR 938 (EUR 895m) were utilised. Total assets in the conduit were EUR 971m (EUR 923m) as per year-end. The SPE is consolidated as it is closely linked to the activities within Nordea. Also, Nordea is exposed to credit risk through the liquidity facility. There are no significant restrictions on repayment of loans from Viking apart from that the payments are dependent on the pace in which Viking releases its assets.

Kalmar Structured Finance A/S was established to allow customers to invest instructured products in the global credit markets. The SPE enters into Credit Default Swaps (CDS) and hereby acquires a credit risk on an underlying portfolio of names (like corporate names) and at the same time the SPE issues Credit Linked Notes (CLN) with a similar credit risk that reflects the terms in the CDSs. Nordea is the counterpart in the derivative transactions. The total notional of outstanding CLNs in this category was EUR 1m (EUR 1m) at year end. Nordea holds CLNs issued by the SPE as part of offering a secondary market for the notes. The investment amounted to EUR 1m (EUR 1m) at year end.

AR Finance invests in notes backed by trade receivables. Nordea has provided liquidity facilities of maximum EUR 125m (EUR 125m) and at year-end EUR 114m (EUR 113m) were utilised. The entity holds assets of EUR 117m (EUR 125m) as per year-end.

Unconsolidated structured entities

For structured entities in which Nordea has an interest but do not control, disclosures are provided. To be considered to have an interest in such an entity, Nordea must be exposed to variability in returns on the investment in the structured entity. Investment funds are the only interests in unconsolidated structured entities Nordea currently holds. Variability in returns is assessed based on both fees received and revaluation of holdings in the funds.

There are several different products where Nordea invests in investment funds:

a) on behalf of policyholders in Nordea Life & Pensions
b) on behalf of depositors where the return is based the investment
c) to hedge exposures in structured products issued to customers
d) illiquid investments in private equity and credit funds

As Nordea is exposed to variability in returns on a gross basis, information about these funds is disclosed although the net exposure is considerably less. Any change in value on investment funds acquired on behalf of policyholders and depositors where the policyholder/depositor stands the investment risk are reflected in the value of the related liability and the maximum net exposure to losses is zero. The change in value on investment funds held on behalf of other policyholders are to a large extent passed on to the policyholders, but as Nordea has issued guarantees in some of these products, Nordea is exposed to the changes in value

Investment funds acquired to hedge exposures in structured products reduce the exposures and, to the extent hedges are effective, Nordea is not exposed to changes in value. The maximum loss on these funds is estimated to EUR 3m (EUR 6m), net of hedges.

Investments in illiquid private equity and credit funds are an integrated part of managing balance sheet risks in Nordea. The maximum loss on these funds is estimated to EUR 509m (EUR 469m), equal to the investment in the funds.
Nordeas interests in unconsolidated structured entities and any related liability are disclosed in the table below.

EURm	31 Dec 2018	31 Dec 2017
Assets, carrying amount:		
Shares	8,044	9,306
Assets in pooled schemes and unit linked investment contracts	22,179	21,630
Assets held for sale	–	8,389
Total assets	**30,223**	**39,325**
Liabilities, carrying amount:		
Deposits in pooled schemes and unit linked investment contracts	856	787
Liabilities to policyholders	28,758	29,937
Liabilities held for sale	–	8,389
Total liabilities	**29,614**	**39,113**
Off balance, nominal amount:		
Loan commitments	0	0

Nordea holds approximately 2,500 different funds which are classified as unconsolidated structured entities, of which approximately 400 are managed by Nordea. These have different investment mandates and risk appetites, ranging from low risk government bond funds to high risk leveraged equity funds. Total assets in funds managed by Nordea are EUR 151bn (EUR 165bn). All funds are financed by deposits from the holders of fund units. The total assets in investment funds not managed by Nordea are not considered meaningful for the purpose of understanding the related risks and is thus not disclosed.

Nordea has not sponsored any unconsolidated structured entity in which Nordea do not currently have an interest.

G48. Country by country reporting

The table below presents for each country where Nordea is established, i.e. where Nordea has a physical presence, information about the businesses, the geographical area, average number of employees, total operating income, operating profit and income tax expense. Nordea is considered to have physical presence in a country if Nordea has a subsidiary, associated undertaking or branch in that country. Nordea has not recieved any significant government subsidiarieses.

			2018				2017			
Country	Business[1]	Geographical area	Average number of employees	Total operating income[2], EURm	Operating profit, EURm	Income tax expense, EURm	Average number of employees	Total operating income[2], EURm	Operating profit, EURm	Income tax expense, EURm
Denmark	RB, WB, AM, LP	Denmark	8,505	2,652	898	–159	9,136	2,929	1,099	–227
Finland	RB, WB, AM, LP	Finland	6,459	1,818	694	–164	7,032	1,986	976	–211
Sweden	RB, WB, AM, LP	Sweden	7,055	2,921	1,080	–302	7,462	2,647	541	–183
Norway	RB, WB, AM, LP	Norway	2,962	1,668	1,061	–161	3,127	1,698	921	–211
Russia	WB	Russia	396	62	38	–8	606	98	34	–8
Poland	Other	Poland	2,980	124	1	1	2,060	75	1	0
Estonia	RB, WB, LP	Estonia	253	10	1	0	502	82	41	–7
Latvia	RB, WB	Latvia	–	–	–	–	364	57	29	–6
Luxembourg	AM, LP	Luxembourg	434	326	180	–54	451	386	226	–65
Lithuania	RB, WB, LP	Lithuania	–	–	–	–	305	42	24	–3
United States	RB, WB, AM, LP	New York	116	87	–65	–21	123	111	71	–21
United Kingdom	RB, WB, AM, LP	London	58	81	57	–3	68	110	–3	0
Singapore	WB	Singapore	75	33	–1	–1	81	40	31	–4
Germany	WB, AM	Frankfurt	44	18	8	1	43	25	14	–4
Switzerland	AM	Zürich	10	2	0	0	22	7	–6	0
China	WB	Shanghai	29	7	1	–1	31	7	–1	0
Italy	AM	Rome	9	5	0	0	9	5	0	0
Spain	AM	Madrid	5	2	0	0	7	2	0	0
Brazil	WB	Sao Paolo	2	1	0	0	5	2	0	0
France	AM	Paris	3	1	0	0	3	2	0	0
Chile	AM	Santiago	0	0	0	0	–	–	–	–
Eliminations[3]			–	–813	–	–	–	–842	–	–
Total			**29,395**	**9,005**	**3,953**	**–872**	**31,437**	**9,469**	**3,998**	**–950**

1) RB=Retail banking, WB=Wholesale banking, AM=Asset management, LP= Life and pension.
2) Total operating income presented in this table is split on countries based on where Nordea has a physical presence, i.e. where Nordea has a subsidiary, associated undertaking or branch, while total operating profit presented in Note G2 "Segment reporting" is split on countries based on the location of the customers´ operations.
3) Eliminations of transactions consist mainly of intra-group IT-services.

Nordea also discloses the names of the subsidiaries, associated undertakings and branches for each country where Nordea is established. These disclosures are presented in the table below, in the last table "Specification of group undertakings 31 December 2018" in the section "Capital adequacy for the Nordea Group" and in the last table in Note G19 "Investments in associated undertakings and joint ventures".

Denmark
Nordea Danmark Filial af Nordea Bank Abp, Finland
Nordea Investment Management AB, Denmark Branch
Nordea Fund Management, filial af Nordea funds Oy, Finland

Finland
Nordea Life Assurance Finland Ltd
Nordea Investment Management AB, Finland Branch

Sweden
Nordea Bank Abp filial i Sverige
Nordea Life Holding AB
Nordea Livförsäkring Sverige AB (publ)
Nordea Funds Ab, Swedish Branch

Norway
Livforsikringsselskapet Nordea Liv Norge AS
Nordea Investment Management AB, Norway Branch
Nordea Funds Ltd, Norwegian Branch
Nordea Bank Abp, filial i Norge

Italy
Nordea Investment Funds S.A., Italian Branch

France
Nordea Investments Funds S.A., French Branch

Estonia
Nordea Bank AB Estonia Branch

Chile
NAM Chile SpA

Germany
Nordea Bank Abp Niederlassung Frankfurt
Nordea Funds Services GmbH (Germany)

China
Nordea Bank Abp Shanghai Branch

Poland
Nordea Bank Abp Spolka Akcyjna Oddzial w Polsce

Singapore
Nordea Bank Abp Singapore Branch

Switzerland
Nordea Bank S.A., Luxemburg Zwiegniederlassung Zürich
Nordea Asset Management Schweiz GmbH

Spain
Nordea Investment Funds S.A. Sucursal en España

United Kingdom
Nordea Bank AB London Branch
Nordea Investment Funds S.A. UK Branch

United States
Nordea Bank Abp New York Branch

G49. IFRS 16

The change in accounting for leases when IFRS 16 becomes mandatory on 1 January 2019 is described in Note 1, section 3. At transition, the standard will be implemented based on a single discount rate applied on a portfolio of leases with similar characteristics. The future cash flows are discounted using the incremental borrowing rate, and the weighted average incremental borrowing rate applied to the lease liabilities at transition is approximately 1%. The assessment of onerous leases according to IAS 37 is applied as an alternative to performing an impairment review of the right-of-use assets. Initial direct costs are excluded from the right-of use-asset and the right to use hindsight when determining the lease term will be used.

Reconciliation of lease commitments in Annual Report 2018 to lease liabilities at 1 January 2019

EURm	
Future minimum lease payments under non-cancellable leases disclosed in Note G21	1,217
Increase in lease term	157
Discounting effect using the average incremental borrowing rate	–93
Deduction for leases reclassified to short term	–5
Other changes	–111
Lease liability 1 January 2019	**1,165**

Impact on the balance sheet at transition

EURm	31 Dec 2018	Change	1 Jan 2019
Assets			
Properties and equipment	546	1,521	2,067
- of which Owned assets	546	–	546
- of which Right of use assets	–	1,523	1,523
- of which Accumulated impairment on ROU assets	–	–2	–2
Prepaid expenses	1,313	–358	955
Other	549,549	–	549,549
Total assets	**551,408**	**1,163**	**552,571**
Liabilities			
Other liabilities	23,315	1,165	24,480
- of which Lease liabilities	–	1,165	1,165
Provisions	321	–2	319
Other	494,871	–	494,871
Total liabilities	**518,507**	**1,163**	**519,670**

Accounting principles under IFRS 16

Nordea as lessor

Finance leases

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

Operating leases

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

Nordea as lessee

At inception Nordea assesses whether a contract is or contains a lease. A lease is a contract that conveys the user the right to control the use of an asset for a period of time in exchange for consideration.

The right to use an asset in a lease contract is recognised on the commencement date as a right-of-use (ROU) asset and the obligation to pay lease payments is recognised as a lease liability. The ROU asset is initially measured as the present value of the lease payments, plus initial direct costs and the cost of obligations to refurbish the asset less any lease incentives received. Non-lease components are separated in real estate, car and IT contracts. The discount rate used to calculate the lease liability for each contract is the incremental borrowing rate at commencement of the contract. In significant premises contracts the rate implicit in the contract may be used if available.

The ROU assets are presented as similar owned assets and the lease liabilities as" Other liabilities" on the balance sheet. The depreciation policy is consistent with that of similar owned assets, but the depreciation period is normally capped at the end of the lease term. Impairment testing of the right-of-use assets is performed following the same principles as for similar owned assets. Interest expense on lease liabilities is presented as "Interest expense" in the income statement.

The assets are classified as Premises, IT hardware, Vehicles and Other Assets like office equipment. Nordea applies the practical expedient of short term contracts (with a contract term of 12 months or less), primarily for premises, IT-hardware, and for other assets. The practical expedient of low value assets is applied on IT-hardware and other assets. Short term and low value contracts are not recognised on the balance sheet and the payments are recognised as expenses in the income statement as "Other expenses" on a straight-line basis over the lease term unless another systematic way better reflects the time pattern of Nordea's benefit.

Leases are mainly related to office premises contracts but also to company cars, IT hardware and other assets normal to the business. The premises are divided into banking branches and head-offices. The lease payments generally include fixed payments and especially in premises contracts also variable payments that depend on an index. Residual value guarantees, or purchase options are generally not used.

The lease term is the expected lease term. This comprises the non-cancellable period of lease contracts and any options that Nordea is reasonably certain to exercise. The length of contracts with no end date is estimated by considering all facts and circumstances.

The expected lease term of most of the premises contracts is 1–10 years whereas the expected lease term of the main head office contracts in the Nordic countries is 15–25 years. The central district head office properties in Finland, Norway and Sweden that Nordea has divested are leased back. The duration of these lease agreements was initially 3–25 years with renewal options.

Financial statements, Parent company

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Income statement

EURm	Note	Oct–Dec 2018 [1]
Operating income		
Interest income		1,116
Interest expense		–474
Net interest income	P3	**642**
Fee and commission income		584
Fee and commission expense		–157
Net fee and commission income	P4	**427**
Net result from securities trading and foreign exchange dealing	P5	199
Net result from securities at fair value through other comprehensive income	P5	8
Net result from hedge accounting	P5	–55
Net result from investment properties	P25	0
Dividends	P6	1,167
Other operating income	P7	94
Total operating income		**2,482**
Operating expenses		
Staff costs	P8	–616
Other administrative expenses	P9	–274
Other operating expenses	P10	–100
Depreciation, amortisation and impairment charges of tangible and intangible assets	P11	–115
Total operating expenses		**–1,105**
Profit before loan losses		**1,377**
Net loan losses	P12	–12
Impairment on other financial assets	P12	–21
Operating profit		**1,344**
Income tax expense	P13	–211
Net profit for the year		**1,133**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.

Balance sheet

EURm	Note	31 Dec 2018
Assets		
Cash and balances with central banks		39,562
Debt securities eligible for refinancing with central banks	P14, P17, P18	72,677
Loans to credit institutions	P15	64,772
Loans to the public	P16	154,419
Interest-bearing securities	P17, P18	1,890
Shares and participations	P19	4,813
Investments in associated undertakings and joint ventures	P20	1,049
Investments in group undertakings	P21	12,175
Derivatives	P22	37,221
Fair value changes of the hedged items in portfolio hedge of interest rate risk		72
Intangible assets	P23	2,331
Tangible assets		
- Properties and equipment	P24	338
- Investment properties	P25	4
Deferred tax assets	P13	130
Current tax assets		234
Retirement benefit assets	P35	243
Other assets	P27	15,681
Prepaid expenses and accrued income	P28	1,111
Total assets		**408,722**
Liabilities		
Deposits by credit institutions and central banks	P29	51,427
Deposits and borrowings from the public	P30	171,102
Debt securities in issue	P31	82,667
Derivatives	P22	40,591
Fair value changes of the hedged items in portfolio hedge of interest rate risk		536
Current tax liabilities	P13	249
Other liabilities	P32	21,257
Accrued expenses and prepaid income	P33	1,330
Deferred tax liabilities	P13	223
Provisions	P34	352
Retirement benefit obligations	P35	349
Subordinated liabilities	P36	9,157
Total liabilities		**379,240**
Equity		
Share capital		4,050
Additional Tier 1 capital holders		750
Invested unrestricted equity		1,080
Other reserves		-150
Retained earnings		22,619
Profit or loss for the period		1,133
Total equity	**P37**	**29,482**
Total liabilities and equity		**408,722**
Off balance sheet commitments		
Commitments given to a third party on behalf of customer	P40	
- Guarantees and pledges		50,026
- Other		1,406
Irrevocable commitments in favour of customer	P41	
- Securities repurchase commitments		–
- Other		80,102

Combined income statement

EURm	Combined 2018[1]	Predecessor 2017
Operating income		
Interest income	4,203	4,155
Interest expense	-1,730	-1,618
Net interest income	**2,473**	**2,537**
Fee and commission income	2,244	2,409
Fee and commission expense	-457	-408
Net fee and commission income	**1,787**	**2,001**
Net result from securities trading and foreign exchange dealing	868	974
Net result from securities classified at fair value through other comprehensive income	25	0
Net result from hedge accounting	-61	133
Net result from investment properties	-1	-3
Dividends	1,735	3,346
Other operating income	377	470
Total operating income	**7,203**	**9,458**
Operating expenses		
Staff costs	-2,478	-2,636
Other administrative expenses	-980	-1,197
Other operating expenses	-539	-581
Depreciation, amortisation and impairment charges of tangible and intangible assets	-355	-277
Total operating expenses	**-4,352**	**-4,691**
Profit before loan losses	**2,851**	**4,767**
Net loan losses	-122	-299
Impairment on other financial assets	-239	-380
Operating profit	**2,490**	**4,088**
Income tax expense	-514	-555
Net profit for the period	**1,976**	**3,533**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.

Nordea Bank Abp reports under Finnish GAAP. The columns labelled “Predecessor” include restated income statements of the former parent company Nordea Bank AB (publ). The columns labelled “Combined” include combinations of Nordea Bank Abp's reported income statements and restated income statements for the former parent company Nordea Bank AB (publ). When the former parent company Nordea Bank AB (publ) income statements have been restated to comply with Finnish GAAP, adjustments have been made so that the pension plans in Sweden are accounted for under IFRS, that changes to own credit risk on financial liabilities designated at fair value is recognised in equity, as well as to that the presentation of the income statement complies with Finnish requirements.

Combined balance sheet

EURm	Reported 31 Dec 2018[1]	Predecessor 31 Dec 2017
Assets		
Cash and balances with central banks	39,562	42,637
Debt securities eligible for refinancing with central banks	72,677	68,781
Loans to credit institutions	64,772	59,765
Loans to the public	154,419	152,766
Interest-bearing securities	1,890	5,093
Shares and participations	4,813	7,906
Investments in associated undertakings and joint ventures	1,049	1,036
Investments in group undertakings	12,175	12,532
Derivatives	37,221	47,688
Fair value changes of the hedged items in portfolio hedge of interest rate risk	72	85
Intangible assets	2,331	2,114
Tangible assets		
- Properties and equipment	338	384
- Investment properties	4	2
Deferred tax assets	130	84
Current tax assets	234	58
Retirement benefit assets	243	258
Other assets	15,681	15,287
Prepaid expenses and accrued income	1,111	1,128
Total assets	**408,722**	**417,604**
Liabilities		
Deposits by credit institutions and central banks	51,427	51,735
Deposits and borrowing from the public	171,102	176,231
Debt securities in issue	82,667	72,460
Derivatives	40,591	46,118
Fair value changes of the hedge items in pf hedge of interest rate risk	536	552
Current tax liabilities	249	158
Other liabilities	21,257	28,720
Accrued expenses and prepaid income	1,330	1,196
Deferred tax liabilities	223	189
Provisions	352	412
Retirement benefit obligations	349	254
Subordinated liabilities	9,157	8,987
Total liabilities	**379,240**	**387,012**
Equity		
Share capital	4,050	4,050
Additional Tier 1 capital holders	750	750
Invested unrestricted equity	1,080	1,080
Other reserves	–150	1,235
Retained earnings	21,776	19,944
Profit or loss for the period	1,976	3,533
Total equity[2]	**29,482**	**30,592**
Total liabilities and equity	**408,722**	**417,604**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.
2) Including anticipated dividends of EUR 436m from its subsidiaries.

Nordea Bank Abp reports under Finnish GAAP. The columns labelled “Predecessor” include restated income statements of the former parent company Nordea Bank AB (publ). The columns labelled “Combined” include combinations of Nordea Bank Abp's reported income statements and restated income statements for the former parent company Nordea Bank AB (publ). When the former parent company Nordea Bank AB (publ) income statements have been restated to comply with Finnish GAAP, adjustments have been made so that the pension plans in Sweden are accounted for under IFRS, that changes to own credit risk on financial liabilities designated at fair value is recognised in equity, as well as to that the presentation of the income statement complies with Finnish requirements.

Cash flow statement

Operating activities	
Operating profit	1,344
Adjustment for items not included in cash flow	804
Income taxes paid	−252
Cash flow from operating activities before changes in operating assets and liabilities	**1,896**
Changes in operating assets	
Change in debt securities eligible for refinancing with central banks	3,250
Change in loans to central banks	−3,455
Change in loans to credit institutions	2,763
Change in loans to the public	7,884
Change in interest-bearing securities	−4,371
Change in financial assets pledged as collateral	2,283
Change in shares and perticipations	1,730
Change in derivatives, net	84
Change in investment properties	−1
Change in other assets	−566
Changes in operating liabilities	
Change in deposits by credit institutions	−8,742
Change in deposits and borrowings from the public	−9,434
Change in debt securities in issue	4,909
Change in other liabilities	−1,808
Cash flow from operating activities	**−3,578**
Investing activities	
Sale of business operation	48
Investment in associated undertakings and joint ventures	−8
Sale of associated undertakings and joint ventures	1
Acquisition of property and equipment	−3
Sale of property and equipment	2
Acquisition of intangible assets	−149
Cash flow from investing activities	**−109**
Financing activities	
Issued subordinated liabilities	−26
Cash flow from financing activities	**−26**
Cash flow for the year	**−3,713**
Cash and cash equivalents at 21 Sep 2017	–
Cash and cash equivalents through merger	−47,436
Translation difference	−27
Cash and cash equivalents at the end of year	43,750
Change	**−3,713**

Cash flow statement, cont.

Comments on the cash flow statement

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

Operating activities

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

EURm	2018
Depreciation and impairment charges	135
Loan losses	21
Unrealised gains/losses	–28
Capital gains/losses (net)	–13
Change in accruals and provisions	110
Translation differences	94
Other	485
Total	**804**

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	2018
Interest payments received	1,149
Interest expenses paid	–478

Investing activities

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

Financing activities

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

Cash and cash equivalents

The following items are included in Cash and cash equivalents:

EURm	31 Dec 2018
Cash and balances with central banks	39,562
Loans to central banks, payable on demand	2,429
Loans to credit institutions, payable on demand	1,759
Total	**43,750**

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

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

Loans to credit institutions, payable on demand include liquid assets not represented by bonds or other interest-bearing securities. Loans to central banks, payable on demand includes instruments where Nordea has the right to resell immediately.

Ratios and key figures

	2018
Return on equity, %	15.6
Return on assets, %	1.1
Cost/income ratio, %	45
Loan loss ratio, basis points	3
Common Equity Tier 1 capital ratio, excl. Basel I floor[1,2,3] %	16.0
Tier 1 capital ratio, excl. Basel I floor %[1,3]	17.9
Total capital ratio, excl. Basel I floor %[1,3]	20.6
Common Equity Tier 1 capital[1,2,3] EURm	24,059
Tier 1 capital[1,2,3] EURm	26,908
Risk exposure amount excl. Basel I floor[1,3] EURbn	150,226

1) End of the year.
2) Including result of the year.
3) Ratios are reported using the Basel III (CRR/CRDIV) framework.

Glossary

Allowances in relation to credit impaired loans (stage 3)
Allowances for impaired loans (stage 3) divided by impaired loans measured at amortised cost (stage 3) before allowances.

Allowances in relation to loans in stage 1 and 2
Allowances for non-impaired loans (stage 1 and 2) divided by non-impaired loans measured at amortised cost (stage 1 and 2) before allowances.

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

Loan loss ratio
Net loan losses for three months (annualised) divided by closing balance of loans to the public (lending) measured at amortised cost.

Return on equity
Annualised Net profit as a percentage of average equity. Average equity has been calculated as the average equity for the period 1 October 2018 - 31 December 2018. Additional Tier 1 capital, accounted for in equity, is in the calculation considered as being classified as a financial liability. Net profit excludes non-controlling interests and interest expense on Additional Tier 1 capital (discretionary interest accrued). Average equity including net profit and dividend until paid, and excludes noncontrolling interests and Additional Tier 1 capital.

Return on assets
Annualised Net profit as a percentage of total assets at 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 operational risks of the Group's undertakings, in accordance with regulations governing capital adequacy, excluding assets in insurance companies, 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 investments in insurance companies, 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.

P1. Accounting policies

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1. Basis for presentation

The financial statements for the parent company, Nordea Bank Abp, are prepared in accordance with the the Finnish Accounting Act, the Finnish Credit Institutions Act, the Decision of the Ministry of Finance on the financial statements and consolidated financial statements of credit institutions as well as Finnish Financial Supervision Authority's Regulations.

On 21 February 2019 the Board of Directors approved the financial statements, subject to final approval of the Annual General Meeting on 28 March 2019.

2. Nordea Bank Abp and its financial statements

Nordea Bank Abp was established 21 September 2017 and had no business activities before the merger date 1 October 2018. Nordea Bank Abp is the parent company of the Nordea Group.

The income statement figures presented in the financial statements and in the notes to the financial statements refer to the period October-December 2018. No comparison figures are disclosed as Nordea Bank Abp started its banking operations 1 October 2018. The official first accounting period of Nordea Bank Abp is 21 September 2017 - 31 December 2018.

Nordea Bank Abp reports under Finnish GAAP. In the Combined income statement presented in connection of the Financial statements the columns labelled "Predecessor" include restated income statements of the former parent company Nordea Bank Ab (publ). The columns labelled "Combined" include combinations of Nordea Bank Abp's reported income statements and restated income statements for the former parent company Nordea Bank AB (publ). When the former parent company Nordea Bank AB's (publ) income statement have been restated to comply with Finnish GAAP, adjustments have been made so that the pension plans in Sweden are accounted for under IAS19 allowed under Finnish GAAP, that changes to own credit risk on financial liabilities designated at fair value is recognised in Equity, as well as to that presentation of the income statement complies with Finnish requirements.

In the respective balance sheet the column "Predecessor" includes a restated balance sheet of the former parent company Nordea Bank AB (publ). When the former parent company Nordea Bank AB's (publ) balance sheet has been restated to comply with Finnish GAAP, adjustments have been made so that the pension plans in Sweden are accounted for under IAS19 allowed under Finnish GAAP, that changes to own credit risk on financial liabilities designated at fair value is recognised in equity, as well as to that presentation of the balance sheet complies with Finnish requirements.

3. Accounting policies and presentation

The new accounting requirements implemented by Nordea and their impact on the financial statements are described below.

IFRS 9 "Financial instruments"

The new standard IFRS 9 "Financial instruments" covers classification and measurement, impairment and general hedge accounting and replaces the earlier requirements covering these areas in IAS 39. The classification, measurement and impairment requirements in IFRS 9 were implemented by Nordea as from 1 January 2018. Nordea has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39 (see further description in section 8).

Classification and measurement

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

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

Nordea has analysed whether the cash flows from the financial assets held per 31 December 2017 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. For contacts signed after 1 January 2018 only restructured contracts are allowed to have SPPI non-compliant features and for restructured contracts the SPPI analysis is performed for each contact separately.

P1. Accounting policies, cont.

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 in 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. Under IAS 39 Nordea did not calculate collective provisions for off-balance sheet exposures.

The assets to test for impairment are 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 have individually calculated provisions, while for insignificant assets the assessment is based on a statistical model. In stage 1, the provisions equal the 12 months expected loss. In stage 2 and 3, the provisions 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. For assets held at transition, Nordea has 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 recognised after transition, changes to the lifetime Probability of Default (PD) are used as the trigger. Nordea has concluded it is not possible to calculate the lifetime PDs at origination without the use of hindsight for assets already recognised on the balance sheet at transition. For assets evaluated based on lifetime PDs, Nordea has 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 are also transferred to stage 2.

Nordea's model for calculating collective provisions under IAS 39 defined a loss event as one notch deterioration in rating/scoring, while the triggering event for moving items from stage 1 to stage 2 under IFRS 9 requires several notches deterioration.

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

For assets where there has been a significant increase in credit risk, Nordea earlier, under IAS 39, held provisions based on the losses estimated to occur during the period between the date when the loss event occurred and the date when the loss event is identified on an individual basis, the so called "Emergence period", while IFRS 9 requires provisions equal to the lifetime expected loss.

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

Impairment calculations under IFRS 9 requires more experienced credit judgement by the reporting entities than was required by IAS 39 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. Nordea has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39 (see further description in section 8). If Nordea instead had elected to apply the new hedge accounting requirement in IFRS 9 that would not have resulted in any significant impact on Nordea's financial statements, capital adequacy, large exposures, risk management or alternative performance measures. The reason is that Nordea generally uses macro (portfolio) hedge accounting.

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 frombthose involving estimations) that have the most significant impact on the amounts recognised in the financial statements.

Critical judgements and estimates are in particular associated with:

- the fair value measurement of certain financial instruments
- the impairment testing of:
  - loans to the public/credit institutions
- the effectiveness testing of cash flow hedges
- the actuarial calculations of pension liabilities and plan assets related to employees
- the classification of additional tier 1 instruments
- 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 Bank Abp'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 P44 "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

P1. Accounting policies, cont.

fair value (including the judgement of whether markets are active).

- The construction of fair value adjustments in order to incorporate relevant risk factors such as credit risk, model risk and liquidity risk.
- The judgement of which market parameters are observable.

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

In all of these instances, decisions are based upon professional judgement in accordance with Nordea's accounting and valuation policies. The fair value of financial assets and liabilities measured at fair value using a valuation technique, level 2 and 3 in the fair value hierarchy, was 119,786 EUR m in Nordea Bank Abp and EUR 70,099m respectively at the end of the year 2018

Sensitivity analysis disclosures covering fair values of financial instruments with significant unobservable inputs can be found in Note P44 "Assets and liabilities at fair value".

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

Impairment testing of loans to the public/credit institutions

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

Management is required to exercise critical judgements and estimates when calculating loan impairment allowances. Nordea Bank Abp's total lending before impairment allowances was EUR 221,021m at the end of the year. For more information, see Note P16 "Loans and impairment".

When calculating allowances for individually significant impaired loans, judgement is exercised to estimate the amount and timing of the expected cash flows to be received from the customers under different scenarios, including the valuation of any collateral received. Judgement is also applied when assigning the likelihood of the different scenarios occurring.

Judgement is exercised to assess when an exposure has experienced a significant increase in credit risk. If this is the case, the provision should reflect the lifetime expected losses, as opposed to a 12-month expected loss for exposures not having increased significantly in credit risk. Judgement is also exercised in the choice of modelling approaches covering other parameters used when calculating the expected losses, such as the expected lifetime used in stage 2, as well as in the assessment of whether the parameters based on historical experience are relevant for estimating future losses.

The statistical model used to calculate provisions are based on macro-economic scenarios, which requires management to exercise judgement when identifying such scenarios and when assigning the likelihood of the different scenarios occurring. Judgement is also exercised in the assessment of to what extent the parameters for the different scenarios, based on historical experience, are relevant for estimating future losses.

Effectiveness testing of cash flow hedges

Nordea Bank Abp'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 Bank Abp 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

The pension obligation in the parent company is calculated in accordance with IAS 19 "Employee benefits". For more information, see section 20 "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 Sweden, Norway and Denmark the discount rate is determined with reference to covered bonds and in Finland with reference to 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 P35 "Retirement benefit obligations" together with a description of the sensitivity to changes in assumptions. The defined benefit obligation of Nordea Bank Abp was EUR 349m at the end of the year.

Classification of additional tier 1 instruments

Nordea Bank Abp has issued perpetual subordinated instruments where the interest payments to the holders are at the discretion of Nordea Bank Abp and non-accumulating. Some of these instruments also include a requirement for Nordea Bank Abp pay interest if the instruments are no longer allowed to be included in tier 1 capital. If there is a requirement to pay interest based on the occurrence or non-occurrence of an uncertain future event that is beyond the control of both the issuer and the holder of the instrument, the instrument shall be classified as a financial liability. The inclusion of the subordinated loan in tier 1 capital is decided by the regulators and is thus beyond the control of Nordea Bank Abp and the holders of the instrument. Nordea Bank Abp classifies the instruments as financial liabilities. Instruments without such clauses are classified as equity as there is no requirement for Nordea Bank Abp to pay interest or principal to the holders of the instrument.

P1. Accounting policies, cont.

Valuation of deferred tax assets

Nordea Bank Abp's accounting policy for the recognition of deferred tax assets is described in section 19 "Taxes" and Note P13 "Taxes".

The valuation of deferred tax assets is influenced by management's assessment of Nordea Bank Abp's future profitability and sufficiency of future taxable profits and future reversals of existing taxable temporary differences. These assessments are updated and reviewed at each balance sheet date, and are, if necessary, revised to reflect the current situation.

The carrying amount of deferred tax assets was EUR 130m at the end of the year.

Claims in civil lawsuits

Within the framework of the normal business operations, Nordea Bank Abp faces a number of claims in civil lawsuits and disputes, most of which involve relatively limited amounts. Presently, none of the current disputes are considered likely to have any significant adverse effect on Nordea Bank Abp or its financial position. See also Note P34 "Provisions" and Note P40 "Contingent liabilities".

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 estimated future cash flows to the net 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 is classified as "Net result from securities trading and foreign exchange dealing" 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 securities trading and foreign exchange dealing", apart for derivatives used for hedging, including economical hedges of Nordea's funding, where such components are classified as "Net interest income".

Net fee and commission income

Nordea Bank Abp earns commission income from different services provided to customers. The recognition of commission income depends on the purpose for which the fees are received.

Asset management commissions are generally recognised over time as services are performed and are normally based on assets under management. These fees are recognised based on the passage of time as the amount, and the right to the fee, corresponds to the value received by the customer. Variable fees that are based on relative performance compared with a benchmark are in asset management rare and they are normally fixed and recognised at least each reporting date. Variable fees that are not fixed at the reporting date cannot generally be recognised as the outcome is uncertain and subject to market development.

Life & Pension commission income includes fee income, referred to as expense loading, from insurance contracts and investment contracts with policyholders. Investments contracts are contracts that do not include enough insurance risk to be classified as insurance contracts. The expense loading is the part of the premium income considered to be compensation for the contract administration. The fee income is recognised over time when the services are performed. These contracts do generally not include any up-front fees.

Fees categorised as Deposit Products, Brokerage, securities issues and corporate finance, Custody and issuer service and Payment commissions are recognised both over time and at a point of time dependent on when the performance obligations are satisfied. Card fees are categorised as interchange fees that are recognised at a point of time, when the customer uses the services, and cardholder fees that are recognised over time or at a point of time if the fee is transaction based.

Lending fees that are not part of the effective interest of a financial instrument are recognised at a point of time. The amount of loan syndication fees, as well as other transaction-based fees, received are recognised at a point when the performance obligation is satisfied, i.e. when the syndication or transaction has been performed. Fees received on bilateral transactions are generally amortised as part of the effective interest of the financial instruments recognised.

Income from issued financial guarantees, and expenses for bought financial guarantees, are amortised over the duration of the instruments and classified as "Fee and commission income" and "Fee and commission expense" respectively. Other fee income is generally transaction based.

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

Initial contract costs for obtaining contracts are recognised as an asset and amortised if the costs are expected to be recovered.

Net result from securities trading and foreign exchange dealing

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 securities trading and foreign exchange dealing" Realised and unrealised gains and losses derive from:

- Shares/participations and other share-related instruments
- Interest-bearing securities and other interest-related instruments
- Other financial instruments, including credit derivatives as well as commodity instruments/derivatives
- Foreign exchange gains/losses

Net results from securities trading

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

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 securities trading" 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" or "Impairment

P1. Accounting policies, cont.

on other financial assets" (see also the sub-sections "Net loan losses" and "Impairment on other financial assets" below).

Dividend received from trading shares are recognised in the income statement as "Net result from securities trading" and classified as "Shares/participations and other share related instruments" in the note. Income is recognised in the period in which the right to receive the payment is established.

Net result from foreign exchange dealing

Net gains and losses on trading in foreign currencies and the positive and negative exchange differences arising from translation into euro of assets, liabilities and the principal of currency swaps are recognised in "Net result from foreign exchange dealing". The period's proportion of gains and losses on measurement of forward foreign exchange contracts, currency futures and currency options are also included in this item. Foreign exchange differences arising from non-monetary held-for-sale assets are recognised in the fair value reserve under equity.

Net result from securities at fair value through other comprehensive income

The ineffective portion of cash flow hedges as well as recycled gains and losses on financial instruments classified into the category Financial assets at fair value through other comprehensive income are recognised in "Net result from securities at fair value through other comprehensive income". Losses as well as impairment on instruments classified into the category Financial assets at fair value through other comprehensive income are also included in this item.

Net result from hedge accounting

Income from hedge accounting is described in the separate section 8 Hedge accounting.

Net result from investment properties

Income and expenses from investment properties, such as rental income and expenses and sales gains and losses, regardless of whether the property is measured using the fair value method or the acquisition cost less depreciation and impairment loss are recognised in "Net result from investment properties". This item also includes items recognisable in profit or loss due to measurement method (depreciation according to plan and impairments, reversals of impairment or fair value changes).

Dividends

Dividends received from other than trading shares, are recognised in the income statement as "Dividends" Income is recognised in the period in which the right to receive payment is established.

Other operating income

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

Net loan losses

Impairment losses from financial assets classified into the category Amortised cost (see section 12 "Financial instruments"), in the items, "Loans to credit institutions", "Loans to the public" and "Interest-bearing securities" on the balance sheet, are reported as "Impairment losses on financial assets at amortised cost" together with losses from financial guarantees. Losses are reported net of any collateral and other credit enhancements. Nordea'Bank Abp's accounting policies for the calculation of impairment losses on loans can be found in section 13 "Loans to the public/credit institutions".

Counterparty losses on instruments classified into the category Financial assets at fair value through profit or loss, including credit derivatives but excluding loans held at fair value as described above are reported under Net result from securities trading.

Impairment losses on other financial assets

Impairment on investments in interest-bearing securities, classified into the category Financial assets at fair value through other comprehensive income, an on investments in group companies, associated undertakings and joint ventures are classified as "Impairment losses on other financial assets" in the income statement. The policies covering impairment of financial assets classified into the category Amortised cost are disclosed in section 12 "Financial instruments" and section 13 "Loans to the public/credit institutions".

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

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

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 (and an asset or a liability is recognised as "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 Bank Abp, i.e. on settlement date.

Loans where cash flows are modified or part of a restructuring are derecognised, and a new loan recognised, if the terms and conditions of the new loan is substantially different from the old loan. This is normally the case if the present

P1. Accounting policies, cont.

value of the cash flows of the new loan discounted by the original interest rate is more than 10% different from the present value of the remaining expected cash flows of the old loan. The same principles apply to financial liabilities.

In some cases, Nordea Bank Abp enters into transactions where it transfers assets that are recognised on the balance sheet but retains either all or a portion of risks and rewards from the transferred assets. If all or substantially all risks and rewards are retained, the transferred assets are not derecognised from the balance sheet.

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

For further information, see sections “Securities borrowing and lending agreements” and “Repurchase and reverse repurchase agreements” within section 12 “Financial instruments”, as well as Note P46 “Transferred assets and obtained collaterals”.

7. Translation of assets and liabilities denominated in foreign currencies

The functional currency of Nordea Bank Abp 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 denominated in foreign currencies 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 foreign exchange dealing”.

8. Hedge accounting

As a part of Nordea’s risk management policy, Nordea has identified a series of risk categories with corresponding hedging strategies using derivative instruments, as set out in the Market risk section in the chapter “Risk Management” in the Board of Directors’ report and Note P22.

When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, Nordea applies one of three types of hedge accounting:

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

Nordea has elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with the carve out version of IAS 39.

The EU carve out version 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.

At inception, Nordea formally documents how the hedging relationship meets the hedge accounting criteria, including the economic relationship between the hedged item and the hedging instrument, the nature of the risk, the risk management objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship on an ongoing basis.

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.

Transactions that are entered into in accordance with Nordea’s hedging objectives but do not qualify for hedge accounting, are economic hedge relationships.

Fair value hedge accounting

Fair value hedge accounting is applied used when derivatives are hedging changes in fair value of a recognised asset or liability attributable to a specific risk in accordance with the Market risk section in the chapter “Risk Management” in the Board of Directors’ report and Note P22. The risk of changes in fair value of assets and liabilities in Nordea’s financial statements originates mainly from loans, securities and deposits with a fixed interest rate, causing interest rate risk. Changes in fair value from derivatives as well as changes in fair value of the hedged item attributable to the risks being hedged are recognised separately in the income statement in the item “Net income from hedge accounting”. Given the hedge is effective, the change in fair value of the hedged item and the hedging instrument will offset.

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 Bank Abp is performed mainly on a portfolio basis. Any ineffectiveness is recognised in the income statement under the item “Net income from hedge accounting”.

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 Bank Abp consist of both individual assets or liabilities and portfolios of assets and/or liabilities.

Hedging instruments

The hedging instruments used in Nordea Bank Abp 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.

Hedge effectiveness

When assessing hedge effectiveness retrospectively Nordea measures the fair value of the hedging instruments and com-

P1. Accounting policies, cont.

pares 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.

If the hedging relationship does not fulfil the hedge accounting requirements, the 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.

Hedge ineffectiveness can arise from:

- Differences in timing of cash flows of hedged items and hedging instruments
- Different interest rate curves applied to discount the hedged items and hedging instruments
- The effect of changes in Nordea's or a counterparty's credit risk on the fair value of the hedging instrument or hedged items
- Disparity between expected and actual prepayments of the loan portfolio

Cash flow hedge accounting

In accordance with Nordea's risk management policies set out in the Market risk section in the chapter "Risk Management" in the Board of Directors' report and Note P22 cash flow hedge accounting is applied when hedging the exposure to variability 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 hedge accounting" in the income statement.

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

Hedged items

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

Hedging instruments

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

Hedge effectiveness

The hypothetical derivative method is used when measuring the effectiveness retrospectively 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 hedging relationship does not fulfil the hedge accounting requirements, the hedge accounting is terminated. 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.

The possible sources of ineffectiveness for cash flow hedges are generally the same as for those for fair value hedges described above. However, for cash flow hedges, prepayment risk is less relevant, and the causes of hedging ineffectiveness arise from the changes in the timing and the amount of forecast future cash flows.

Hedges of net investments

In accordance with Nordea's risk management policies set out in the Market risk section in the chapter "Risk Management" in the Board of Directors' report and Note P22, Nordea hedges its translation risk. Translation risk is defined as the risk of loss from equity capital investment in foreign operations that are denominated in a foreign currency other than the Group reporting currency (EUR). The hedging instruments used by Nordea are FX swaps.

Translation differences on financial instruments that are designated hedging instruments in a hedge of a net investment in a group undertaking are recognised in other comprehensive income, to the extent the hedge is effective. This is performed in order to offset the translation differences affecting other comprehensive income when consolidating the group undertaking into Nordea. Hedge ineffectiveness can arise to the extent the hedging instruments exceed in nominal terms the risk exposure from the foreign operations. Any ineffectiveness is recognised in the income statement in the item "Net result from items at fair value".

See also section 7 "Translation of assets and liabilities denominated in foreign currencies".

P1. Accounting policies, cont.

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 securities trading and foreign exchange dealing".

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

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

The trade frequency and volume are monitored regularly in order to assess if markets are active or non-active. Nordea Bank Abp is predominantly using published price quotations to establish fair value for items disclosed under the following balance sheet items:

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

If quoted prices for a financial instrument fail to represent actual and regularly occurring market transactions or if quoted prices are not available, fair value is established by using an appropriate valuation technique. The adequacy of the valuation technique, including an assessment of whether to use quoted prices or theoretical prices, is monitored on a regular basis.

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

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

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

For financial instruments, where fair value is estimated by a valuation technique, it is investigated whether the variables used in the valuation model are predominantly based on data from observable markets. By data from observable markets, Nordea Bank Abp 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 P44 "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 Bank Abp 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 P44"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. Debt securities eligible for refinancing with central banks

Debt securities eligible as collateral in central bank monetary operations are recognised as "Debt securities eligible for refinancing with central banks". Debt securities are included in this item based on properties of their own and not based on whether the entity is itself is eligible for refinancing with central banks.

Debt securities eligible for refinancing with central banks can be classified as financial assets as amortised cost, financial assets at fair value through profit or loss or financial assets at fair value through other comprehensive income.

12. Financial instruments

Classification of financial instruments

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

Financial assets:

- Amortised cost
- Financial assets at fair value through profit or loss:
  - Mandatorily measured at fair value through profit and loss
  - Designated at fair value through profit or loss (fair value option)
- Financial asset at fair value through other comprehensive income

P1. Accounting policies, cont.

Financial liabilities:
- Amortised cost
- Financial liabilities at fair value through profit or loss:
  - Mandatorily measured at fair value through profit and loss
  - Designated at fair value through profit or loss (fair value option)

The classification of a financial assets 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).

Financial assets with cash flows that are not solely payments of principle and interest (SPPI) are measured at fair value through profit and loss. All other assets are classified based on the business model. Instruments included in a portfolio with a business model where the intention is to keep the instruments and collect contractual cash flows are measured at amortised cost. Instruments included in a business model where the intention is to both keep the instruments to collect the contractual cash flows and sell the instruments are measured at fair value through other comprehensive income. Financial assets included in any other business model are measured at fair value through profit and loss.

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

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.

Amortised cost

Financial assets and liabilities measured at amortised cost are initially recognised on the balance sheet at fair value, including transaction costs. Subsequent to initial recognition, the instruments within this category are measured at amortised cost. In an amortised cost measurement, the difference between acquisition cost and redemption value is amortised in the income statement over the remaining term using the effective interest rate method. Amortised cost is defined as the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and for financial assets, adjusted for any loss allowance. For more information about the effective interest rate method see section 5, "Net interest income". For information about impairment under IFRS 9, see section 13 below.

Interest on assets and liabilities classified at amortised cost is recognised in the item "Interest income" and "Interest expense" in the income statement.

This category consists of mainly all loans and deposits, except for reversed repurchase/repurchase agreement and securities borrowing/lending agreements in Markets. This category also includes subordinated liabilities and debt securities in issue, except for issued structured bonds in Markets.

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 securities trading and foreign exchange dealing".

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

The sub-category Mandatorily measured at fair value through profit and loss contains mainly all assets in Markets, trading liabilities in Markets, interest-bearing securities included in part of the liquidity buffer, derivative instruments, shares and financial assets under "Assets in pooled schemes and unit-linked investment contracts". Deposits in pooled schemes and unit-linked investment contracts are contracts with customers and policyholders where the total risk is born by the policy holders. The deposits are invested in different types of financial asset on behalf of the customer and policyholders. Assets in pooled schemes and unit-linked investments are presented in the respective line item in the balance sheet.

Also, assets in pooled schemes and unit-linked investment contracts that are not mandatorily measured at fair value through profit and loss are classified into the category Designated at fair value through profit or loss to avoid an accounting mismatch with the related deposits. The deposits in pooled schemes and unit-linked investment contracts are managed at fair value and consequently also classified into the category Designated at fair value through profit or loss. The value of these deposits is directly linked to assets in the contacts and there is consequently no effect from changes in own credit risk in these contracts.

Nordea also applies the fair value option on issued structured bonds in Markets as these instruments include embedded derivatives not closely related to the host contract. The change in fair value on these issues structured bonds is recognised in profit and loss except for the changes in credit risk that is recognised in other comprehensive income.

Interest income and interest expense related to all balance sheet items held at fair value through profit and loss in Markets are classified as "Net result from securities trading and foreign exchange dealing".

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are measured at fair value plus transaction costs. This category mainly consists of the interest-bearing securities included in part of the liquidity buffer. Changes in fair values, except for interest, foreign exchange effects and impairment losses, are recognised in the fair value reserve in equity through other comprehensive income. Interest is recognised in the item "Interest income", foreign exchange effects in "Net result from securities trading and foreign exchange dealing" and impairment losses in the item "Net loan losses" in the income statement. When an instrument is disposed of, the fair value changes that previously have been accumulated in the fair value reserve in other comprehensive income are removed from equity and recognised in the income statement in the item "Net result from securities classified at fair value through other comprehensive income". For information about impairment under IFRS 9, see section 13 below.

P1. Accounting policies, cont.

Hybrid (combined) financial instruments

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

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

For index-linked bonds issued by Markets Nordea applies the fair value option and the entire combined instrument, host contract together with the embedded derivative, is measured at fair value through profit or loss. Changes in fair values are recognised in the income statement in the item "Net result from securities trading and foreign exchange dealing" and presented as "Debt securities in issue" on the balance sheet.

Securities borrowing and lending agreements

Generally, securities borrowing and securities lending transactions are entered into on a collateralised basis. Unless the risks and rewards of ownership are transferred, the securities are not recognised on or derecognised from the balance sheet. Securities in securities lending transactions are also disclosed in the item "Assets pledged as security for own liabilities".

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

Repurchase and reverse repurchase agreements

Securities delivered under repurchase agreements and securities received under reverse repurchase agreements are not derecognised from or recognised on the balance sheet.

Securities delivered under repurchase agreements are also disclosed in the item "Assets pledged as security for own liabilities" in note P38.

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

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

Derivatives

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

Realised and unrealised gains and losses from derivatives are recognised in the income statement in the item "Net result from securities trading and foreign exchange dealing".

Offsetting of financial assets and liabilities

Nordea Bank Abp 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. Derivative assets, derivative liabilities, cash collateral receivables and cash collateral liabilities against central counterparty clearing houses are offset on the balance sheet if the transaction currency and the central counterparty is the same. Derivative assets, derivative liabilities, cash collateral receivables and cash collateral liabilities related to bilateral OTC derivative transactions are not offset on the balance sheet.

In addition, loans and deposits related to repurchase and reversed repurchase transaction with CCP are offset on the balance sheet if the assets and liabilities relate to the same central counterparty, are settled in the same currency and have the same maturity date. Loans and deposit related to repurchase and reversed repurchase transactions that are made in accordance with the Global Master Repurchase Agreement (GMRA) are offset on the balance sheet if the assets and the liabilities relate to the same counterparty, are settled in the same currency, have the same maturity date and are settled through the same settlement institution.

Issued debt and equity instruments

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

13. Loans to the public/credit institutions

Scope

Financial instruments classified as Amortised cost or Fair value through other comprehensive income are in scope for recognising impairment due to credit risk. This includes assets recognised on the balance sheet as 'Cash and balances with central banks", "Debt securities eligible for refinancing with central banks", "Loans to credit institutions", "Loans to the public" and "Interest-bearing securities". These balance sheet lines also include assets classified as Fair value through profit or loss, which are not in scope for impairment calculations. See section 12 above and Note P43 on "Classification of financial instruments".

Off-balance sheet commitments, contingent liabilities and loan commitments are also in scope for impairment calculations.

P1. Accounting policies, cont.

Recognition and presentation

Amortised cost assets are recognised gross with an offsetting allowance for the expected credit losses if the loss is not regarded as final. The allowance account is disclosed net on the face of the balance sheet, but the allowance account is disclosed separately in the notes. Changes in the allowance account are recognised in the income statement and classified as "Impairment losses on financial assets at amortised cost".

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

Provisions for off-balance sheet exposures are classified as "Provisions" on the balance sheet, with changes in provisions classified as "Impairment losses on financial assets at amortised cost".

Assets classified as Fair value through other comprehensive income are recognised at fair value on the balance sheet. Impairment losses calculated in accordance with IFRS 9 are recognised in the income statement and classified as "Impairment on other financial assets". Any fair value adjustments are recognised in equity.

Impairment testing

Nordea Bank Abp classifies all exposures into stages on an individual basis. Stage 1 includes assets where there has been no significant increase in credit risk since initial recognition, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Nordea Bank Abp monitors whether there are indicators of exposures being credit impaired (stage 3) by identifying events that have a detrimental impact on the estimated future cash flows (loss event). Nordea Bank Abp applies the same definition of default as the Capital Requirements Regulation. More information on the identification of loss events can be found in the Risk, Liquidity and Capital management section in the Board of Directors' Report. Exposures without individually calculated allowances will be covered by the model based impairment calculation.

For significant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is made on an individual basis. The carrying amount of the exposure is compared with the sum of the net present value of expected future cash flows. If the carrying amount is higher, the difference is recognised as an impairment loss. The expected cash flows are discounted with the original effective interest rate and include the fair value of the collaterals and other credit enhancements. The estimate is based on three different forward-looking scenarios that are probability weighted to derive the net present value.

For insignificant exposures that have been individually identified as credit impaired, the measurement of the impairment loss is measured using the collective model described below but based on the fact that the exposures are already in default.

Model based allowance calculation

For exposures not impaired on an individual basis, a collective model is used for calculating impairment losses. The provisions are calculated as the exposure at default times the probability of default times the loss given default. For assets in stage 1 this calculation is only based on the coming 12 months, while it for assets in stage 2 and 3 are based on the expected lifetime of the asset.

The provisions for exposures where there has been no significant increase in credit risk since initial recognition are based on the 12-month expected loss (stage 1). Provisions for exposures where there has been a significant increase in credit risk since initial recognition, but that are not credit impaired, are based on the lifetime expected losses (stage 2). This is also the case for the insignificant credit impaired exposures in stage 3.

Nordea Bank Abp uses two different models to identify whether there has been a significant increase in credit risk or not. The change in internal rating and scoring data is used to determine whether there has been a significant increase in credit risk or not. Internal rating/scoring information is used to assess the risk of the customers and a deterioration in rating/scoring indicates an increase in the credit risk of the customer. Nordea has concluded it is not possible to calculate the lifetime PDs at origination without the use of hindsight for assets already recognised on the balance sheet at transition. Changes to the lifetime Probability of Default (PD) is used as the trigger for assets recognised after transition.

For assets evaluated based on lifetime PDs, Nordea uses a mix of absolute and relative changes in PD as the transfer criterion. Assets where the relative increase in lifetime PD is more than 250 percent is considered as having a significant increase in credit risk, or if the absolute increase in lifetime PD is more than 150 basis points. For assets where rating and scoring models are used, the change in rating/scoring notches is calibrated to match the significant increase in credit risk based on lifetime PD. In addition, customers with forbearance measures and customers with payments more than thirty days past due are also transferred to stage 2, unless already identified as credit impaired (stage 3). Exposures more than 90 days past due will normally be classified as stage 3, but this classification will be rebutted if there is evidence the customer is not in default. Such exposures will be classified as stage 2.

Nordea Bank Abp does not use the "low credit risk exemption" in the banking operations.

When calculating provisions, including the staging assessment, the calculation is based on probability weighted forward looking information. Nordea applies three macro-economic scenarios to address the non-linearity in expected credit losses. The different scenarios are used to adjust the relevant parameters for calculating expected losses and a probability weighted average of the expected losses under each scenario is recognised as provisions.

Write-offs

A write-off is a de-recognition of a loan or receivable from the balance sheet and a final realisation of a credit loss provision. When assets are considered as uncollectable they should be written off as soon as possible, regardless of whether the legal claim remains or not. A write-off can take place before legal actions against the borrower to recover the debt have been concluded in full. Although an uncollectable asset is removed or written-off from the balance sheet, the customer

P1. Accounting policies, cont.

remains legally obligated to pay the outstanding debt. When assessing the recoverability of non-performing loans and determining if write-offs are required, exposures with the following characteristics are in particular focus (list not exhaustive):

- Exposures past due more than 90 days. If, following this assessment, an exposure or part of an exposure is deemed as unrecoverable, it is written-off.
- Exposures under insolvency procedure where the collateralisation of the exposure is low.
- Exposures where legal expenses are expected to absorb proceeds from the bankruptcy procedure and therefore estimated recoveries are expected to be low.
- A partial write-off may be warranted where there is reasonable financial evidence to demonstrate an inability of the borrower to repay the full amount, i.e. a significant level of debt which cannot be reasonably demonstrated to be recoverable following forbearance treatment and/or the execution of collateral.
- Restructuring cases.

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 and modifications

In this context a restructured loan is defined as a loan where Nordea Bank Abp has granted concessions to the obligor due to its financial difficulties and where this concession has resulted in an impairment loss for Nordea Bank Abp. After a reconstruction the loan is normally regarded as not impaired if it performs according to the new conditions. In the event of a recovery the payment is reported as a recovery of loan losses.

Modifications of the contractual cash flows for loans to customers in financial distress (forbearance) reduce the gross carrying amount of the loan. Normally this reduction is less than the existing provision and no loss is recognised in the income statement due to modifications. If significant, the gross amounts (loan and allowance) are reduced. Assets taken over for protection of claims

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

At initial recognition, all assets taken over for protection of claims are recognised at fair value and the possible difference between the carrying amount of the loan and the fair value of the assets taken over is recognised as "Impairment losses on financial assets at amortised cost". The fair value of the asset on the date of recognition becomes its cost or amortised cost value, as applicable. In subsequent periods, assets taken over for protection of claims are valued in accordance with the valuation principles for the appropriate type of asset. Investment properties are then measured at fair value. Financial assets that are foreclosed are generally classified into the categories Fair value through profit or loss and measured at fair value. Changes in fair values are recognized in the income statement under the line "Net result from securities trading and foreign exchange dealing".

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

14. Leasing

Nordea as lessor

Finance leases

Nordea Bank Abp does not have finance leasing operations.

Nordea as lessee

Finance leases

Finance leases are recognised as assets and liabilities on the balance sheet at the amount equal to the fair value, or if lower, the present value of the minimum lease payments of the leased assets at the inception of the lease. The assets are reported in accordance with the nature of the assets. Lease payments are apportioned between finance charge and reduction of the outstanding liability. The finance charge is allocated to periods during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. A finance lease also gives rise to a depreciation expense for the leased asset. The depreciation policy is consistent with that of the assets in own use. Impairment testing of leased assets is performed following the same principles as for similar owned assets.

Operating leases

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

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

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

Embedded leases

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

P1. Accounting policies, cont.

15. Intangible assets

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

IT-development/Computer software

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

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

Customer related intangible assets

In business combinations a portion of the purchase price is normally allocated to a customer related intangible asset, if the asset is identifiable and under Nordea's control. An intangible asset is identifiable if it arises from contractual or legal rights, or could be separated from the entity and sold, transferred, licenced, rented or exchanged. The asset is amortised over its useful life, generally over 10 years.

Impairment

IT-development not yet taken into use is not amortised but tested for impairment annually irrespective of any indications of impairment. Impairment testing is also performed more frequently if required due to any indication of impairment. The impairment charge is calculated as the difference between the carrying amount and the recoverable amount.

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

The recoverable amount is the higher of fair value less costs to sell and the value in use of the asset or the cash-generating unit, which is defined as the smallest identifiable group of assets that generates largely independent cash flows in relation to other assets. For goodwill and IT-development not yet taken into use, the cash generating units are defined as the operating segments. The value in use is the present value of the cash flows expected to be realised from the asset or the cash-generating unit. The cash flows are assessed based on the asset or cash-generating unit in its current condition and discounted at a rate based on the long-term risk-free interest rate plus a risk premium (post tax). If the recoverable amount is less than the carrying amount, an impairment loss is recognised. See Note P23 "Intangible assets" for more information on the impairment testing.

16. Properties and equipment

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

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

Below follow the current estimates:

Buildings	30–75 years
Equipment	3–5 years
Leasehold improvements	Changes within buildings the shorter of 10 years and the remaining leasing term. New construction the shorter of the principles used for owned buildings and the remaining leasing term. Fixtures installed in leased properties are depreciated over the shorter of 10–20 years and the remaining leasing term.

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

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

17. Investment properties

Investment properties are primarily properties held to earn rent and/or capital appreciation. Nordea Bank Abp applies the fair value model for subsequent measurement of investment properties. The best evidence of a fair value is normally given by quoted prices in an active market for similar properties in the same location and condition. As these prices are rarely available discounted cash flow projection models based on reliable estimates of future cash flows are also used.

Net rental income, gains and losses as well as fair value adjustments are recognised directly in the income statement as "Net result from securities trading and foreign exchange dealing".

18. Assets and deposits in pooled schemes and unit-linked investment contracts

Deposit in pooled schemes and unit-linked investment contracts are contracts with customers and policyholders where the total risk is born by the customers or the policyholders. The deposits are invested in different types of financial assets on behalf of the customers and policyholders and are recognised in the respective balance sheet item.

Unit-Linked investment contracts include investment contracts written without any investment guarantees and that do not transfer sufficient insurance risk to be classified as insurance contracts.

The assets and deposits in these contracts are recognised

P1. Accounting policies, cont.

and measured at fair value as described in section 12 "Financial instrument" above.

19. 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 directly in equity, in which case the tax effect is recognised in other comprehensive income or in equity respectively.

Current tax is the expected 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, associated undertakings and joint ventures to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

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 Bank Abp 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 generally offset if there is a legally enforceable right to offset current tax assets and current tax liabilities.

20. Employee benefits

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

Short-term benefits

Short term benefits consist mainly of fixed and variable salary. Both fixed and variable salaries are expensed in the period when the employees have performed services to Nordea Bank Abp. Nordea has also issued share-based payment programmes, which are further described in section 23 "Share-based payment".

More information can be found in Note P8 "Staff costs".

Post-employment benefits

Pension plans

Nordea Bank Abp has various pension plans, consisting of both defined benefit pension plans and defined contribution pension plans, reflecting national practices and conditions in the countries where Nordea operates. Defined benefit pension plans are predominantly sponsored in Sweden, Norway and Finland. 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 in Denmark, but also plans in other countries, are based on defined contribution arrangements that hold no pension liability for Nordea. All defined benefit pension plans are closed for new employees. Nordea also contributes to public pension systems.

Pension costs

Obligations for defined contribution pension plans are recognised as an expense as the employee renders services to the entity and the contribution payable in exchange for that service becomes due. Nordea's net obligation for defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned for their service in the current and prior periods. That benefit is discounted to determine its present value. Actuarial calculations including the projected unit credit method are applied to assess the present value of defined benefit obligations and related costs, based on several actuarial and financial assumptions (as disclosed in Note P35 "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. Social security contribution is calculated and accounted for based on the net recognised surplus or deficit by plan and is included on the balance sheet as "Retirement benefit liabilities" or "Retirement benefit assets".

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. Covered bonds are in this context considered to be corporate bonds. In countries where no such market exists the discount rate is determined by reference to government bond yields. In Sweden, Norway and Denmark the discount rate is determined with reference to covered bonds and in Finland with reference to corporate bonds. In Sweden, Norway and Denmark the observed covered bond credit spreads over the swap curve is derived from the most liquid long

P1. Accounting policies, cont.

dated covered bonds and extrapolated to the same duration as the pension obligations using the relevant swap curves. In Finland the corporate bond credit spread over the government bond rate is extrapolated to the same duration as the pension obligation using the government bond curve.

Termination benefits

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

Termination benefits are expensed when Nordea Bank Abp has an obligation to make the payment. An obligation arises when there is a formal plan committed to on the appropriate organisational level and when Nordea Bank Abp 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 P8 "Staff costs".

21. Equity

Additional Tier 1 capital holders

Nordea Bank Abp has issued perpetual subordinated instruments where the interest payments to the holders are at the discretion of Nordea Bank Abp and non-accumulating. Some of these instruments also include a requirement for Nordea Bank Abp to pay interest if the instruments are no longer allowed to be included in tier 1 capital. If there is a requirement to pay interest based on the occurrence or non-occurrence of an uncertain future event that is beyond the control of both the issuer and the holder of the instrument, the instrument shall be classified as a financial liability. The inclusion of the subordinated loan in tier 1 capital is decided by the regulators and is thus beyond the control of Nordea and the holders of the instrument. Nordea classifies the instruments as financial liabilities. Instruments without such clauses are classified as equity as there is no requirement for Nordea to pay interest or principal to the holders of the instrument.

Other reserves

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

Retained earnings

Retained earnings include the undistributed profit from the previous years.

Treasury shares

Treasury shares are not accounted for as assets. Acquisitions of treasury shares are classified as deductions of "Retained earnings" on the balance sheet. Also, own shares in trading portfolios are classified as treasury shares. Divested treasury shares are recognised as an increase of "Retained earnings".

Contracts on Nordea shares that can be settled net in cash are either financial assets or financial liabilities.

22. Financial guarantee contracts and credit commitments

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

Premiums received for financial guarantees are, as stated in section 5 "Recognition of operating income and impairment", amortised over the guarantee period and recognised as "Fee and commission income" in the income statement. Premiums received on credit commitments are generally amortised over the loan commitment period. The contractual amounts are recognised off-balance sheet, financial guarantees in the item "Contingent liabilities" and irrevocable credit commitments in the item "Commitments".

23. Share-based payment

Equity-settled programmes

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

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

For more information see Note P8 "Staff costs".

Cash-settled programmes

Nordea has to defer payment of variable salaries under Nordic FSA's regulations and general guidelines, as is also the case with the Executive Incentive Programme (EIP). The deferred amounts are to some extent indexed using Nordea's TSR (Total Shareholders' Return) and these "programmes" are cash-settled share-based programmes. These programmes are fully vested when the payments of variable sal-

P1. Accounting policies, cont.

aries 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 securities trading and foreign exchange dealing".

For more information see Note P8 "Staff costs".

24. Related party transactions

Nordea Bank Abp defines related parties as:
- Shareholders with significant influence
- Group undertakings
- Associated undertakings and joint ventures
- 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 P8 "Staff costs".

Shareholders with significant influence
Shareholders with significant influence are shareholders that have the power to participate in the financial and operating decisions of Nordea Bank Abp but do not control those policies.

Group undertakings
Group undertakings are defined as the subsidiaries of the parent company Nordea Bank Abp. Further information on the undertakings included in the Nordea Group is found in Note P21 "Investments in group undertakings".

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

Associated undertakings and joint ventures
Associated undertakings and joint ventures are defined as the associated companies and joint ventures of the parent company Nordea Bank Abp.

Further information on the associated undertakings and the joint ventures is found in Note P20 "Investments in associated undertakings and joint ventures".

Key management personnel
Key management personnel include the following positions:
- The Board of Directors of Nordea Bank Abp
- The Chief Executive Officer (CEO)
- The Group Executive Management (GEM)

For information about compensation, pensions and other transactions with key management personnel, see Note P8 "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 Nordea Bank Abp as well as companies significantly influenced by close family members to these key management personnel. Other related parties also include Nordea's pension foundations.

Information concerning transactions between Nordea Bank Abp and other related parties is found in Note P48 "Related-party transactions".

25. Exchange rates

	Jan–Dec 2018
EUR 1 = SEK	
Income statement (average)	10.2608
Balance sheet (at end of year)	10.2330
EUR 1 = DKK	
Income statement (average)	7.4533
Balance sheet (at end of year)	7.4672
EUR 1 = NOK	
Income statement (average)	9.6033
Balance sheet (at end of year)	9.9470

P2. Segment reporting

Operating segments

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 Nordea the CODM has been defined as Group Executive Management. The main differences compared to the section "Business area results" in this report are that the information for CODM is prepared using plan exchange rates and to that different allocation principles between operating segments have been applied.

Basis of segmentation

Financial results are presented for the four main business areas Personal Banking, Commercial & Business Banking, Wholesale Banking, with further breakdown on operating segments, and for the operating segment Group Finance & Treasury. Group functions and eliminations as well as the result that is not fully allocated to any of the operating segments, are shown separately as reconciling items.

Reportable Operating segments

Personal Banking serves Nordea's household customers in the Nordic markets, through various channels offering a full range of financial services and solutions. The business area includes advisory and service staff, channels, product units, back office and IT under a common strategy, operating model and governance across markets. Commercial Banking service large corporate customers and Business Banking service small and medium-sized corporate customers. Commercial & Business Banking works with a relationship-driven customer service model with a customer-centric value proposition for Nordea's corporate customers. The Commercial & Business Banking area also consists of Transaction Banking, which services both personal and corporate customers across the Nordea Group. The unit includes Cards, Trade Finance, Nordea Finance, and Cash Management. Wholesale Banking provides banking and other financial solutions to large Nordic and international corporate, institutional and public companies. The division Corporate & Institutional Banking is a customer oriented organisation serving the largest globally operating corporates. This division is also responsible for Nordea's customers within the financial sector, and offers single products such as funds and equity products as well as consulting services within asset allocation and fund sales. The division Shipping, Offshore &Oil Services is responsible for Nordea's customers within the shipping, offshore and oil services industries and provides tailor made solutions and syndicated loan transactions. Group Finance & Treasury's main objective is to manage the Group's funding and to support the management and control of the Nordea Group. The main income in Group Finance & Treasury originates from Group Treasury & ALM.

P2. Segment reporting, cont.

Income statement

Oct–Dec 2018, EURm	Personal Banking	Commercial & Business Banking	Wholesale Banking	Group Finance & Treasury	Total operating segments	Reconciliation	Total Parent company
Net interest income	223	183	204	–34	576	66	642
Net fee and commission income	301	124	106	–7	524	–97	427
Net result from items at fair value	40	72	28	28	168	–16	152
Profit from associated undertakings and joint ventures accounted for under the equity method	0	0	0	0	0	0	0
Other income	62	21	12	1,170	1,265	–4	1,261
Total operating income	**626**	**400**	**350**	**1,157**	**2,533**	**–51**	**2,482**
Staff costs	–181	–86	–116	–33	–416	–200	–616
Other expenses	–278	–174	–89	8	–533	159	–374
Depreciation, amortisation and impairment charges of tangible and intangible assets	–40	–2	–26	–17	–85	–30	–115
Total operating expenses	**–499**	**–262**	**–231**	**–42**	**–1,034**	**–71**	**–1,105**
Profit before loan losses	**127**	**138**	**119**	**1,115**	**1,499**	**–122**	**1,377**
Net loan losses	–21	–15	14	0	–22	–11	–33
Operating profit	**106**	**123**	**133**	**1,115**	**1,477**	**–133**	**1,344**
Income tax expense	–	–	–	–	–	–211	–211
Net profit for the year	**106**	**123**	**133**	**1,115**	**1,477**	**–344**	**1,133**
Balance sheet 31 Dec 2018, EURbn							
Loans to the public	111	58	64	4	236	–82	154
Deposits and borrowings from the public	74	39	40	2	156	15	171

Reconciliation between total operating segments and financial statements

	Total operating income, EURm	Operating profit, EURm	Loans to the public, EURbn	Deposits and borrowings from the public, EURbn
EURm	Oct–Dec 2018	Oct–Dec 2018	31 Dec 2018	31 Dec 2018
Total Operating segments	2,533	1,477	236	156
Eliminations	–51	–133	–82	15
Total	2,482	1,344	154	171

Total operating income split on product groups

Total operating income, EURm	Oct–Dec 2018
Banking products	2,341
Capital Markets products	141
Total	**2,482**

Geographical information

	Total operating income, EURm	Assets, EURbn
	Oct–Dec 2018	31 Dec 2018
Sweden	1,109	102
Finland	562	110
Norway	342	64
Denmark	388	114
Other	81	19
Total	**2,482**	**409**

Banking products consists of three different product types. Account products include account based products such as lending, deposits, cards and Netbank services. Transaction products consists of cash management as well as trade and project finance services. Financing products include asset based financing through leasing, hire purchase and factoring as well as sales to finance partners such as dealers, vendors and retailers. Capital Markets products contains financial instruments, or arrangements for financial instruments, that are available in the financial marketplace, including currencies, commodities, stocks and bonds.

Nordea's main geographical markets comprise the Nordic countries. Revenues and assets are distributed to geographical areas based on the location of the customers operations.

P3. Net interest income

Interest income

EURm	Oct–Dec 2018[1]
Interest income calculated using the effective interest rate method	1,066
Other interest income	50
Interest income	**1,116**

EURm	Oct–Dec 2018[1]
Debt securities eligible for refinancing with central banks	108
Loans to credit institutions	131
Loans to the public	836
Interest-bearing securities	2
Derivatives	–11
Other interest income	50
Interest income	**1,116**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.

Interest expense

EURm	Oct–Dec 2018[1]
Deposits by credit institutions	–69
Deposits and borrowings from the public	–81
Debt securities in issue	–353
Derivatives	128
Subordinated liabilities	–92
Other interest expenses[2]	–7
Interest expense	**–474**
Net interest income	**642**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.
2) The net interest income from derivatives, measured at fair value and are related to Nordea's funding. This can have both a positive and negative impact on other interest expense, for further information see Note P1 "Accounting principles".

Interest from categories of financial instruments

EURm	Oct–Dec 2018[1]
Financial assets at fair value through other comprehensive income	62
Financial assets at amortised cost	1,015
Financial assets at fair value through profit and loss (related to hedging instruments)	–11
Interest income calculated using the effective interest rate method	**1,066**
Financial assets at fair value through profit and loss	**50**
Other interest income	**50**
Interest income	**1,116**
Financial liabilities at amortised cost	–602
Financial liabilities at fair value through profit and loss	128
Interest expenses	**–474**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.

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

P4. Net fee and commission income

EURm	Oct–Dec 2018[1]
Asset management commissions	105
- of which income	107
- of which expense	–2
Life & Pension	5
- of which income	5
- of which expense	–
Deposit Products	6
- of which income	6
- of which expense	–
Brokerage, securities issues and corporate finance	52
- of which income	101
- of which expense	–49
Custody and issuer services	17
- of which income	27
- of which expense	–10
Payments	75
- of which income	108
- of which expense	–33
Cards	41
- of which income	70
- of which expense	–29
Lending Products	85
- of which income	87
- of which expense	–2
Guarantees	46
- of which income	56
- of which expense	–10
Other	–5
- of which income	17
- of which expense	–22
Total	**427**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.

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 93m.

Fee income, not included in determining the effective interest rate, from fiduciary activities that result in the holding or investing of assets on behalf of customers amounts to EUR 214m. The corresponding amount for fee expenses is EUR –61m.

P5. Net result from items at fair value and net result from hedging instruments

Oct–Dec 2018[1], EURm	Total	of which unrealised	of which realised	of which OCI
Net result from items at fair value				
Equity related instruments[2]	57	321	–264	0
Interest related instruments and foreign exchange gains/losses	110	–211	321	8
Other financial instruments (including credit and commodities)	–15	–75	59	0
Total[1]	**152**	**35**	**116**	**8**
-Of which financial instruments held for trading	–190	–751	561	0
Net result from hedging instruments				
Financial instruments under fair value hedge accounting	0	145	–144	–1
- of which net result on hedging instruments	129	274	–145	–1
- of which net result on hedged items	–129	–129	0	-
Net result from categories of financial instruments				
Financial assets at fair value through other comprensive income	8		8	–
Financial liabilites designated at fair value throuh profit or loss	209	701	–492	–
Financial assets and liabilities mandatorily at fair value through profit or loss	–39	–305	265	–
Financial assets at amortised cost	–26	–43	17	–
Financial liabilities at amortised cost	–86	–86	0	–
Foreign exchange gains/losses excluding currency hedges	63	–255	318	–
Non-financial assets and liabilites	23	23	–	–
Total	**152**	**35**	**116**	–

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018
2) Of which EUR 10m is dividends from shares of which EUR 10m from shares held for trading. Dividends from shares measured at fair value through OCI is EUR 0m.

P6. Dividends

EURm	Oct–Dec 2018[1]
Dividends from group undertakings	**457**
Nordea Kredit Realkreditaktieselskab	213
Nordea Finance Finland Ltd	64
Nordea Finans Norge AS	21
Nordea Funds Ltd	159
Dividends from associated undertakings and joint ventures	**30**
Visa Sweden	30
Group Contributions	**666**
Nordea Hypotek AB	305
Nordea Investment Management AB	185
Nordea Finans Sverige AB	178
Currency translation differences from Group Contributions	–2
Gains from group undertakings	**14**
Total	**1,167**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

P7. Other operating income

EURm	Oct–Dec 2018[1]
Income from real estate	0
Other operational services	12
Other	82
Total	**94**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

P8. Staff costs

Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018. The staff cost note refers to the period October – December 2018.

EURm	Oct–Dec 2018
Salaries and remuneration (specification below)[1]	–508
Pension costs (specification below)	–58
Social security contributions	–95
Other staff costs[2]	45
Total	**–616**
Salaries and remuneration	
To executives[3]	
- Fixed compensation and benefits	–2
- Performance-related compensation	–2
- Allocation to profit sharing	0
Total	–4
To other employees	–504
Total	**–508**

1) Of which allocation to profit-sharing for Oct - Dec 2018 EUR 10m.
2) Comprising of capitalisation of IT-project with EUR 45m.
3) Executives include the Board of Directors (including deputies), CEO, deputy CEO, executive vice presidents and Group Executive Management in the parent company. Former board members (including deputies), CEOs, deputy CEOs, managing directors and executive vice presidents, in the parent company are included. Executives amount to 22 individuals.

Pension costs[1]

EURm	Oct–Dec 2018
Defined benefits plans (Note P35)[2]	–4
Defined contribution plans	–54
Total	**–58**

1) Pension cost for executives, as defined in footnote 3 above, amounts to EUR 0m and pension obligations to EUR 6m.
2) Excluding social security contributions. Including social security contributions EUR -6m.

Additional disclosures on remuneration under Nordic FSA regulations and general guidelines

The qualitative disclosures under these regulations can be found in the separate section on remuneration in the Board of Directors' 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 on 28 March 2019.

Remuneration to the Board of Directors, CEO and Group Executive Management

Board remuneration

The Annual General Meeting (AGM) 2018 resolved the annual remuneration to the Board of Directors (The Board) amounting to for the Chairman EUR 294,600, to the Deputy Chairman EUR 141,300 and to other members EUR 91,950.

In addition, annual remuneration paid for board committee work on the Compliance Committee, the Board Audit Committee and the Board Risk Committee amounts to EUR 48,650 for the committee chairmen and EUR 29,600 for the other members. The remuneration for board committee work on the Board Remuneration Committee amounts to EUR 36,050 for the committee chairman and EUR 25,750 for the other members.

Separate remuneration is not paid to members who are employees of the Nordea Group.

P8. Staff costs, cont.

Remuneration to the Board of Directors[1]

EUR	Oct–Dec 2018
Chairman of the Board:	
Björn Wahlroos	80,088
Vice Chairman of the Board:	
Lars G Nordström	42,725
Other Board members[2]:	
Nigel Hinshelwood	42,550
Torbjörn Magnusson	30,388
Robin Lawther	32,000
Sarah Russell	35,150
Silvija Seres	30,388
Birger Steen	35,150
Pernille Erenbjerg	30,388
Maria Varsellona	30,388
Total	**389,215**

1) The Board remuneration consists of a fixed annual fee and a fixed annual fee for committee work. The fees are approved in EUR and paid out in four equal instalments.
2) Employee representatives excluded.

There are no commitments for severance pay, pension or other remuneration to the members of the Board, except for a pension commitment to one Board member previously employed by Nordea.

Salary and benefits

The BRC prepares alterations in salary levels and outcome of GEM Executive Incentive Programme (GEM EIP) as well as other changes in the remuneration package for the Chief Executive Officer (CEO), the Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO) and members of Group Executive Management (GEM), for resolution by the Board.

GEM EIP 2018, which is based on specific targets, can be a maximum of 100% of the fixed base salary. In accordance with remuneration regulations 40% of GEM EIP 2018 will be paid out in 2019, 30% will be deferred to 2022 and 30% to 2024. When amounts are paid out 50% will be subject to retention for 12 months.

Benefits include primarily car benefits, tax consultation and housing.

Chief Executive Officer (CEO)

Casper von Koskull was appointed as CEO in Nordea Bank Abp from 1 October 2018. The remuneration to the CEO consists of three components: Fixed salary, GEM Executive Incentive Programme (GEM EIP) and benefits.

The annual fixed base salary as CEO was decided to be EUR 1,354,462 as from 1 October 2018.

GEM EIP 2018 is based on specific targets and can amount to a maximum of 100% of the fixed base salary. For October - December 2018 the outcome of the GEM EIP amounted to EUR 191,382.

The benefits for October - December 2018 amounted to EUR 67,085 and include primarily car benefits and tax consultation, housing (as from 1 October 2018) and costs related to relocation to Finland.

The total earned remuneration for October - December 2018, as CEO, based on the three components (excluding pension) amounted to EUR 639,577.

The CEO took part of the LTIPs from 2010 to 2012.

P8. Staff costs, cont.

Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO)
Torsten Hagen Jørgensen was appointed as Group COO in and Deputy CEO Nordea Bank Abp on 1 October 2018. The remuneration to the Group COO and Deputy CEO consists of three components: Fixed salary, GEM EIP and benefits.

The annual fixed base salary as Group COO and Deputy CEO was decided to be DKK 8,560,000 (EUR 1,148,487).

GEM EIP 2018 is based on specific targets and can amount to a maximum of 100% of the fixed base salary. For October - December 2018 the outcome of the GEM EIP amounted to EUR 325,887.

The benefits for October - December 2018 amounted to EUR 14,566 and include primarily housing benefits.

The total earned remuneration for October - December 2018, as Group COO and Deputy CEO, based on the three components (excluding pension) amounted to EUR 654,335.

The Group COO and Deputy CEO took part in the LTIPs until 2012.

Pension
Chief Executive Officer (CEO)
The CEO is, as from 1 October 2018, covered by the Finnish statutory pension scheme and in addition has a defined contribution plan corresponding to 8.5% of the fixed salary.

Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO)
The Group COO and Deputy CEO has a defined contribution plan. The pension contribution is 30% of the fixed base salary.

Group Executive Management (GEM)
The pension agreements for the other GEM members vary according to local country practices. Pension agreements are defined contribution plans or a combination of defined contribution and defined benefit plans.

As per 31 December 2018 three members have pensions in accordance with the Swedish collective agreement, one in BTP1 (defined contribution plan) and two in BTP2 (defined

Remuneration to the Chief Executive Officer and Group Executive Management (excl. LTIP)

Oct - Dec 2018, EUR	Fixed salary[1]	GEM Executive Incentive Programme[2]	Benefits[1]	Total
Chief Executive Officer (CEO):				
Casper von Koskull[3]	380,510	191,982	67,085	639,577
Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO):				
Torsten Hagen Jørgensen[4]	313,882	325,887	14,566	654,335
Group Executive Management (GEM):				
9 individuals excluding CEO and Deputy CEO[5]	1,425,680	1,175,071	18,878	2,619,629
Total	**2,120,072**	**1,692,940**	**100,529**	**3,913,541**

1) The fixed salary is paid in local currencies and converted to EUR based on the average exchange rate each year. The fixed salary includes holiday pay and car allowance where applicable. Benefits are included at taxable values after salary deductions (if any).
2) The outcome from GEM EIP 2018 has been expensed in full in 2018 but will be paid out over a five-year deferral period with forfeiture clauses compliant to remuneration regulations. The GEM EIP 2018 is indexed with Nordea's total shareholder return (TSR) excluding dividends during the deferral period.
3) The annual fixed base salary as CEO is in 2018 EUR 1,354,462. Benefits includes costs related to relocation to Finland of EUR 53,112.
4) The annual fixed base salary as Group COO and Deputy CEO is in 2018 DKK 8,560,000 (EUR 1,148,487). Car and holiday allowance amount to DKK 669,695 (EUR 89,852).
5) Remuneration to GEM members is included for the period they have been appointed. One GEM member has resigned as GEM member by 30 November 2018, before leaving Nordea. One new GEM members was appointed on 1 December 2018.

Long Term Incentive Programmes (LTIP) 2011–2012

	Number of outstanding shares[1]		
	LTIP 2012	LTIP 2011	Total
Chief Executive Officer (CEO):			
Casper von Koskull	19,312	7,501	26,813
Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO):			
Torsten Hagen Jørgensen	17,912	6,712	24,624
Total	**37,224**	**14,213**	**51,437**
Former Chief Executive Officer (Former CEO):			
Christian Clausen	27,413	10,362	37,775
Total	**64,637**	**24,575**	**89,212**

1) The LTIPs related to previous position in Nordea and were fully expensed in May 2015. All shares in LTIPs are fully vested and consequently not conditional. 60% of the vested shares are deferred with forfeiture clauses in line with regulatory requirements and allotted over a five-year period, for LTIP 2011 starting May 2014 and for LTIP 2012 starting May 2015. The number of outstanding shares are presented as of 31 December 2018. No other GEM members have outstanding LTIP shares by 31 December 2018.

P8. Staff costs, cont.

benefit plan), with complementing defined contribution plans on top of the collective agreement. The pension contribution is in total 30% of the fixed salary.

One member has pension in accordance with the local country statutory pension system in Finland. According to the statutory pension rules the part of GEM EIP 2017 outcome paid or retained in 2018 is included in the pensionable income.

Three members have a defined contribution plan in accordance with local practises in Denmark. The pension contribution is in total 30% of the fixed base salary.

Two members do not have a pension agreement with Nordea.

Notice period and severance pay

In accordance with the employment contract the CEO has a notice period of 12 months and Nordea a notice period of 12 months. The CEO has a severance pay equal to 12 months' salary to be reduced by the salary he receives from another employment during these 12 months.

The Group COO and Deputy CEO and nine GEM members have a notice period of 6 months and Nordea a notice period of 12 months. A severance pay of up to 12 months' salary is provided to be reduced by the salary the executive receives from another employment during the severance pay period.

Additional disclosures on remuneration

The Board of Directors report includes a separate section on remuneration, page 79.

Additional disclosures for all Nordea employees will be published in a separate report on www.nordea.com no later than one week before the Annual General Meeting 28 March 2019.

Loans to key management personnel

Loans to key management personnel, as defined in Note P1 section 25, amount to EUR 2m. Interest income on these loans amounts to EUR 0m.

For key management personnel who are employed by Nordea the same credit terms apply as for other employees. In Norway the employee interest rate for loans is variable and was 1.8% as 31 December 2018. In Finland the employee interest rate for loans corresponds to Nordea's funding cost with a margin of 30 basis points up to EUR 0.4m, and 60 basis points on the part that exceeds EUR 0.4m. In Sweden the employee interest rate on fixed- and variable interest rate loans is 215 basis points lower than the corresponding interest rate for external customers (with a lower limit of 50 basis points). There is currently a cap of 50 Swedish price base amounts both on fixed- and variable interest rate loans. For interest on loans above the defined caps, the same terms apply as for premium customers. 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.

Nordea shares held by the Board of Directors, CEO and Group Executive Management

At the end of 2018, number of Nordea shares held by the Board of Directors amounted to 177,855 and the CEO and Group Executive Management amounted to 299,518, in total 477,373 (0.011% of total shares). Key management personnel has no holdings of equity warrants or convertible bonds issued by Nordea Bank Abp.

Guarantees and other off-balance-sheet commitments

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

Pension expense and pension obligation

2018, EUR	Oct - Dec 2018 Pension expense[1]	31 Dec 2018 Pension obligation[2]
Board members[4]:		
Lars G Nordström	–	312,465
Chief Executive Officer (CEO):		
Casper von Koskull	27,411	357,936
Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO):		
Torsten Hagen Jørgensen	86,137	–
Group Executive Management (GEM):		
9 individuals excluding CEO and Deputy CEO[3]	239,464	777,583
Total	**353,012**	**1,447,984**
Former Chairman of the Board and CEOs:		
Vesa Vainio[5]	–	4,844,682
Total	**353,012**	**6,292,666**

1) The pension expense is related to pension premiums paid in defined contribution agreements and pension rights earned during October - December 2018 in defined benefit agreements (Current service cost and Past service cost and settlements as defined in IAS 19). Of the total pension expense EUR 345,179 relates to defined contribution agreements. Contributions to the Finnish statutory pension schemes are reported as part of the social charges and thus excluded from the above disclosure.

2) The pension obligation (value of defined benefit pension plan liabilities) is calculated in accordance with IAS 19. The obligation is dependent on changes in actuarial assumptions and inter annual variations can therefore be significant. IAS 19 includes an assumption about future increases in salary, which leads to that the pension obligations disclosed are the earned pension rights calculated using the expected salary levels at retirement. The pension plans are funded, meaning that these obligations are backed with plan assets with fair value generally on a similar level as the obligations.

3) Members of GEM included for the period they are appointed. The pension obligation is the value of pension liabilities towards three Swedish GEM members as of 31 December 2018.

4) Employee representatives excluded. The pension obligation is in accordance with the collective pension agreement BTP2 and earned during the employment period for one Swedish board member.

5) The pension obligation for Former Chairman of the Board and CEO is mainly due to defined benefit pension rights earned in, and funded by, banks forming Nordea.

P8. Staff costs, cont.

Long Term Incentive Programmes

Dec 2018	Matching Share	Performance Share I	Performance Share II
Rights LTIP 2012			
Outstanding at the beginning of the period	–	–	–
Through merger	49 608	148 824	49 608
Outstanding at end of year[1]	**49 608**	**148 824**	**49 608**
- of which currently exercisable	–	–	–
Rights LTIP 2011			
Outstanding at the beginning of the period	–	–	–
Through merger	31 563	52 736	14 203
Outstanding at end of year[1]	**31 563**	**52 736**	**14 203**
- of which currently exercisable	–	–	–

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

Cash-settled share-based payment transactions

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

In addition Nordea in 2013 introduced 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. The main part of EIP 2018 is paid no earlier than autumn 2022. 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 Remuneration section in the Board of Director's Report), within the Nordea Group. EIP is offered instead of Nordea's LTIP and VSP for the invited employees. The allocation of the EIP 2018 is decided during spring 2019, and a reservation of EUR 8m excl. social costs is made during Oct - Dec 2018. 80% of the allocated amount will be subject to TSR-indexation.

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

Share linked deferrals

Oct - Dec 2018, EURm	Share linked deferrals
Opening balance 21 Sep 2017	–
Through merger	138
Deferred/earned during the period	–
TSR indexation during the period	–20
Payments during the period	–40
Translation differences	–1
Closing balance 31 Dec 2018	**77**

Average number of employees

Oct - Dec 2018	Total	Men	Women
Full-time equivalents			
Finland	5,712	2,141	3,571
Sweden	6,254	3,098	3,156
Denmark	7,478	4,253	3,225
Norway	2,493	1,348	1,145
Poland	3,363	1,875	1,488
Other countries	596	230	366
Total average	**25,896**	**12,945**	**12,951**

Number of employees

Dec 2018	
Permanent Full time	23,071
Permanent Part time	1,224
Fixed Term	1,656
Total number of employees (FTE´s), end of period	**25,951**

Gender distribution

In the parent company's Board of Directors 50% were men and 50% were women. The corresponding numbers for Other executives were 82% men and 18% women. The employee representatives has been excluded.

P9. Other administrative expenses

EURm	Oct–Dec 2018[1]
Other personnel expenses	–24
Travelling	–19
Information technology	–121
Marketing and representation	–21
Postage, transportation, telephone and office expenses	–16
Other[2]	–73
Total	**–274**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

2) Including fees to auditors distributed as follows.

Auditor''s fees

EURm	Oct–Dec 2018[1]
PricewaterhouseCoopers	
Auditing assignments	–3
Audit-related services	0
Tax advisory services[3]	0
Other assignments[3]	0
Total	**–3**

3) Of which Tax advisory services EUR 0m and Other assignments EUR 0m refers to PricewaterhouseCoopers Oy.

P10. Other operating expenses

EURm	Oct–Dec 2018[1]
Rents, premises and real estate	–79
Fees to authorities[2]	–10
Other	–11
Total	**–100**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

2) Including Deposit Guarantee Scheme fee, resolution fee, supervisory fees, contribution to the Single Resolution Board and fees to Federation of Finnish Financial Services.

P11. Depreciation, amortisation and impairment charges of tangible and intangible assets

Depreciation/amortisation

EURm	Oct–Dec 2018[1]
Properties and equipment (Note P24)	
Equipment	–22
Total	**–22**
Intangible assets (Note P23)	
Goodwill	–17
Computer software	–44
Other intangible assets	–7
Total	**–68**

Impairment charges /reversed impairment charges

EURm	Oct–Dec 2018[1]
Intangible assets (Note P23)	
Computer software	–23
Other intangible assets	–2
Total	**–25**
Total depreciation/amortisation and impairment charges	**–115**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

P12. Net loan losses

Oct–Dec 2018[1], EURm Based on IFRS 9	Loans to central banks and credit institutions	Loans to the public	Off balance sheet items	Total
Net loan losses, stage 1	–1	11	8	18
Net loan losses, stage 2	–2	25	–3	20
Net loan losses, non-defaulted	**–3**	**36**	**5**	**38**
Stage 3, defaulted				
Net loan losses, individually asssed, model based[2]	6	7	–3	10
Realised loan losses	–	–106	–10	–116
Decrease of provisions to cover realised loan losses	–	66	10	76
Recoveries on previous realised loan losses	0	8	–	8
New/increase in provisions	–	–126	–15	–141
Reversals of provisions	–	82	31	113
Net loan losses, defaulted	**6**	**–69**	**13**	**–50**
Net loan losses	**3**	**–33**	**18**	**–12**

Oct–Dec 2018[1], EURm Based on IFRS 9	Net loan losses, individually assessed	Net loan losses, collectively assessed[2]	Reversals of provisions	Recoveries on previous realised loan losses	Write-offs	Total in Income Statement
Loans to central banks and credit institutions	6	–3	–	0	–	3
Loans to the public	–53	36	82	8	–106	–33
Guarantees and other off balance sheet items	–9	5	32	0	–10	18
Other	–	–	–	–	–	–
Net loan losses from loans measured at amortised cost	**–56**	**38**	**114**	**8**	**–116**	**–12**
Impairment on other financial assets						
Net loan losses from loans classified as Fair value through other comprehensive income	–	0	–	–	–	0
Impairments on shares and interests in group entities and participating interests	–	–	–	–	–21	–21
Total Impairment on other financial assets	**–**	**0**	**–**	**–**	**–21**	**–21**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.
2) Includes individually identified assets where the provision has been caclulated based on statistical models.

P13. Taxes

Income tax expense

EURm	Oct-Dec 2018[1]
Current tax	–134
Deferred tax	–77
Total	**–211**

The tax on the operating profit differs from the theoretical amount that would arise using the tax rate in Finland as follows:

EURm	Oct-Dec 2018[1]
Profit before tax	1,344
Tax calculated at a tax rate of 20.0%	–269
Effect of different tax rates in other countries	–27
Tax-exempt income	94
Non-deductible expenses	7
Tax relating to merged entity's prior periods	–11
Other	–5
Tax charge	**–211**
Average effective tax rate	16%

Deferred tax

EURm	Deferred tax assets 31 Dec 2018	Deferred tax liabilities 31 Dec 2018
Deferred tax related to:		
Tax loss carried forward	90	0
Loans to the public	20	0
Derivatives	–2	319
Properties and equipment	7	8
Intangible assests	0	40
Hedge of net investment in foreign subsidiaries	0	1
Retirement benefit assets/ obligations	32	25
Liabilities/provisions	63	0
Foreign tax credits	101	–
Other	1	12
Netting between deferred tax assets and liabilites	–182	–182
Total	**130**	**223**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018

P14. Debt securities eligible for refinancing with central banks

EURm	31 Dec 2018
Treasury bonds, notes and bills	16,719
Other	55,958
Total	**72,677**

P15. Loans to Credit Institutions

31 Dec 2018, EURm	Carrying amount	On-Demand	Non-Demand
Central Banks	7,272	2,429	4,843
Credit Institutions	57,500	1,759	55,741
Total	**64,772**	**4,188**	**60,584**

P16. Loans and impairment

EURm	31 Dec 2018
Loans measured at fair value through profit and loss	24,486
Loans measured at amortised cost, not impaired (stage 1 and 2)	192,646
Impaired loans (stage 3)	3,889
- of which servicing	1,977
- of which non-servicing	1,912
Loans before allowances	**221,021**
- of which central banks and credit institutions	64,772
Allowances for impaired loans (stage 3)	–1,469
- of which servicing	–657
- of which non-servicing	–812
Allowances for not-impaired loans (stage 1 and 2)	–361
Allowances	**–1,830**
- of which central banks and credit institutions	–15
Loans, carrying amount	**219,191**

Carrying amount of loans measured at amortised cost, before allowances

	Central banks and credit institutions				The public				Total			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 21 Sep 2017	–	–	–	–	–	–	–	–	–	–	–	–
Through merger	66,484	71	–	66,555	129,036	9,043	4,164	142,243	195,520	9,114	4,164	208,798
Origination and acquisition	3,413	2	–	3,415	11,534	3	48	11,585	14,947	5	48	15,000
Transfers between stage 1 and stage 2, (net)	–6	8	–	2	–1,087	1,137	–	50	–1,093	1,145	–	52
Transfers between stage 2 and stage 3, (net)	–	–	–	–	–	–86	169	83	–	–86	169	83
Transfers between stage 1 and stage 3, (net)	8	0	–	8	113	–	4	117	121	–	4	125
Repayments and disposals	–8,817	–50	–	–8,867	–15,991	–1,171	–373	–17,535	–24,808	–1,221	–373	–26,402
Write-offs	–	–	–	–	–	–	–105	–105	–	–	–105	–105
Translation differences	61	0	–	61	–959	–100	–18	–1,077	–898	–100	–18	–1,016
Closing balance at 31 Dec 2018	**61,143**	**31**	**–**	**61,174**	**122,646**	**8,826**	**3,889**	**135,361**	**183,789**	**8,857**	**3,889**	**196,535**

Movement of allowance accounts for loans measured at amortised cost

	Central banks and credit institutions				The public				Total			
EURm	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Opening balance at 21 Sep 2017	–	–	–	–	–	–	–	–	–	–	–	–
Through merger	–4	–5	–9	–18	–128	–257	–1,500	–1,885	–132	–262	–1,509	–1,903
Origination and acquisition	0	0	–	0	–5	0	–1	–6	–5	0	–1	–6
Transfers from stage 1 to stage 2	0	0	–	0	6	–38	–	–32	6	–38	0	–32
Transfers from stage 1 to stage 3	–	–	–	–	0	–	–8	–8	0	0	–8	–8
Transfers from stage 2 to stage 1	–	–	–	–	–3	19	–	16	–3	19	0	16
Transfers from stage 2 to stage 3	–	–	–	–	–	10	–50	–40	0	10	–50	–40
Transfers from stage 3 to stage 1	–	–	–	–	–1	–	3	2	–1	0	3	2
Transfers from stage 3 to stage 2	–	–	–	–	–	–3	7	4	0	–3	7	4
Changes in credit risk without stage transfer	–1	–2	3	0	7	27	–3	31	6	25	0	31
Repayments and disposals	0	0	3	3	7	10	9	26	7	10	12	29
Write-off through decrease in allowance account	–	–	–	–	–	–	66	66	0	0	66	66
Translation differences	0	0	0	0	0	0	11	11	0	0	11	11
Closing balance at 31 Dec 2018	**–5**	**–7**	**–3**	**–15**	**–117**	**–232**	**–1,466**	**–1,815**	**–122**	**–239**	**–1,469**	**–1,830**

P16. Loans and impairment, cont.

Allowances and provisions[1]

31 Dec 2018, EURm	Credit institutions	The public	Total
Allowances for items on the balance sheet	–15	–1,815	–1,830
Provisions for off balance sheet items	–	–201	–201
Total allowances and provisions	**–15**	**–2,016**	**–2,031**

1) Included in Note P34 "Provisions" as "Guarantees/Commitments".

Key ratios[1]

EURm	31 Dec 2018
Impairment rate, (stage 3) gross, basis points	198
Impairment rate, (stage 3) net, basis points	123
Total allowance rate (stage 1,2 and 3), basis points	93
Allowances in relation to credit impaired loans (stage 3), %	38
Allowances in relation to loans in stage 1 and 2, basis points	19

1) For definitions, see "Glossary" on page 192

Loans to public

31 Dec 2018, EURm	Loans before allowances	Allowances	Loans carrying amount
Non financial corporations	16,227	–258	15,969
Financial and insurance corporations	782	–1	781
General government	591	0	591
Households	13,383	–68	13,315
Non-profit institutions serving households	321	–2	319
Foreign Countries	124,930	–1,486	123,444
Total	**156,235**	**–1,815**	**154,419**

Assets subject to enforcement activities	31 Dec 2018
Amount outstanding on financial assets that were written off during the reporting period and are still subject to enforcement activity	0

Rating/scoring information on loans measured at amortised cost

Rating/ scoring grade	Average PD, %	Gross carring amount 31 Dec 2018			
		Stage 1	Stage 2	Stage 3	Total
7	0.01	8,772	113	–	8,885
6+ / A+	0.04	10,887	68	1	10,956
6 / A	0.05	8,798	69	1	8,868
6– / A–	0.08	7,455	132	2	7,589
5+ / B+	0.08	9,005	251	2	9,258
5 / B	0.17	15,356	294	1	15,651
5– / B–	0.22	11,951	366	3	12,320
4+ / C+	0.42	15,108	426	3	15,537
4 / C	0.60	15,870	514	3	16,387
4– / C–	1.15	13,210	704	3	13,917
3+ / D+	3.10	4,132	1,369	12	5,513
3 / D	5.72	2,506	968	13	3,487
3– / D–	8.5	2,037	920	11	2,968
2+ / E+	10.44	1,284	974	65	2,323
2 / E	16.6	526	569	17	1,112
2– / E–	20.87	252	232	3	487
1+ / F+	33.90	149	175	9	333
1 / F	32.90	133	147	15	295
1– / F–	31.83	321	441	24	786
0+ / 0 / 0–	100.00	120	98	3,701	3,919
Standardised/ Unrated	0.23	2,949	28	0	2,977
Internal[1]	–	52,967	–	–	52,967
Total		**183,788**	**8,858**	**3,889**	**196,535**

1) Exposures towards Nordea entities.

P17. Interest-bearing securities and subordinated receivables

Interest-bearing securities

31 Dec 2018, EURm	Carrying amount
Interest-bearing securities, Issued by public measured at fair values through P&L	16,054
- of which measured at fair value through P/L	15,621
- of which held for trading	2,675
Interest-bearing securities, Issued by public measured at fair value through OCI [2]	432
Interest-bearing securities, Issued by other borrowers measured at fair value through P&L	58,513
- of which measured at fair value through P/L	26,583
- of which held for trading	12,618
Interest-bearing securities, Issued by other borrowers measured at fair value through OCI [2]	31,680
Interest-bearing securities, Issued by other borrowers measured at amortized cost through P&L[1]	250
Total	**74,567**
- of which listed	27,923
- of which unlisted	46,644
- of which debt securities eligible for refinancing with central banks	72,677

1) Interest-bearing securities measured at amortized cost, not impaired (stage1) EUR 250m.
2) Interest-bearing securities measured at fair value through OCI, not impaired (stage1) EUR 31,572m of which allowances EUR 2m.

Subordinated receivables

31 Dec 2018, EURm	Carrying amount
Subordinated receivables	296
Total	**296**

P18. Financial instruments pledged as collateral

Financial instruments pledged as collateral

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

31 Dec 2018, EURm	
Treasury bonds, notes and bills	3,430
Interest-bearing securities	10,439
Total	**13,869**

For information on transferred assets, see Note P46 "Transferred assets and obtained collaterals".

P19. Shares and participations

31 Dec 2018, EURm	Listed	Unlisted	Carrying amount
Shares	4,034	734	4,768
- of which measured at fair value through P/L	4,034	734	4,768
- of which held for trading	2,402	–	2,402
Shares in group undertakings	–	45	45
Total	**4,034**	**779**	**4,813**
- of which under securities lending	–	–	–

Shares borrowed EUR 2,258m are not recognised in the balance sheet and hence are not included in the total amount.

P20. Investments in associated undertakings and joint ventures

31 Dec 2018, EURm	
Opening balance at 21 Sep 2017	–
Through merger	1,041
Acquisitions/capital contributions during the year	12
Sales during the year	–1
Translation differences	–2
Reclassifications	–1
Acquisition value at end of year	**1,049**
- of which listed shares	–

P21. Investments in group undertakings

31 Dec 2018, EURm	
Opening balance at 21 Sep 2017	–
Through merger	13,544
Revaluations under hedge accounting	–96
Sales during the year	–29
Reclassifications	6
Acquisition value at end of year	**13,425**
Opening balance at 21 Sep 2017	–
Through merger	–1,229
Impairment charges during the year	–21
Accumulated impairment charges at end of year	**–1,250**
Total	**12,175**
- of which listed shares	–

Nordea Bank Abp's branches

	Country
Nordea Danmark, filial af Nordea Bank Abp	Denmark
Nordea Abp, Estonian Branch	Estonia
Nordea Bank Abp, German branch	Germany
Nordea Bank Abp, New York Branch	USA
Nordea Bank Abp, Filial i Norge	Norway
Nordea Bank Abp, Polish Branch	Poland
Nordea Bank Abp, Singapore Branch	Singapore
Nordea Bank Abp, filial i Sverige	Sweden
Nordea Bank Abp, UK Branch	UK
Nordea Bank Abp, Shanghai Branch	China

P21. Investments in group undertakings, cont.

Specification

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

31 Dec 2018	Registration number	Domicile	Number of shares	Carrying amount 2018, EURm	Shareholding, %	Voting power of holding %
Nordea Kredit RealKreditaktieselskab	15134275	Copenhagen	17,172,500	2,946	100.0	100.0
Nordea Hypotek AB (publ)	556091-5448	Stockholm	100,000	2,305	100.0	100.0
Nordea Eiendomskreditt AS	971227222	Oslo	15,336,269	1,232	100.0	100.0
Fionia Asset Company A/S	31934745	Copenhagen	148,742,586	1,184	100.0	100.0
Nordea Finance Finland Ltd	0112305-3	Espoo	1,000,000	1,066	100.0	100.0
Nordea Mortgage Bank Plc	2743219-6	Helsinki	257,700,000	731	100.0	100.0
Nordea Life Holding AB	556742-3305	Stockholm	1 000	719	100.0	100.0
LLC Promyshlennaya Kompaniya Vestkon[1]	1027700034185	Moscow	4,601,942,680	311	100.0	100.0
Nordea Bank S.A.	B-14157	Luxembourg	1,000,000	237	100.0	100.0
Nordea Finans Norge AS	924507500	Oslo	63,000	424	100.0	100.0
Nordea Funds Ltd	1737785-9	Helsinki	3,350	385	100.0	100.0
Nordea Asset Management Holding AB	559104-3301	Stockholm	500	234	100.0	100.0
Nordea Finans Danmark A/S	89805910	Høje Taastrup	20,006	188	100.0	100.0
Nordea Finans Sverige AB (publ)	556021-1475	Stockholm	1,000,000	113	100.0	100.0
Nordea Essendropsgate Eiendomsforvaltning AS	986610472	Oslo	7,500	39	100.0	100.0
Nordea Markets Holding Company INC	36-468-1723	Delaware	1,000	20	100.0	100.0
Nordic Baltic Holding (NBH) AB	556592-7950	Stockholm	1,000	21	100.0	100.0
Privatmegleren	986386661	Oslo	12,000,000	10	100.0	100.0
Tomteutvikling Norge AS	999222862	Oslo	300	2	100.0	100.0
Danbolig A/S	13186502	Copenhagen	1	0	100.0	100.0
Structured Finance Servicer A/S	24606910	Copenhagen	2	1	100.0	100.0
Nordea Hästen Fastighetsförvaltning AB	556653-6800	Stockholm	1,000	0	100.0	100.0
Nordea Putten Fastighetsförvaltning AB	556653-5257	Stockholm	1,000	0	100.0	100.0
Nordea do Brasil Representações Ltda	51.696.268/0001-40	São Paulo, Brazil	116,215	0	100.0	100.0
First Card AS	963215371	Oslo	200	0	100.0	100.0
Bohemian Wrappsody AB	556847-8399	Stockholm	14,658,539	7	47.9	55.4
Tordarius AB	559107-6871	Stockholm	100	0	100.0	100.0
Nordea Vallila Fastighets Förvaltning Ab	1880368-8	Helsinki	1,000	0	100.0	100.0
Total				**12,175**		

1) Nominal value expressed in RUB, representing Nordea's participation in Vestkon. Combined ownership, Nordea Bank Abp directly 7.2% and indirecly 92.8% through LLC Promyshlennaya Kompaniya Vestkon.

P22. Derivatives and hedge accounting

Nordea enters into derivatives for trading and risk management purposes. Nordea may take positions with the expectation of profiting from favourable movements in prices, rates or indices. The trading portfolio is treated as trading risk for risk management purposes. Derivatives held for risk management purposes include hedges that either meet the hedge accounting requirements or hedges that are economic hedges, but do not meet the hedge accounting requirements. The table below shows the fair values of derivative financial instruments together with their notional amounts. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicative of either the market or credit risk.

	Fair value		
31 Dec 2018, EURm	Positive	Negative	Total nom. amount
Derivatives not used for hedge accounting	35,146	40,008	6,743,740
Fair value hedges	947	259	91,096
Cash flow hedge	1,128	324	18,433
Total derivatives	**37,221**	**40,591**	**6,853,269**

P22. Derivatives and hedge accounting, cont.

Derivatives not used for hedge accounting

31 Dec 2018, EURm	Fair value Positive	Fair value Negative	Total nom. amount
Interest rate derivatives			
Interest rate swaps	17,633	18,573	3,958,802
FRAs	26	8	1,036,172
Futures and forwards	19	29	144,285
Options	5,341	6,042	384,585
Other	0	7	5,724
Total	**23,019**	**24,659**	**5,529,568**
of which internal transactions	138	991	102,292
Equity derivatives			
Equity swaps	192	138	10,886
Futures and forwards	4	2	1,255
Options	303	638	15,273
Total	**499**	**778**	**27,414**
- of which internal transactions			
Foreign exchange derivatives			
Currency and interest rate swaps	6,156	9,414	410,046
Currency forwards	4,817	4,284	625,256
Options	108	116	19,879
Other	-	-	-
Total	**11,081**	**13,814**	**1,055,181**
- of which internal transactions	133	143	4,067
Other derivatives			
Credit default swaps (CDS)	537	755	130,921
Commodity derivatives	0	0	92
Other derivatives	10	2	564
Total	**547**	**757**	**131,577**
- of which internal transactions			
Total derivatives not used for hedge accounting	**35,146**	**40,008**	**6,743,740**
- of which internal transactions	271	1,134	106,359

Hedge Accounting

Risk management

Nordea manages its identified market risks according to the risk management framework and strategy described in the Market risk section in the chapter "Risk management" in the Board of Director's report.

Nordea classifies its exposures to market risk into either trading (the Trading Book) or non-trading (the Banking Book) portfolios and are managed separately.

The 'Trading Book' consists of all positions in financial instruments held by Nordea either with trading intent, or in order to hedge positions held with trading intent. Positions held "with trading intent" are those held intentionally for short-term resale or with the intention of benefiting from actual or expected short-term price differences between buying and selling prices, or from other price or interest rate variations.

The Banking Book comprises all positions not held in the Trading Book. All hedges qualifying for hedge accounting are performed in the Banking Book. The hedging instruments and risks hedged are futher described below per risk and hedge accounting type.

Interest rate risk

Nordea's primary business model is to collect deposits and use these funds to provide loans and other funding products and debt instruments to its customers. Interest rate risk is the impact that changes in interest rates could have on Nordea's margins, profit or loss, and equity. Interest risk arises from mismatch of interest from interest bearing liabilities and assets such as deposits, issued debt, securities and loan portfolio.

As part of Nordea's risk management strategy, the Board has established limits on the non–trading interest rate gaps for the interest rate sensitivities. These limits are consistent with the Nordea's risk appetite and Nordea aligns its hedge accounting objectives to keep exposures within those limits. Nordea's policy is to monitor positions on a daily basis. For further information on measurement of risks, see the Market risk section in the chapter "Risk management" in the Board of Directors' report.

For hedge accounting relationships related to interest a risk, the hedged item is the benchmark rate. The hedging ratio is one to one and is established by matching the notional of the derivatives against the principle of the hedged item.

The benchmark rate is determinded as a change in present value of the future cash flows using benchmark rate discount curves. The benchmark rate is separately identifiable and reliably measurable and is typically the most significant component of the overall change in fair value or cash flows.

Fair value hedges

In order to reduce or eliminate changes in the fair value of financial assets and financial liabilities due to movements in interest rates, Nordea enters into fair value hedge relationships as described in Note P1 section 9. Nordea uses pay fixed/receive floating interest rate swaps to hedge its fixed rate debt instruments and loans and pay floating/receive fixed interest rate swaps to hedge its fixed rate liabilities. There is an economic relationship between the hedged item and the hedging instrument as the terms of the interest rate swap match the terms of the fixed rate loan (i.e. notional amount, maturity, payment and reset dates).

In the below table, the accumulated fair value adjustments arising from continuing hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

Hedged items

2018, EURm	Interest rate risk
Fair value hedges	
Carrying amount of hedged assets[1]	29,422
- of which accumulated amount of fair value hedge adjustment[3]	72
Carrying amount of hedged liabilties[2]	38,819
- of which accumulated amount of fair value hedge adjustment[3]	536

1) Presented on the balance sheet row Loans to central banks, Loan to credit institutions, Loans to the public, Interest-bearing securities and Fair value changes of portoflio hedge of interest rate risk.

2) Presented on the balance sheet row Deposit by credit institution, Deposit and borrowing from the public, Debt securities in issue and Fair value changes of portfolio hedge of interest rate risk.

3) Of which related to continuing portfolio hedges of interest rate rist.

P22. Derivatives and hedge accounting, cont.

The following table provides information about the hedging instruments included in the line item Derivatives on the balance sheet:

Derivatives used for hedge accounting

	Fair value		
31 Dec 2018, EURm	Positive	Negative	Total nom. amount
Fair value hedges			
Interest rate risk	947	259	91,096
- of which internal transactions	14	10	1,132

The below table presents the changes in the fair value of the hedged items and changes in fair value of the hedging instruments used as the basis for recognising ineffectiveness. These changes are recognised on the row "Net result from hedge accounting" in the income statement.

Hedge ineffectiveness

31 Dec 2018, EURm	Interest rate risk
Fair value hedges	
Changes in fair value of hedging instruments	71
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	–78
Hedge ineffectiveness recognised in the income statement[1]	–7

1) Recognised on the row Net result from items at fair value.

Cash flow hedges

For Nordea's cash flow hedge accounting relationships, the hedged risk is the variability in future interest cash flows due to changes in market interest rates. In order to reduce or eliminate variability in future interest payments, Nordea primarily uses interest rate swaps and cross currency interest rate swaps as hedging instruments according to Nordea's policies and risk management strategy described in Note P1 section 9 and in the Market risk section in the chapter "Risk management" in the Board of Directors' report.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the interest rate swaps and cross currency swaps match the terms of the future interest cash flows (i.e. notional amount and expected payment date).

The below tables provide information about the hedging instruments as well as the outcome of the cash flow hedges addressing interest rate risk including the notional and the carrying amounts of the hedging instruments and the changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions:

Derivatives used for hedge accounting

	Fair value		
31 Dec 2018, EURm	Positive	Negative	Total nom. amount
Cash flow hedges			
Interest rate risk	10	2	190
- of which internal transactions	–	–	–

In the below table, the fair value adjustments arising from continuing hedge relationships, irrespective of whether there has been a change in hedge designation during the year are specified.

Hedge ineffectiveness

2018, EURm	Interest rate risk
Cash flow hedges	
Changes in fair value of hedging instruments	1
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	–1
Hedge ineffectiveness recognised in the income statement[1]	0
Hedging gains or losses recognised in OCI	1

1) Recognised on the row Net result from hedge accounting

Cash flow hedge reserve

2018, EURm	Interest rate risk
Opening balance at 21 Sep 2017	–
Through merger	1
Cash flow hedges:	
- Valuation gains/losses during the year	1
- Tax on valuation gains/losses during the year	0
- Transferred to the income statement during the year	–1
- Tax on transfers to the income statement during the year	0
Other comprehensive income, net of tax	0
Total comprehensive income	0
Balance at 31 Dec 2018	**1**
- of which relates to continuing hedges for which hedge accounting is applied	0
- of which relates to hedging relationships for which hedge accounting is no longer applied	0

The maturity profile of Nordea's hedging instruments used to hedge interest rate risk (both fair value and cash flow hedge accounting) follows below:

Maturity profile of the nominal amount of hedging instrumens

31 Dec 2018, EURm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instrument hedging interest rate risk	–	1,691	10,894	59,491	16,590	88,666
Total	**–**	**1,691**	**10,894**	**59,491**	16,590	**88,666**

P22. Derivatives and hedge accounting, cont.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. FX risk from trading activities is limited through a VaR limit while FX risk from structural exposures as described below are limited through a stress loss limit for the CET1-ratio impact from FX fluctuations in a severed but plausible stress scenario (see the Market risk section in the chapter “Risk management” in the Board of Directors report).

Nordea’s issuance of credits and borrowing can be denominated in the currency of the borrower or investor. Borrowing, investing and lending are not always executed in the same currency and thus exposes Nordea to a foreign exchange risk. Differences in exposures to individual currencies that exist between different transactions are matched by predominantly entering into cross currency interest rate swaps. 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.

In addition to the above, Nordea also has exposure to structural foreign currency risk through its foreign operations that have a functional currency other than Nordea’s presentation currency, EUR (i.e. a translation risk). Fluctuation of the spot exchange rates will cause Nordea’s reported net investment in foreign operations to vary and the CET1-ratio to fluctuate from the currency mismatch between equity and Risk Exposure Amounts (REA). Nordea applies hedge accounting when it hedges its investments in fully consolidated foreign operations whose functional currency is not EUR.

For hedge accounting relationships related to currency risk, the hedeged item is foreign currency component. The hedging ratio is 1:1 and is established by matching the notional of the derivatives against the principal of the hedged item.

The currency component is determined as the change in present value of the future cash flows using foreign exchange curves. The foreign currency component is separately identifiable and reliably measurable and is typically the most significant component of the overall change in fair value of cash flows.

Cash flow hedges

The below tables provide information about the hedging instruments as well as the outcome of the cash flow hedges addressing currency risks including the notional and the carrying amounts of the hedging instruments and the changes in fair values used for measuring hedge ineffectiveness separately showing the effective and ineffective portions.

Derivatives used for hedge accounting

31 Dec 2018, EURm	Fair value Positive	Fair value Negative	Total nom. amount
Cash flow hedges			
Foreign exchange risk	1,118	322	18,243
Total derivatives used for hedge accounting	**1,118**	**322**	**18,243**
-of which internal transactions	–	–	–

In the below table, the fair value adjustments arising from continuing hedge relationships, irrespective of whether there has been a change in hedge designation during the year are specified.

Hedge ineffectiveness

Dec 2018, EURm	Foreign exchange risk
Cash flow hedges	
Changes in fair value of hedging instruments	549
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	– 549
Hedge ineffectiveness recognised in the income statement[1]	–
Hedging gains or losses recognised in OCI	549

1) Presented on the balance sheet row Loans to central banks, Loan to credit institutions, Loans to the public, Interest-bearing securities and Fair value changes of portoflio hedge of interest rate risk.

Cash flow hedge reserve

2018, EURm	Foreign exchange risk
Cash flow hedges	
Opening balance at 21 Sep 2017	–
Through merger	–29
Cash flow hedges:	
Valuation gains/losses during the year	**549**
Tax on valuation gains/losses during the year	–130
Transferred to the income statement during the year	–523
Tax on transfers to the income statement during the year	124
Other comprehensive income, net of tax	20
Balance at 31 Dec 2018	–9
– of which relates to continuing hedges for which hedge accounting is applied	–9
– of which relates to hedging relationships for which hedge accounting is no longer applied	–

Maturity profile of the nominal amount of hedging instrumens

31 Dec 2018, EURm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	–	1,987	3,296	12,911	2,669	20,863
Total	**–**	**1,987**	**3,296**	**12,911**	**2,669**	**20,863**

P23. Intangible assets

Intangible assets	
Goodwill allocated to cash generating units	
Personal Banking	119
Commercial and Business Banking	75
Total goodwill	**194**
Computer software	2,099
Other intangible assets	38
Total intangible assets	**2,331**

Movements in goodwill	
Opening balance at 21 Sep 2017	–
Through merger	318
Acquisition value at end of year	**318**
Opening balance at 21 Sep 2017	0
Through merger	–107
Amortisation according to plan for the year	–17
Accumulated amortisation at end of year	**–124**
Total	**194**

Movements in computer software	
Opening balance at 21 Sep 2017	–
Through merger	2,505
Acquisitions during the year	154
Sales/disposals during the year	–1
Reclassifications	0
Translation differences	–6
Acquisition value at end of year	**2,652**
Opening balance at 21 Sep 2017	–
Through merger	–460
Amortisation according to plan for the year	–44
Accumulated amortisation on sales/disposals during the year	1
Translation differences	1
Accumulated amortisation at end of year	**–502**
Opening balance at 21 Sep 2017	–
Through merger	–26
Accumulated impairment charges on sales/disposals during the year	–2
Impairment charges during the year	–23
Accumulated impairment charges at end of year	**–51**
Total	**2,099**

Movements in other intangible assets

31 Dec 2018, EURm	
Opening balance at 21 Sep 2017	–
Through merger	227
Acquisitions during the year	2
Translation differences	–1
Acquisition value at end of year	**228**
Opening balance at 21 Sep 2017	–
Through merger	–182
Amortisation according to plan for the year	–7
Translation differences	0
Accumulated amortisation at end of year	**–189**
Opening balance at 21 Sep 2017	–
Accumulated impairment charges on disposals during the of year	0
Impairment charges during the year	–1
Accumulated impairment charges at end of year	**–1**
Total	**38**

P24. Properties and equipment

31 Dec 2018, EURm	
Properties and equipment	338
- of which buildings for own use	2
Total	**338**

Movements in equipment	
Opening balance at 21 Sep 2017	–
Acquisitions during the year	3
Through merger	983
Sales/disposals during the year	–4
Reclassification	0
Translation differences	–4
Acquisition value at end of year	**978**
Opening balance at 21 Sep 2017	–
Accumulated depreciation on sales /disposals during the year	5
Depreciations according to plan for the year	–22
Through merger	–625
Reclassifications	0
Translation differences	2
Accumulated depreciation at end of year	**–640**
Total	**338**

P25. Investment properties

31 Dec 2018, EURm	
Opening balance at 21 Sep 2017	–
Throug merger	4
Acquisitions during the year	1
Sales/disposals during the year	–1
Fair value adjustments	0
Transfers/reclassifications during the year	0
Translation differences	0
Carrying amount at end of year	**4**

Amounts recognised in the income statement[1]

31 Dec 2018, EURm	
Fair value adjustments	0
Direct operating expenses that did not generate rental income	0
Total	**0**

1) Included in Net result from investment properties.

The method applied when calculating fair value is a rate of return calculation, based on internal models. As a supplement to these values, appraisals were obtained from independent external valuers for parts of the investment properties.

Approximately 75% of the investment properties are valued using internal models based on a rate of return calculation. For the remaining 25% of the investment properties, appraisals were obtained from independent external valuers

P26. Leasing

Nordea as a lessee

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

31 Dec 2018, EURm	
2019	186
2020	156
2021	124
2022	99
2023	80
Later years	718
Total	**1,363**

Total sublease payments expected to be received under non-cancellable subleases amounts to EUR 12m.

P27. Other assets

31 Dec 2018, EURm	
Claims on securities settlement proceeds	2,753
Cash/margin receivables related to derivatives	10,220
Other[1]	2,708
Total	**15,681**

1) Includes cash items in the process of collection 144m.

P28. Prepaid expenses and accrued income

31 Dec 2018, EURm	
Accrued interest income	222
Other accrued income	175
Prepaid expenses	714
Total	**1,111**

P29. Deposits by credit institutions and central banks

31 Dec 2018, EURm	
Central banks	16,456
Credit institutions	34,971
- of which on-demand	7,878
- of which non-demand	27,093
Total	**51,427**

P30. Deposits and borrowings from the public

31 Dec 2018, EURm	
Deposits[1]	166,372
Repurchase agreements	4,730
Total	**171,102**

1) Deposits related to individual pension savings (IPS) are also included.

P31. Debt securities in issue

31 Dec 2018, EURm	Total	Amortized cost	Fair value
Certificates of deposit	29,693	29,693	–
Commercial papers	17,078	17,078	–
Other bonds	35,849	32,645	3,204
Other	47	47	–
Total	**82,667**	**79,463**	**3,204**

P32. Other liabilities

31 Dec 2018, EURm	
Liabilities on securities settlement proceeds	1,557
Sold, not held, securities	13,223
Cash items in the process of collection	2,312
Accounts payable	67
Cash/margin payables related to derivatives	4,290
Other	–192
Total	**21,257**

P33. Accrued expenses and prepaid income

31 Dec 2018, EURm	
Accrued interest	6
Other accrued expenses	1,122
Prepaid income	202
Total	**1, 330**

P34. Provisions

31 Dec 2018, EURm	
Restructuring	150
Guarantees/commitments	201
Other	1
Total	**352**

EURm	Restruc-turing	Other
Opening balance at 21 Sep 2017	–	–
Through merger	144	4
New provisions made	24	–1
Provisions utilised	–27	–1
Reversals	9	0
Translation differences	0	0
At end of year	**150**	**2**

New provisions for restructuring costs were recognised to EUR 24m. The change in restructuring provisions is following the transformation agenda of Nordea. The majority of the provision is expected to be used during 2019. As with any other provision there is an uncertainty around timing and amount, which is expected to be decreased as the plan is being executed. For further information see Board of Directors' report.

Provision for restructuring costs amounts to EUR 150m. Loan loss provisions for individually assessed guarantees and other commitments amounts to EUR 201m. Other provision amounts to EUR 2m.

Movements in provisions for off balance sheet items

EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 21 Sep 2017	–	–	–	–
Changes due to origination and acquisition	1	1	0	3
Changes due to changes in credit risk (net)	–7	–1	–21	–29
Changes due to repayments and disposals	–2	0	0	–3
Write-off through decrease in allowance account	–	–	–10	–10
Other changes	27	52	162	240
Translation differences	0	0	–1	–1
Closing balance at 31 Dec 2018	**19**	**52**	**130**	**201**

P34. Provisions, cont.

Rating/scoring information on off balance sheet items

EURm	Nominal amount 31 Dec 2018			
Rating/scoring grade	Stage 1	Stage 2	Stage 3	Total
7+	309	–	–	309
7	4,872	–	–	4,872
7–	–	–	–	–
6+ / A+	6,200	3	0	6,204
6 / A	4,656	1	0	4,657
6– / A–	3,952	13	0	3,965
5+ / B+	6,936	48	0	6,983
5 / B	11,303	49	0	11,353
5– / B–	9,259	36	0	9,295
4+ / C+	8,048	119	0	8,167
4 / C	6,900	207	1	7,108
4– / C–	4,597	351	0	4,948
3+ / D+	1,301	635	0	1,936
3 / D	928	529	5	1,462
3– / D-	551	477	2	1,030
2+ / E+	201	241	2	445
2 / E	120	159	2	281
2– / E–	29	64	0	94
1+ / F+	34	39	0	74
1 / F	10	42	0	52
1– / F–	24	79	1	104
0+ / 0 / 0–	–	0	597	597
Standardised / Unrated	638	337	0	975
Internal[1]	55,218	–	–	55,218
Total	**126,090**	**3,427**	**611**	**130,128**

1) Exposures towards Nordea entities.

P35. Retirement benefit obligations

31 Dec 2018, EURm	
Retirement benefit assets	243
Retirement benefit liabilities	349
Net liability(-)/asset(+)	**–106**

Nordea Bank Abp sponsors both defined contribution plans (DCP) and defined benefit plans (DBP). Nordea Bank Abp reports post-employment benefits in accordance with IAS 19 standard. IAS 19 secures that the pension obligations net of plan assets backing these obligations are reflected on the Nordea Bank Abp's balance sheet. The major plans in each country are funded schemes covered by assets in pension funds/foundations.

The plans are structured in accordance with local regulations and legislations, local practice and, where applicable, collective agreements. Nordea's main DBPs in Sweden, Norway and Finland are all employer financed final salary and service based pension plans providing pension benefits on top of the statutory systems. All DBPs are closed for new entrants, new employees are offered DCPs. DBPs in Sweden are mainly offered in accordance with collective agreements and follow the regulations in the Pension Obligations Vesting Act (Tryggandelagen). Plan assets are held in a separate pension foundation. In Norway the DBPs are in accordance with

P35. Retirement benefit obligations, cont.

the Nordea Norway occupational pension plan and follow the Occupational Pension Act (Foretakspensjonloven). In Norway plan assets are also held by a separate pension fund. In Finland Nordea is providing additional pension benefits on top of the statutory system in accordance with the Nordea Finland occupational pension plan and follows the regulations in the Employees' Pension Act (TyEL). Plan assets are generally held in a separate pension foundation. Minimum funding requirements differ between plans but where such requirements are based on collective agreements or internal policies the funding requirement is generally that the pension obligations measured using local requirements shall be covered in full or with a predefined surplusor alternatively safeguarded by a credit insurance contract (Sweden only). Some pension plans are not covered by funding requirements and are generally unfunded. Quarterly assessments are made to monitor the likely level of future contributions.

Defined benefit plans may impact Nordea Bank Abp via changes in the net present value of obligations and/or changes in the market value of plan assets. Changes in the obligation are most importantly driven by changes in assumptions on discount rates (interest rates and credit spreads), inflation, salary increases, turnover and mortality as well as relevant experience adjustments where the actual outcome differs from the assumptions. Assets are invested in diversified portfolios as further disclosed below, with bond exposures mitigating the interest rate risk in the obligations and a fair amount of real assets (inflation protected) to reduce the long term inflationary risk in liabilities.

IAS 19 pension calculations and assumptions

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

Assumptions[1]

31 Dec 2018	Swe	Nor	Fin	Den	UK
Discount rate[2]	2.17%	2.82%	1.58%	1.80%	2.56%
Salary increase	3.00%	2.75%	1.75%	2.25%[3]	–
Inflation	2.00%	1.50%	1.25%	–[3]	2.50%
Mortality	DUS14	FNH-K2013	Gompertz	FSA	S2PMA-L/S2PFA[4]
1 Oct 2018					
Discount rate[2]	2.23%	2.88%	1.50%	1.83%	2.46%
Salary increase	2.75%	2.75%	1.75%	2.25%	–
Inflation	2.00%	1.75%	1.25%	–	2.50%
Mortality	DUS14	FNH-K2013	Gompertz	FSA	S2PMA-L/S2PFA[4]

1) The assumptions disclosed for 31 Dec 2018 have an impact on the liability calculation by year-end 2018, while the assumptions disclosed for 1 Oct 2018 are used for calculating the pension expense in Oct-Dec 2018.
2) More information on the discount rate can be found in Note P1 "Accounting policies", section 20. The sensitivities to changes in the discount rate can be found below.
3) All pensions in Denmark are salary indexed. The inflation has hence no impact on the DBO.
4) With CMI_2017 projections.

Sensitivities - Impact on Defined Benefit Obligation (DBO) %

	Swe	Nor	Fin	Den	UK
Discount rate - Increase 50bps	–10.4%	–7.7%	–5.9%	–4.9%	–10.5%
Discount rate - Decrease 50bps	12.0%	8.7%	6.6%	5.4%	12.1%
Salary increase - Increase 50bps	3.7%	0.4%	0.4%	4.8%	–
Salary increase - Decrease 50bps	–2.8%	–0.4%	–0.4%	–4.5%	–
Inflation - Increase 50bps	10.2%	8.0%	4.9%	–	2.0%
Inflation - Decrease 50bps	–9.1%	–6.8%	–4.5%	–	–1.8%
Mortality - Increase 1 year	4.7%	3.4%	4.3%	5.5%	4.6%
Mortality - Decrease 1 year	–4.6%	–4.5%	–4.2%	–5.4%	–4.5%

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 gives the possibility 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. The sensitivity analysis in Sweden and Norway include the impact on the liabilities held for future SWT (special wage tax) or SSC (social security contributions).

As all pensions in Denmark are salary indexed the inflation has no impact on the DBO in Denmark.

P35. Retirement benefit obligations, cont.

Net retirement benefit liabilities/assets

2018 EURm	Swe	Nor	Fin	Den	UK	Total
Obligations	1,703	685	700	95	92	3,275
Plan assets	1,494	640	802	122	111	3,169
Net liability(–)/asset(+)	**–209**	**–45**	**102**	**27**	**19**	**–106**
- of which retirement benefit liabilities	–209	–139	–	–1	–	–349
- of which retirement benefit assets	–	94	102	28	19	243

Movements in the obligation

EURm	Swe	Nor	Fin	Den	UK	Total
Opening balance at 27 Sep 2017	–	–	–	–	–	–
Through merger	1,670	713	713	94	93	3,283
Current service cost	6	1	1	–	–	8
Interest cost	9	5	3	0	1	18
Pensions paid	–16	–7	–10	–1	0	–34
Past service cost and settlements	–4	–2	–1	–	1	–6
Remeasurement from changes in demographic assumptions	–	–	–	1	–1	0
Remeasurement from changes in financial assumptions	19	–34	–6	0	–3	–24
Remeasurement from experience adjustments	3	42	0	1	2	48
Translation differences	4	–32	–	0	–1	–29
Change in provision for SWT/SSC[1]	12	–1	–	–	–	11
Closing balance 31 Dec 2018	**1,703**	**685**	**700**	**95**	**92**	**3,275**
- of which relates to the active population	16%	9%	10%	–	–	13%

1) Change in provision for special wage tax (SWT) in Sweden and social security contribution (SSC) in Norway.

The average duration of the obligation is 18 years in Sweden, 14 years in Norway, 12 years in Finland, 11 years in Denmark and 22 years in UK based on discounted cash flows. The fact that all DBPs are closed for new entrants leads to lower duration.

Movements in the fair value of plan assets

EURm	Swe	Nor	Fin	Den	UK	Total
Opening balance at 27 Sep 2017	–	–	–	–	–	–
Through merger	1,509	673	829	126	115	3,252
Interest income (calculated using the discount rate)	8	5	3	0	1	17
Pensions paid	–	–4	–10	–1	0	–15
Remeasurement (actual return less interest income)	–28	–1	–20	–2	–3	–54
Translation differences	5	–33	0	–1	–2	–31
Closing balance 31 Dec 2018	**1,494**	**640**	**802**	**122**	**111**	**3,169**

Asset composition

The combined return on assets in Oct-Dec 2018 was –1.2%. Asset returns across all asset classes were negatively impacted during the latter part of the year. At the end of the year the equity exposure in Nordea´s Bank Abp's pension funds/foundations represented 24% of total assets.

P35. Retirement benefit obligations, cont.

Asset composition in funded schemes, %

2018	Swe	Nor	Fin	Den	UK	Total
Bonds	73%	59%	54%	87%	79%	66%
- sovereign	38%	36%	29%	39%	79%	36%
- covered bonds	23%	18%	5%	49%	–	18%
- corporate bonds	12%	5%	20%	–	–	11%
- issued by Nordea entities	2%	1%	–	–	–	1%
- with quoted market price in an active market	73%	59%	54%	87%	79%	66%
Equity	24%	24%	27%	12%	21%	24%
- domestic	6%	6%	7%	12%	6%	7%
- European	6%	5%	6%	–	7%	6%
- US	6%	6%	8%	–	7%	7%
- emerging	6%	6%	6%	–	1%	5%
- Nordea shares						
- with quoted market price in an active market	24%	24%	27%	12%	21%	66%
Real estate[1]	–	14%	15%	–	–	7%
- occupied by Nordea	–	–	5%	–	–	1%
Cash and cash equivalents	**3%**	**3%**	**4%**	**1%**	**–**	**3%**

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

Nordea Bank Abp expects to contribute only a minor amount to its defined benefit plans in 2019.

Defined benefit pension cost

The total net pension cost related to defined benefit plans recognised in the parent company's income statement (as staff costs) for the year is EUR 6m. Total pension costs comprise defined benefit pension costs as well as costs related to defined contribution plans (see specification in Note P8 “Staff costs”).

Recognised in the income statement

Oct - Dec 2018[1], EURm	Swe	Nor	Fin	Den	UK	Total
Current service cost	6	1	1	–	–	8
Net interest	2	0	0	0	0	2
Past service cost and settlements	–4	–2	–1	–	1	–6
SWT/SSC[2]	2	0	0	–	–	2
Pension cost on defined benefit plans (expense+ / income–)	**6**	**–1**	**0**	**0**	**1**	**6**

Recognised in other comprehensive income

Oct - Dec 2018[1], EURm	Swe	Nor	Fin	Den	UK	Total
Remeasurement from changes in demographic assumptions	–	–	–	1	–1	0
Remeasurement from changes in financial assumptions	19	–34	–6	0	–3	–24
Remeasurement from experience adjustments	3	42	0	1	2	48
Remeasurement of plan assets (actual return less interest income)	28	1	20	2	3	54
SWT/SSC[2]	12	2	0	0	0	14
Pension cost on defined benefit plans (expense+ / income–)	**62**	**11**	**14**	**4**	**1**	**92**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.

2) Cost related to special wage tax (SWT) in Sweden and social security contribution (SSC) in Norway.

P35. Retirement benefit obligations, cont.

Multiemployer plans

In 2010 the Norwegian Parliament decided to change the AFP (Avtalefestet Pensjon) plan in Norway as from 2011. The change gave rise to a new multiemployer defined benefit plan that cannot be calculated as such, as information on Nordea's share of the liabilities and pension costs in the plan is not available from Fellesordningen (the administrator). Consequently the new AFP plan has to be accounted for as a defined contribution plan in accordance with IAS 19. Information on the funded status in the plan is not available.

The new AFP plan gives the entitled employees a lifelong addition to regular pensions from the age of 62. Further, the new scheme allows the employees to continue working while receiving AFP without this affecting the pension rights. The plan is founded on the basis of a three party cooperation between employer organisations, employee organisations and the Norwegian government. The government covers one third of the pension expense to the AFP plan while the member companies collectively cover the remaining two thirds of the pension expense. The premium the member firms are paying to the plan is determined to be sufficient to cover on-going pension expenses as well to provide a basis for building up a pension fund. The purpose of the pension fund is to ensure sufficient ability to cover expected future pension obligations.

The premium rate for 2018 was 7.0% of the employees' wages below 7.1 average base amounts and 18.0% of the employees' wages above 7.1 average base amounts. Average base amounts are defined in the Norwegian National Insurance Act. The premium is calculated based on the average wages- and average base amount from the previous year, excluding employees over the age of 61. Total premiums paid in October-December 2018 amounted to EUR 4m. Payments to the plan during 2018 covered 2,454 employees. The premium rate for 2019 will be on the same level as for the whole year 2018. The expected premiums in 2019 amount to EUR 14m.

The employees that meet the requirements for AFP are guaranteed AFP payments regardless of the solvency of their employers. As a result the employer members have joint responsibility for two thirds of the payable pensions to the employees that at any given time meet the requirements for AFP. Any deficit or surplus on windup of the plan or entities' withdrawal from the plan will not have any impact on Nordea.

Key management personnel

Nordea Bank Abp's total pension obligations regarding key management personnel amounted to EUR 1m at the end of the year. These obligations are to a high degree covered by plan assets. Defined benefit pension costs (Current service cost as well as Past service cost and settlements as defined in IAS 19) related to key management personnel in Oct-Dec 2018 were EUR 0m. Complete information concerning key management personnel is disclosed in Note P8 "Staff costs".

P36. Subordinated liabilities

31 Dec 2018, EURm	
Dated subordinated debenture loans	6,605
Undated subordinated debenture loans	168
Hybrid capital loans	2,384
Total	**9,157**

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

The carrying amount at year end representing revaluations in the fair value of the hedged part of subordinated liabilities is included in "Fair value changes of the hedged items in portfolio hedge of interest rate risk" under "Liabilities" and amounts to EUR 463m.

At 31 December 2018 six loans - with terms specified below - exceeded 10% of the total outstanding volume of dated subordinated loans.

31 Dec 2018, EURm	Nominal value	Carrying amount	Interest rate (coupon)	Interest Rate%	Currency	Classification in Capital Adequacy	Of which used for Capital Adequacy
Dated loan[1]	1,250	1,090	Fixed	4.88%	USD	Tier2	516
Dated loan[2]	1,000	999	Fixed	4.50%	EUR	Tier2	247
Dated loan[3]	750	748	Fixed	4.00%	EUR	Tier2	336
Dated loan[4]	1,000	871	Fixed	4.25%	USD	Tier2	648
Dated loan[5]	750	747	Fixed	Fixed 1.88%, until first call date, thereafter fixed 5-year mid swap +1.70%.	EUR	Tier2	747
Dated loan[6]	1,000	995	Fixed	Fixed 1.00 %, until first call date, thereafter fixed 5-year mid swap +1.25%	EUR	Tier2	995

1) Maturity date 13 May 2021.
2) Maturity date 26 March 2020.
3) Maturity date 29 March 2021.
4) Maturity date 21 September 2022.
5) Call date 10 November 2020, maturity date 10 November 2025.
6) Call date 7 September 2021, maturity date 7 September 2026.

P37. Equity

	Restricted equity						
			Other restricted reserves				
			Fair value reserve				
EURm	Share capital [1]	Revaluation reserves	Translation of foreign operations	Cash flow hedges[3]	Fair value through other comprehen-sive income	Defined benefit plans	Changes in own credit risk related to liabilities at fair value option
Opening balance at 21 Sep 2017	–	–	–	–	–	–	–
Subscription of share capital	5	–	–	–	–	–	–
Through merger	4,045	–159	–9	–29	84	165	–
Net profit for the year	–	–	–	–	–	–	–
Currency translation differences during the year	–	5	0	–	–	–	–
Net investments in foreign operations:							
Valuation gains/losses during the year	–	–	–5	–	–	–	–
Tax on valuation gains/losses during the year	–	–	–1	–	–	–	–
Fair value through other comprehensive income							
Valuation gains/losses during the year	–	–	–	–	–37	–	–
Tax on valuation gains/losses during the year	–	–	–	–	8	–	–
Transferred to the income statement during the year	–	–	–	–	3	–	–
Tax on transfers to the income statement during the year	–	–	–	–	0	–	–
Cash flow hedges:							
Valuation gains/losses during the year	–	–	–	550	–	–	–
Tax on valuation gains/losses during the year	–	–	–	–130	–	–	–
Transferred to the income statement during the year	–	–	–	–524	–	–	–
Tax on transfers to the income statement during the year	–	–	–	124	–	–	–
Changes in own credit risk related to liabilities classified as fair value option:							
Valuation gains/losses during the year	–	–	–	–	–	–	10
Tax on valuation gains/losses during the year	–	–	–	–	–	–	–2
Defined benefit plans:							
Remeasurement of defined benefit plans during the year	–	–	–	–	–	–257	–
Tax on remeasurement of defined benefit plans during the year	–	–	–	–	–	56	–
Other comprehensive income, net of tax	**–**	**5**	**–6**	**20**	**–26**	**–201**	**8**
Total comprehensive income	**–**	**5**	**–6**	**20**	**–26**	**–201**	**8**
Disposal/Purchase of own shares[2]	–	–	–	–	0	–	–
Other changes	–	–	–	–	0	–2	–
Balance at 31 Dec 2018	**4,050**	**–154**	**–15**	**–9**	**58**	**–38**	**8**

1) Total shares registered were 4,050 million. For more information, see section The Nordea share and ratings in the Board of Director's report.

2) Refers to the change in the holding of own shares related to the Long Term Incentive Programme, trading portfolio and Nordea's shares within portfolio schemes in Denmark. The total holdings of own shares to were 15,2 million. The total holding of own shares related to LTIP were 9,6 million. See more information on own shares below.

3) For more detailed information, see note P22.

P37. Equity, cont.

EURm	Unrestricted equity					
	Invested unrestricted reserve	Other unrestricted reserves	Retained earnings	Total	Additonal Tier 1 capital holders	Total equity
Opening balance at 21 Sep 2017	**–**	**–**	–	–	**–**	–
Subscription of share capital	–	–	–	5	–	5
Through merger	1,080	2,762	19,804	27,743	750	28,493
Net profit for the year	–	–	1,133	1,133	–	1,133
Currency translation differences during the year	–	–	–27	–22	–	–22
Net investments in foreign operations:						
Valuation gains/losses during the year	–	–	–	–5	–	–5
Tax on valuation gains/losses during the year	–	–	–	–1	–	–1
Fair value through other comprehensive income						
Valuation gains/losses during the year	–	–	–	–37	–	–37
Tax on valuation gains/losses during the year	–	–	–	8	–	8
Transferred to the income statement during the year	–	–	–	3	–	3
Tax on transfers to the income statement during the year	–	–	–	0	–	0
Cash flow hedges:						
Valuation gains/losses during the year	–	–	–	550	–	550
Tax on valuation gains/losses during the year	–	–	–	–130	–	–130
Transferred to the income statement during the year	–	–	–	–524	–	–524
Tax on transfers to the income statement during the year	–	–	–	124	–	124
Changes in own credit risk related to liabilities classified as fair value option:						
Valuation gains/losses during the year	–	–	–	10	–	10
Tax on valuation gains/losses during the year	–	–	–	–2	–	–2
Defined benefit plans:						
Remeasurement of defined benefit plans during the year	–	–	–	–257	–	–257
Tax on remeasurement of defined benefit plans during the year	–	–	–	56	–	56
Other comprehensive income, net of tax	**–**	**–**	**–27**	**–227**	**–**	**–227**
Total comprehensive income	**–**	**–**	**1,106**	**906**	**–**	**906**
Disposal/Purchase of own shares[2]	–	–	–13	–13	–	–13
Other changes	–	–	93	91	–	91
Balance at 31 Dec 2018	**1,080**	**2,762**	**20,990**	**28,732**	**750**	**29,482**

1) Total shares registered were 4,050 million. For more information, see section The Nordea share and ratings in the Board of Director's report.

2) Refers to the change in the holding of own shares related to the Long Term Incentive Programme, trading portfolio and Nordea's shares within portfolio schemes in Denmark. The total holdings of own shares were 15,2 million. The total holding of own shares related to LTIP were 9,6 million. See more information on own shares below.

3) For more detailed information, see note P22.

P37. Equity, cont.

Nordea shares

Nordea Bank Abp has bought and sold its own shares as part of its normal trading and market making activities. The trades are specified in the table below.

Acquisitions[1]

Month	Quantity	Average price, EUR	Amount, tEUR
October	7,044,559	8,03	56,576
November	4,089,747	7,87	32,180
December	6,843,449	7,63	52,245
Total	**17,977,755**		**141,001**

Sales[1]

Month	Quantity	Average price, EUR	Amount, tEUR
October	–7,093,218	8,01	–56,805
November	–3,872,216	7,91	–30,626
December	–3,487,945	7,69	–26,835
Total	**–14,453,379**		**–114,266**

1) Excluding Nordea shares related to securities lending.

The quota value of Nordea Bank Abp share is EUR 1.00. The trades had an insignificant effect on the shareholding and voting-power in Nordea Bank Abp. At year-end 2018 Nordea Bank Abp held 15,2 million shares of Nordea (including own shares related to LTIP).

P38. Assets pledged as security for own liabilities

EURm	31 Dec 2018	of which on behalf of group companies
Assets pledged for own liabilities		
Securities etc[1]	24,611	1,176
Loans to the public	10,418	59
Other assets pledged	329	–
Total	**35,358**	**1,235**
The above pledges pertain to the following liabilities		
Deposits by credit institutions	14,519	1,458
Deposits and borrowings from the public	2,402	–
Derivatives	4,290	4,290
Other liabilities and commitments	304	–
Total	**21,515**	**5,748**

1) Relates only to securities recognised on the balance sheet. Securities borrowed or bought under reverse repurchase agreements are not recognised on the balance sheet and thus not included in the amount. Such transactions are disclosed in Note P46 "Transferred assets and obtained collaterals".

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

Other assets pledged relates to certificate of deposits pledged by Nordea to comply with authority requirements.

P39. Other assets pledged

Other assets pledged are mainly related to securities which includes interest-bearing securities pledged as securities for payment settlements within the central banks and clearing institutions EUR 4,788m. The terms and conditions require day to day securities and relate to liquidity intraday/over night. Collateral pledged on behalf of other items other than the company´s own liabilities, e.g. on behalf of a third party or on behalf of the company´s own contingent liabilities are also accounted for under this item.

Nordea Bank Abp has not committed to contingent liabilities on behalf of any key management personnel or auditors.

P40. Contingent liabilities

EURm	31 Dec 2018	of which on behalf of group companies
Guarantees		
- Loan guarantees	35,948	33,677
- Other guarantees	14,079	181
Documentary credits	1,403	0
Other contingent liabilities	3	–
Total	**51,433**	**33,858**

In the normal business Nordea issues various forms of guarantees in favour of the Nordea's customers. Loan guarantees are given for customers to guarantee obligations in other credit- and pension institutions. Other guarantees consist mainly of commercial guarantees such as bid guarantees, advance payment guarantees, warranty guarantees and export related guarantees. Contingent liabilities also include unutilised irrevocable import documentary credits and con-

P40. Contingent liabilities, cont.

firmed export documentary credits. These transactions are part of the bank services and support the Nordea´s customers. Guarantees and documentary credits are off-balance sheet items, unless there is a need for a provision to cover a probable loan loss that arises from the judgement that reimbursement will not be received. The table above includes all issued guarantees, also those where the possibility of an outflow of resources are considered to be remote

Nordea Bank Abp has undertaken, in relation to certain individuals and on certain conditions, to be responsible for the potential payment liability against them in their capacity as managing directors or board member in group undertakings of Nordea Bank Abp.

A limited number of employees are entitled to severance pay if they are dismissed before reaching their normal retirement age. For further disclosures, see Note P8 "Staff costs".

Legal proceedings

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

Nordea Bank Abp has not committed to contingent liabilities on behalf of any key management personnel of auditors.

P41. Commitments

EURm	31 Dec 2018	of which to group companies
Credit commitments	44,628	11,929
Unutilised overdraft facilities	35,474	9,403
Total	**80,102**	**21,332**
- of which to associated companies	6	

Reverse repurchase agreements are recognised on and derecognised from the balance sheet on settlement date. Nordea has as per 31 December 2018 signed reverse repurchase agreements that have not yet been settled and consequently are not recognised on the balance sheet. On settlement date these reverse repurchase agreements will, to the utmost extent, replace existing reverse repurchase agreements not yet derecognised as per 31 December 2018. The net impact on the balance sheet is minor. These instruments have not been disclosed as commitments.

For information about credit commitments see Note P1 "Accounting policies" section 23, about derivatives, see Note P22 "Derivates and Hedge accounting" and about reverse repurchase agreements, see Note 46 "Transferred assets and obtained collaterals".

P42. Capital adequacy

As from 2018 the Capital adequacy disclosures are not part of the financial statements. The disclosures for the Group can be found on page 262 and the disclosures for the parent company on page 274.

P43. Classification of financial instruments

Assets

31 Dec 2018, EURm	Amortised cost (AC)	Financial assets at fair value through profit or loss (FVPL)		Fair value through other comprehensive income (FVOCI)	Non-financial assets	Total
		Mandatorily	Derivatives used for hedging	Mandatorily		
Cash and balances with central banks	39,562	–	–	–	–	39,562
Loans to credit institutions	61,159	3,612	–	–	–	64,772
Loans to the public	133,546	20,873	–	–	–	154,419
Interest-bearing securities	250	42,205	–	32,112	–	74,567
Shares and parcitipations	–	4,813	–	–	–	4,813
Investments in associated undertakings and joint ventures	–	–	–	–	1,049	1,049
Investments in group undertakings	–	–	–	–	12,175	12,175
Derivatives	–	35,146	2,075	–	–	37,221
Fair value changes of the hedged items in portfolio hedge of interest rate risk	72	–	–	–	–	72
Intangible assets	–	–	–	–	2,331	2,331
Properties and equipment	–	–	–	–	338	338
Investment properties	–	–	–	–	4	4
Deferred tax assets	–	–	–	–	130	130
Current tax assets	–	–	–	–	234	234
Retirement benefit assets	–	–	–	–	243	243
Other assets	750	12,490	–	–	2,441	15,681
Prepaid expenses and accrued income	936	–	–	–	175	1,111
Total	**236,275**	**119,139**	**2,075**	**32,112**	**19,121**	**408,722**

Liabilities

31 Dec 2018, EURm	Amortised cost (AC)	Fair value through profit and loss			Non-financial liabilities	Total
		Mandatorily	Designated at fair value through profit or loss	Derivatives used for hedging		
Deposits by credit institutions and central bank	42,941	8,486	–	–	–	51,427
Deposits and borrowings from the public	160,613	6,525	3,964	–	–	171,102
Debt securities in issue	79,464	–	3,204	–	–	82,667
Derivatives	–	40,008	–	583	–	40,591
Fair value changes of the hedged items in portfolio hedge of interest rate risk	536	–	–	–	–	536
Current tax liabilities	–	–	–	–	249	249
Other liabilities	858	18,556	–	–	1,843	21,257
Accrued expenses and prepaid income	209	–	–	–	1,121	1,330
Deferred tax liabilities	–	–	–	–	223	223
Provisions	–	–	–	–	352	352
Retirement benefit liabilities	–	–	–	–	349	349
Subordinated liabilities	9,157	–	–	–	–	9,157
Total	**293,777**	**73,575**	**7,168**	**583**	**4,137**	**379,240**

P43. Classification of financial instruments, cont.

Financial liabilities designated at fair value through profit or loss

31 Dec 2018, EURm	Liabilities where changes in credit risk is presented in OCI	Liabilites where changes in credit risk is presented in profit or loss	Total
Carrying amount per end of the year	3,204	3,964	7,168
Amount to be paid at maturity[1]	3,364	–	3,364
Changes in fair value due to changes in own credit risk, during the year	11	–	11
Changes in fair value due to changes in own credit risk, accumulated	10	–	10

1) Liabilities to policyholders have no fixed maturities and there is no fixed amount to be paid. The amount disclosed to be paid at maturity has been set to the carrying amount.

Financial liabilities designated at fair value through profit or loss per 31 December 2018 consist of issued structured bonds in Markets operation, EUR 3,204m and deposits linked to the investment return of separate assets, EUR 3,964m. For issued structured bonds in Markets, changes in fair value due to changes in own credit risk is recognised in other comprehensive income and Nordea is calculating the change in own credit spread based on the change in Nordea's funding spread by assuming the liquidity premium for the issuance to be constant over time. The change in the credit spread is estimated by comparing the value of the trades using the initial funding spread on issuance date and actual funding spread on the reporting date. This model is assessed to provide the best estimate of the impact of own credit risk.

P44. Assets and liabilities at fair value

Fair value of financial assets and liabilities

31 Dec 2018, EURm	Carrying amount	Fair value
Financial assets		
Cash and balances with central banks	39,562	39,562
Loans	219,263	220,214
Interest-bearing securities	74,567	74,567
Shares and participations	4,813	4,813
Derivatives	37,221	37,221
Other assets	14,175	14,175
Total	**389,601**	**390,552**

31 Dec 2018, EURm	Carrying amount	Fair value
Financial liabilities		
Deposits by credit institutions and central banks	51,427	51,427
Deposits and borrowings from the public	171,638	171,960
Debt securities in issue	82,667	82,667
Derivatives	40,591	40,591
Other liabilities	28,780	28,780
Total	**375,103**	**375,423**

For information about valuation of items measured at fair value on the balance sheet, see Note P1 and the section "Determination of fair values for items measured at fair value on the balance sheet" below. 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" below.

Categorisation into the fair value hierarchy

31 Dec 2018, EURm	Quoted prices in active markets for the same instrument (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets at fair value on the balance sheet[1]				
Loans	–	24,485	–	24,485
Interest-bearing securities[2]	29,429	44,564	324	74,317
Shares and participations	4,038	1	775	4,813
Derivatives	69	36,110	1,041	37,221
Other assets	4	12,458	28	12,490
Total	**33,540**	**117,618**	**2,168**	**153,326**
Liabilities at fair value on the balance sheet[1]				
Deposits by credit institutions	–	8,486	–	8,486
Deposits and borrowings from the public	3,964	6,525	–	10,489
Debt securities in issue	–	577	2,627	3,204
Derivatives	42	39,500	1,049	40,591
Other liabilities	7,221	11,320	15	18,556
Total	**11,227**	**66,408**	**3,691**	**81,326**

1) All items are measured at fair value on a recurring basis at the end of each reporting period.
2) Of which EUR 13,870m relates to the balance sheet item Financial instruments pledged as collateral.

P44. Assets and liabilities at fair value, cont.

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

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

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

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

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

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

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

For OTC derivatives valuation models are used for establishing fair value. 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 inputs are observable in active markets.

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

Nordea furthermore holds loans and issued debt securities in the subsidiary Nordea Kredit Realkreditaktieselskab at fair value. When Nordea grants mortgage loans to borrowers, in accordance with the Danish mortgage finance law, Nordea at the same time issues debt securities with matching terms, so called "match funding". Fair value of the issued debt securities is based on quoted prices. As the borrowers have the right to purchase debt securities issued by Nordea in the market and return these as repayment for their loans, the fair value of the loans is the same as the fair value of the issued bonds (due to the revaluation of the repayment option embedded in the loan) adjusted for changes in the credit risk of the borrower and the fair value of the margin associated with each loan.

Fair value of financial assets and liabilities are generally calculated as the theoretical net present value of the individual instruments. This calculation is supplemented by portfolio adjustments.

Nordea incorporates credit valuation adjustments (CVA) and debit valuation adjustments (DVA) into derivative valuations. CVA and DVA reflect the impact on fair value from 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, Nordea obtains credit spreads from the credit default swap (CDS) market, and probabilities of defaults (PDs) are inferred from this data. For counterparties that do not have a liquid CDS, PDs are estimated using a cross sectional regression model, which calculates an appropriate proxy CDS spread given each counterparty's rating region and industry.

The impact of funding costs and funding benefits on valuation of uncollateralised and imperfectly collateralised derivatives is recognised as a funding fair valuation adjustment (FFVA). In addition, Nordea applies in its fair value measurement close-out-cost valuation adjustments and model risk adjustments for identified model deficiencies.

Transfers between Level 1 and 2

During the year, Nordea transferred interest-bearing securities (including such financial instruments pledged as collateral) of EUR 5,954m from Level 1 to Level 2 and EUR 2,799m from Level 2 to Level 1 of the fair value hierarchy. Nordea has

P44. Assets and liabilities at fair value, cont.

also transferred derivative assets of EUR 0m from Level 2 to Level 1. The reason for the transfers from Level 1 to Level 2 was that the instruments ceased to be actively traded during the period and fair values have now been obtained using valuation techniques with observable market inputs. The reason for the transfer from Level 2 to Level 1 was that the instruments have again been actively traded during the period and reliable quoted prices are obtained in the market. Transfers between levels are considered to have occurred at the end of the year.

Movements in Level 3

31 Dec 2018, EURm	Opening balance at 21 Sep 2017	Through merger	Fair value gains/losses recognised in the income statement during the year		Purchases /Issues	Sales	Settle-ments	Issues	Transfers into level 3	Transfers out of level 3	Transla-tion differ-ences	31 Dec 2018
			Realised	Unrealised								
Intererest-bearing securities	–	163	–2	2	169	–9	2	–	–	–	1	324
Shares and participations	–	654	46	54	208	–198	–	–	–	–	11	775
Derivatives (net)	–	441	–264	–440	–	18	246	–	–	–10	1	–8
Other assets	–	–	–	–	–	–	–	–	28	–	–	28
Debt securities in issue	–	4,012	–23	–585	–	–	–1,216	437	1	–	–	2,627
Other liabilities	–	–	–	–	–	–	–	–	14	–	1	15

Unrealised gains and losses relate to those assets and liabilities held at the end of the year. The reason for the transfer out of Level 3 was that observable market data became available. The reason for the transfer into Level 3 was that observable market data was no longer available. Transfers between levels are considered to have occurred at the end of the year. Fair value gains and losses in the incomestatement during the period are included in "Net result from items at fair value" (see Note P5). Assets and liabilities related to derivatives are presented net.

The valuation processes for fair value measurements

Financial instruments

The valuation process in Nordea consists of several steps. The first step is to determine the end of day (EOD) marking of mid-prices. It is the responsibility of the business areas to determine correct prices used for the valuation process. These prices are either internally marked prices set by a trading unit or externally sourced prices. The valuation prices and valuation approaches are then controlled and tested by a valuation control function within the 1st line of defence, which is independent from the risk taking units in the front office. The cornerstone in the control process is the independent price verification (IPV). The IPV test comprises verification of the correctness of valuations by comparing the prices to independently sourced data. The result of the IPV is analysed and any findings are escalated as appropriate. The verification of the correctness of prices and inputs is as minimum carried out on a monthly basis and is for many products carried out daily. Third-party information, such as broker quotes and pricing services, is used as benchmark data in the verification. The quality of the benchmark data is assessed on a regular basis.

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

Specialised teams within the unit Balance Sheet Risk Control (BSRC) are responsible for overseeing and independently assessing the valuations performed by the 1st line of defence. These teams are responsible for 2nd line of defence oversight for valuations, with independent reporting responsibilities towards the CRO and the BAC.

P44. Assets and liabilities at fair value, cont.

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

31 Dec 2018, EURm	Fair value	Valuation techniques	Unobservable input	Range of fair value
Interest-bearing securities				
Credit institutions[1]	323	Discounted cash flows	Credit spread	–32/32
Corporates	1	Discounted cash flows	Credit spread	–0/0
Total	**324**			**–32/32**
Shares including participating interest in other companies				
Unlisted shares	120	Net asset value[2]		–7/7
Private equity funds	288	Net asset value[2]		–29/29
Hedge funds	19	Net asset value[2]		–1/1
Credit Funds	222	Net asset value[2]		–22/22
Other funds	110	Net asset value[2]		–11/11
Other	16	–		–2/2
Total	**775**			**–72/72**
Derivatives				
Interest rate derivatives	237	Option model	Correlations, Volatilities	–13/14
Equity derivatives	–25	Option model	Correlations, Volatilities, Dividend	–12/8
Foreign exchange derivatives	–13	Option model	Correlations, Volatilities	–0/0
Credit derivatives	–212	Credit derivative model	Correlations, Volatilities, Recovery rates	–34/33
Other	5	Option model	Correlations, Volatilities	–0/0
Total	**–8**			**–59/55**
Other assets				
Credit institutions	28		Credit spread	–3/3
Total	**28**			**–3/3**
Debt securities in issue				
Issued structured bonds	2,627	Credit derivative model	Correlation, Volatilities, Recovery rates	–13/13
Total	**2,627**			**–13/13**
Other liabilities	15			–1/1
Total	**15**			**–1/1**

1) Of which EUR 155m is priced at a credit spread (the difference between the discount rate and LIBOR) of 1.45% and a reasonable change of this credit spread would not affect the fair value due to callability features.

2) The fair values are based on prices and net assets values delivered by external suppliers/custodians. The prices are fixed by the suppliers/custodians on the basis of the development in assets behind the investments. All private equity fund investments are internally adjusted/valued based on the Private Equity and Venture Capital Valuation (IPEV) guidelines. These carrying amounts are in a range 5% to 100% compared to the values received from suppliers/custodians.

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

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

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

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

Movements in deferred Day 1 profit

The transaction price for financial instruments in some cases differs from the fair value at initial recognition measured using a valuation model, mainly due to that the transaction price is not established in an active market. If there are significant unobservable inputs used in the valuation technique

P44. Assets and liabilities at fair value, cont.

(Level 3), the financial instrument is recognised at the transaction price and any difference between the transaction price and fair value at initial recognition measured using a valuation model (Day 1 profit) is deferred. For more information see, Note P1 "Accounting policies". The table below shows the aggregate difference yet to be recognised in the income statement at the beginning and end of the period and a reconciliation of how this aggregated difference has changed during the year (movements in deferred Day 1 profit).

Deferred day 1 profit - derivatives, net

	31 Dec 2018, EURm
Opening balance at 21 Sep 2017	–
Through merger	58
Deferred profit/loss on new transactions	62
Recognised in the income statement during the year	–39
Amount at end of year	**81**

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

31 Dec 2018, 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	39,562	39,562	3
Loans	194,777	195,728	3
Interest-bearing securities	250	250	2
Other assets	751	751	3
Prepaid expenses and accrued income	936	936	3
Total	**236,275**	**237,227**	
Liabilities not held at fair value on the balance sheet			
Deposits and debt instruments	283,553	283,875	3
Other liabilities	858	858	3
Subordinated debt	9,157	9,157	3
Accrued expenses and prepaid income	209	209	3
Total	**293,777**	**294,099**	

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 Personal Banking, Commercial & Business Banking and Wholesale Banking respectively.

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

Interest bearing-securities

The measurement principles follow those for similar instruments that are held at fair value on the balance sheet.

Other assets and prepaid expenses and accrued income

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

Deposits and debt instruments

The fair value of "Deposits by credit institutions", "Deposits and borrowings from the public", "Debt securities in issue" and "Subordinated liabilities" has been calculated as the carrying amount adjusted for fair value changes in interest rate risk and in own credit risk. The fair value is categorised into Level 3 in the fair value hierarchy. The fair value changes related to interest rate risk is based on changes in relevant interest rates compared with corresponding nominal interest rate in the portfolios. The fair value changes in the credit risk is calculated as the difference between the credit spread in the nominal interest rate compared with the current spread that is observed in the market. This calculation is performed on an aggregated level for all long term issuances recognised in the balance sheet items "Debt securities in issue" and "Subordinated liabilities". As the contractual maturity is short for "Deposits by credit institutions" and "Deposits and borrowing from the public" the changes in Nordea´s own credit risk related to these items is assumed not to be significant. This is also the case for short term issuances recognised in the balance sheet items "Debt securities in issue" and "Subordinated liabilities".

Other liabilities and accrued expenses and prepaid income

The balance sheet items "Other liabilities" and "Accrued expenses and prepaid income" consist of short-term liabilities, mainly liabilities on securities settlement. The fair value is therefore considered to be equal to the carrying amount and is categorised into Level 3 in the fair value hierarchy.

P45. Assets and liabilities in EUR and other currencies

31 Dec 2018, EURm	EUR	Foreign currency	Total	From Group companies	From participating interests
Loans and receivables to credit institutions	79,428	24,906	104,334	47,190	1,856
Loans and receivables to the public	19,863	134,556	154,419	3,874	0
Interest-bearing securities	7,421	67,146	74,567	3,076	0
Derivatives contracts	13,914	23,307	37,221	278	7
Other assets	26,429	11,752	38,181	2,503	127
Total	**147,055**	**261,667**	**408,722**	**56,921**	**1,990**
Liabilities to credit institutions	17,596	33,831	51,427	9,065	100
Deposits and borrowings from the public	53,266	117,836	171,102	2,904	1
Debt securities in issue	23,495	59,172	82,667	223	0
Derivative contracts	21,879	18,712	40,591	1,144	8
Other liabilities	33,088	365	33,453	1,012	0
Total	**149,324**	**229,916**	**379,240**	**14,348**	**109**

P46. Transferred assets and obtained collaterals

Transferred assets that are not derecognised in their entirety and associated liabilities

All assets transferred continue to be recognised on the balance sheet if Nordea is still exposed to changes in the fair value of the assets. This is the case for repurchase agreements and securities lending transactions.

Repurchase agreements are a form of collateralised borrowing where Nordea sells securities with an agreement to repurchase them at a later date at a fixed price. The cash received is recognised as a deposit (liability). Securities delivered under repurchase agreements are not derecognised from the balance sheet.

Securities lending transactions are transactions where Nordea lends securities it holds to a counterpart and receives a fee.

As both repurchase agreements and securities lending transactions results in the securities are returned to Nordea, all risks and rewards of the instruments transferred is retained by Nordea, although they are not available for Nordea during the period during which they are transferred. The counterpart in the transactions hold the securities as collateral, but have no recourse to other assets in Nordea.

The securities still reported on the balance sheet and the corresponding liabilities are measured at fair value.

31 Dec 2018, EURm	Total
Repurchase agreements	
Debt securities eligible for refinancing with central banks	3,430
Interest-bearing securities	10,439
Total	13,869

Liabilities associated with the assets

31 Dec 2018, EURm	Total
Repurchase agreements	
Deposits by credit institutions	3,427
Deposits and borrowings from the public	8,540
Total	11,967
Net	1,902

Obtained collaterals which are permitted to be sold or repledged

Nordea obtains collaterals under reverse repurchase and securities borrowing agreements which, under the terms of the agreements, can be sold or repledged. The transactions are conducted under standard agreements employed by financial markets participants. Generally, the agreements require additional collateral to be provided if the value of the securities falls below a predetermined level. Under standard terms for most repurchase transactions, the recipient of collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transactions. The fair value of the securities obtained as collateral under reverse repurchase and securities borrowing agreements are disclosed below.

31 Dec 2018, EURm	
Reverse repurchase agreements	
Received collaterals which can be repledged or sold	35,515
- of which repledged or sold	19,662
Securities borrowing agreements	
Received collaterals which can be repledged or sold	5,648
- of which repledged or sold	2,980
Total	**41,163**

P47. Maturity analysis for assets and liabilities

31 Dec 2018, EURm	Under 3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Securities eligible for Central Bank refinancing	4,272	11,804	50,345	4,247	2,009	72,677
Loans and receivables to credit institutions	62,148	9,879	31,538	718	51	104,334
Loans and receivables to the public	54,454	10,817	42,425	13,791	32,932	154,419
Interest bearing securities	659	0	345	629	257	1,890
Derivatives contracts	4,933	2,656	29,075	264	293	37,221
Other assets	22,205	22	2,696	1,020	12,238	38,181
Total	**148,671**	**35,178**	**156,424**	**20,669**	**47,780**	**408,722**
Liabilities to credit institutions	43,900	1,238	5,711	578	–	51,427
Deposits and borrowings from the public	163,728	2,136	5,182	39	17	171,102
Debt securities in issue	36,086	18,365	23,496	4,660	60	82,667
Subordinated liabilities	125	886	6,825	1,003	318	9,157
Derivative contracts and other liabilities at fair value	4,441	3,802	38,830	390	128	40,591
Other liabilities	23,968	12	293	14	9	24,296
Total	**272,248**	**26,439**	**73,337**	**6,684**	**532**	**379,240**

P48. Related-party transactions

The information below is presented from a Nordea perspective, meaning that the information shows the effect from related party transactions on the Nordea figures. For more information on definitions, see Note P1 ”Accounting policies” section 25.

31 Dec 2018, EURm	Group undertakings	Associated undertakings	Other related parties[1]
Assets			
Debt securities eligible for refinancing with Central banks	–	–	–
Loans and receivables	51,064	155	–
Interest-bearing securities	1,410	57	–
Derivatives	278	142	–
Investments in associated undertakings and joint ventures	–	1,049	–
Investments in group undertakings	12,175	–	–
Other assets	3,647	–	–
Prepaid expenses and accrued income	522	–	–
Total assets	**69,096**	**1,403**	**–**
Liabilities			
Deposits	11,970	21	62
Debt securities in issue	223	–	–
Derivatives	1,144	180	–
Other liabilities	988	0	–
Accrued expenses and deferred income	24	–	–
Subordinated liabilities	0	–	–
Total liabilities	**14,349**	**201**	**62**
Off balance[1]	**55,186**	**342**	**–**

1) Including nominal values on derivatives in associated undertakings.

EURm	Group undertakings	Associated undertakings	Other related parties[1]
Net interest income and expenses	–104	1	0
Net fee and commission income	122	0	0
Net result from items at fair value	–164	4	–
Other operating income	83	0	–
Total operating expenses	–21	0	–
Profit before loan losses	**–84**	**5**	**0**

1) Shareholders with significant influence and close family members to key management personnel in Nordea Group as well as companies significantly influenced by key management personnel or by close family members to key management personnel in Nordea Group are considered to be related parties to Nordea. Included in this group of related parties are Sampo Oyj and Aegon Asset Management. If transactions with related companies are made in Nordea's and the related companies' ordinary course of business and on the same criteria and terms as those for comparable transactions with companies of similar standing, and if they did not involve more than normal risktaking, the transactions are not included in the table. Nordea has thus not disclosed any transactions with shareholders with significant influence.

Compensation and loans to key management personnel

Compensation and loans to key management personnel are specified in Note P8 “Staff costs”.

P49. Credit risk management and credit risk disclosures

Credit risk management and credit risk analysis is described in the Risk, Liquidity and Capital management section of the Board of Directors´ Report.

Credit risk management

Credit risk exposure and loans

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

EURm	31 Dec 2018
To central banks and credit institutions	64,772
To the public	154,419
- of which corporate	108,608
- of which household	42,877
- of which public sector	2,934
Total Loans	**219,191**
Offbalance credit exposure[1]	80,102
Counterparty risk exposure	19,533
Treasury bills and interest-bearing securities[2]	74,567
Total credit risk exposure in the banking operations	**393,393**

1) Of which for corporate customers approx. 90%.
2) Also includes Treasury bills and interest-bearing securities pledged as collateral in repurchase agreements.

The total credit risk exposure at year end according to the CRR definition after Credit Conversion Factor was EUR 303bn. See more information and breakdown of exposure according to the CRR definition in section Credit risk disclosures below and in the Capital and Risk Management Report.

Rating distribution IRB Corporate customers

2018, %	
6+	2.70
6	4.80
6–	3.70
5+	6.74
5	12.21
5–	13.53
4+	15.63
4	15.79
4–	12.47
3+	4.81
3	2.83
3–	1.81
2+	1.03
2	0.39
2–	0.21
1+	0.38
1	0.07
1–	0.06

Risk grade distribution IRB Retail customers

2018, %	
A+	28.14
A	14.69
A–	12.71
B+	11.10
B	7.94
B–	5.27
C+	4.38
C	3.10
C–	2.92
D+	1.73
D	1.53
D–	1.37
E+	1.82
E	1.21
E–	0.34
F+	0.21
F	0.26
F–	1.10

P49. Credit risk management and credit risk disclosures, cont.

Loans to the public by country and industry

31 Dec 2018, EURm	Denmark	Finland	Norway	Sweden	Outside Nordic	Parent company
Energy (oil, gas, etc.)	548	51	572	490	422	2,084
Metals and mining materials	9	155	78	230	–	472
Paper and forest materials	80	314	76	333	83	886
Other materials (building materials, etc.)	260	964	359	1,596	36	3,215
Industrial capital goods	336	407	53	328	74	1,197
Industrial commercial services, etc.	2,631	1,287	2,860	3,218	313	10,309
Construction and engineering	396	558	1,959	472	11	3,396
Shipping and offshore	89	208	5,389	140	3,015	8,841
Transportation	196	329	517	567	0	1,609
Consumer durables (cars, appliances, etc.)	116	427	302	781	50	1,675
Media and leisure	216	603	219	534	1	1,572
Retail trade	2,746	1,581	695	2,558	70	7,651
Consumer staples (food, agriculture, etc.)	1,828	820	1,759	636	57	5,100
Health care and pharmaceuticals	359	330	90	187	7	974
Financial institutions	2,806	2,276	2,122	9,281	132	16,617
Real estate	2,518	7,173	10,702	7,741	25	28,158
IT software, hardware and services	428	422	264	377	158	1,650
Telecommunication equipment	6	7	2	0	–	15
Telecommunication operators	21	205	332	426	–	984
Utilities (distribution and productions)	244	2,305	900	492	6	3,946
Other, public and organisations	499	0	774	1,556	56	2,886
Total excl reverse repurchase agreements	**16,335**	**20,422**	**30,024**	**31,942**	**4,514**	**103,236**
Reversed repurchase agreements	765	–	–	–	4,606	5,371
Total corporate loans	**17,100**	**20,422**	**30,024**	**31,942**	**9,120**	**108,607**
Household mortgage loans	–	8,845	16,649	0	–	25,493
Household consumer loans	8,329	4,980	320	3,756	0	17,384
Public sector	1,514	650	30	740	–	2,934
Total loans to the public	**26,943**	**34,895**	**47,022**	**36,438**	**9,120**	**154,419**
Loans to central banks and credit institutions	11,940	3,960	6,049	29,359	13,462	64,772
Total loans	**38,883**	**38,855**	**53,071**	**65,797**	**22,582**	**219,191**

Impaired loans and allowances and ratios

31 Dec 2018, EURm	
Gross impaired loans, stage 3, EURm	3,889
- of which servicing	1,977
- of which non-servicing	1,912
Impaired loans (Stage 3) ratio, basis points	**198**
Allowance ratio Stages 1 & 2, basis points	**19**
Total allowance ratio, basis points	**93**

Net loan losses and loan loss ratios

31 Dec 2018, EURm,	
Net loan losses, EURm	–12
Loan loss ratio annualised	3
- of which (Stage 3)	13
- of which (Stages 1 & 2)	–10
Loan loss ratio bps, Personal Banking	–9
Loan loss ratio bps, Commercial & Business Banking	31
Loan loss ratio bps, Corporate & Institutional Banking	40
Loan loss ratio bps, Shipping, Offshore & Oil Services	–119

P49. Credit risk management and credit risk disclosures, cont.

Impaired loans gross and allowances by country and industry

31 Dec 2018, EURm	Denmark	Finland	Norway	Sweden	Outside Nordic	Parent company	Allowances (on balance)	Impaired loans (stage 3) ratio (Stage 3 allowances/ Stage 3 loans)
Energy (oil, gas, etc.)	0	–	182	0	372	555	164	29%
Metals and mining materials	0	3	0	0	–	4	10	>100%
Paper and forest materials	16	1	0	0	–	17	8	44%
Other materials (building materials, etc.)	12	95	5	7	2	121	110	90%
Industrial capital goods	8	44	0	2	–	53	42	78%
Industrial commercial services, etc.	84	32	51	53	82	301	134	44%
Construction and engineering	36	26	17	5	–	85	68	80%
Shipping and offshore	50	0	265	1	269	585	178	30%
Transportation	10	10	26	4	–	51	26	52%
Consumer durables (cars, appliances, etc.)	23	23	81	3	1	131	43	33%
Media and leisure	7	11	4	0	–	22	11	51%
Retail trade	161	43	13	65	1	283	177	63%
Consumer staples (food, agriculture, etc.)	335	48	4	4	–	390	226	58%
Health care and pharmaceuticals	2	2	0	0	–	4	3	77%
Financial institutions	195	8	64	19	–	285	187	66%
Real estate	82	81	65	2	–	230	113	49%
IT software, hardware and services	8	4	0	0	–	13	18	>100%
Telecommunication equipment	0	1	0	0	–	1	1	57%
Telecommunication operators	0	0	0	2	–	3	6	>100%
Utilities (distribution and productions)	1	0	1	0	–	2	3	>100%
Other, public and organisations	2	0	0	0	–	2	0	-22%
Total corporate impaired loans	**1,031**	**434**	**779**	**167**	**728**	**3,138**	**1,526**	
Household mortgages impaired loans	0	262	74	0	0	337	45	13%
Household consumer impaired loans	182	172	5	54	0	414	243	59%
Public sector impaired loans	–	–	–	–	–	–	1	-
Credit institutions impaired loans	–	–	–	–	–	–	15	>100%
Total impaired loans	**1,213**	**868**	**859**	**221**	**728**	**3,889**		
Total allowances	**804**	**343**	**281**	**162**	**240**		**1,830**	
Total provisioning ratio	**66%**	**40%**	**33%**	**73%**	**33%**			**47%**

Credit portfolio

Including on and offbalance sheet exposures and exposures related to securities, the total credit risk exposure at year end was EUR 393bn. Total credit exposure according to the CRR definition was at year end after Credit Conversion Factor EUR 303bn. See more information and breakdown of exposure according to the CRR definition below.

Credit risk is measured, monitored and segmented in different ways. Onbalance lending consists of fair value lending and amortised cost lending and constitutes the major part of the credit portfolio. Amortised cost lending is the basis for impaired loans, allowances and loan losses. Credit risk in lending is measured and presented as the principal amount of onbalance sheet claims, i.e. loans to credit institutions and to the public, and offbalance sheet potential claims on customers and counterparts, net after allowances. Credit risk exposure also includes the risk related to derivative contracts and securities financing.

Nordea Bank Abp's loans to the public amounted to EUR 154bn at the year end 2018. The corporate portfolio totalled EUR 109bn and the household portfolio EUR 43bn. The overall credit quality is solid with strongly rated customers. Of the lending to the public portfolio, corporate customers accounted for 70%, household customers for 28% and the public sector for 2%. Loans to central banks and credit institutions, mainly in the form of inter-bank deposits, amounted to EUR 65bn at the end of 2018.

Loans to corporate customers

Loans to corporate customers at the end of 2018 amounted to EUR 109bn. The contribution of the three largest industries is approximately 51% of total lending to corporate customers. Real estate management (commercial & residential) is the largest industry in Nordea's lending portfolio, at EUR 28.2bn.

Loans to household customer

At year end 2018 lending to household customers amounted to EUR 43bn. Mortgage lending was EUR 25bn and consumer lending EUR 17bn. The proportion of mortgage lending of total household lending was 59%.

P49. Credit risk management and credit risk disclosures, cont.

Geographical distribution
Lending to the public distributed by borrower domicile shows that the customers residing in the Nordic countries account for 94%. The portfolio is geographically well diversified with no market accounting for more than 30% of total lending. Other EU countries represent the largest part of lending outside the Nordic countries.

Rating and scoring distribution
One way of assessing credit quality is through analysis of the distribution across rating grades, for rated corporate customers and institutions, as well as risk grades for scored household and small business customers, i.e. retail exposures. For the corporate rating the majority of the rating is allocated to 4+ and 4. For the retail rating grade the majority of the rating is found in A+ and A.

Loan classes
The loan portfolio consists of two classes; loans measured at fair value of EUR 24bn and loans measured at amortised cost of EUR 193bn. For further information on loans measured at fair value, see note P16. Loans measured at amortised cost are the basis used for impaired loans, allowances and loan losses.

Impaired loans (Stage 3)
Impaired loans gross in Nordea Bank Abp amounted to EUR 3.889m, corresponding to 198 basis points of total loans. 51% of impaired loans gross are servicing and 49% are non-servicing. Impaired loans net, after allowances for Stage 3 loans amount to EUR 2,420m, corresponding to 123 basis points of total loans. Allowances for Stage 3 loans amount to EUR 1,469m. Allowances for Stages 1&2 loans amount to EUR 361m. The ratio of allowances in relation to impaired loans is 38% and the allowance ratio for loans in Stages 1&2 is 19 basis points.

Net loan losses
Loan losses amount to EUR 12m in Oct-Dec 2018. This corresponds to a loan loss ratio of 3 basis points. EUR 13m relates to corporate customers, and EUR -1m to household customers.

Credit risk disclosures

Allowances for credit risk

EURm	Note	31 Dec 2018
Loans to central banks and credit institutions	P16	15
Loans to the public	P16	1,815
Interest bearing securities measured at fair value through other comprehensive income or amortised cost	P14	2
Off-balance sheet items	P34	201
Total		**2,033**

Maximum exposure to credit risk

31 Dec 2018, EURm	Note	AC+FVOCI	FVTPL
Loans to central banks and credit institutions	P16, P43	61,160	3,612
Loans to the public	P16, P43	133,546	20,873
Interest bearing securities	P14, P43	32,362	42,205
Derivatives			37,221
Off-balance sheet items	P41, P42	130,129	
Total		**357,197**	**103,911**

Exposure types

31 Dec 2018, EURm	
On-balance sheet items	303,375
Off-balance sheet items	72,835
Securities financing	4,942
Derivatives	15,095
Total exposure	**396,247**

Tables presented in this Note, containing exposure, is the exposure after applying credit conversion factors (CCF).

Link between credit risk exposure and the balance sheet
This section discloses the link between the loan portfolio as defined by accounting standards and exposure as defined in CRR. The main differences are outlined in this section to illustrate the link between the different reporting methods. Original exposure is the exposure before taking into account substitution effects stemming from credit risk mitigation, credit conversion factors (CCFs) for off-balance sheet exposure and allowances within the standardised approach. In this note, however, exposure is defined as exposure at default (EAD) for IRB exposure and exposure value for standardised exposure, unless otherwise stated. In accordance with the CRR, credit risk exposure presented in this note is divided into exposure classes where each exposure class is divided into exposure types as follows:

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

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

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

The the next table the link between the CRR credit risk exposure and items presented in the Annual Report is shown.

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

- Non CRR related items. Items not part of consolidated situation of CRR such as Life insurance operations (due to solvency regulation).
- Market risk related items in the trading book, such as certain interest-bearing securities and pledged instruments.
- Repos, derivatives and securities lending. These transactions are either included in the calculation of market risk in the trading book or reported as separate exposure types (derivatives or securities financing).
- Other, mainly allowances and intangible assets.

P49. Credit risk management and credit risk disclosures, cont.

Off-balance sheet items

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

- Non CRR related items. Items not part of consolidated situation of CRR such as Life insurance operations (due to solvency regulation).
- "Assets pledged as security for own liabilities" and "Other assets pledged" (apart from leasing). These transactions are reported as securities financing (i.e. a separate exposure type).
- Derivatives.

Derivatives and securities financing

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

On-balance sheet items

31 Dec 2018, EURm	Original Exposure	Items related to market risk	Repos, derivatives, securities lending	Other	Balance sheet
Cash and balances with central banks	39,562	–	–	–	39,562
Loans to credit institutions and central banks	55,803	–	8,984	–15	64,772
Loans to the public	131,948	–	20,771	1,700	154,419
Interest-bearing securities and pledged instruments	56,262	16,801	–	1,504	74,567
Derivatives[1]	–	–	37,221	–	37,221
Intangible assets	–	–	–	2,331	2,331
Other assets and prepaid expenses	19,767	14,663	–	1,420	35,850
Total assets	**303,342**	**31,464**	**66,976**	**6,940**	**408,722**
Exposure at default[2]	**303,376**				

1) Derivatives are included in banking and trading books, but not at book values. Counterparty risk in trading derivatives is included in the credit risk.
2) The on-balance exposures have a CCF of 100% but can still have a lower exposure value due to provisions in the standardised approach, that are deducted from the original exposure when calculating exposure value.

Off-balance sheet items

31 Dec 2018, EURm	Credit risk accordance with CRR	Items excluded from CRR scope of consolidation	Included in derivatives and securities financing	Off-balance sheet
Contingent liabilities	51,432	–	–	51,432
Commitments	80,102	–	–	80,102
Total	**131 534**	–	–	**131 534**

31 Dec 2018, EURm	Credit risk accordance with CRR	Items not included in accounts	Original exposure	Average conversion factor	Exposure at default EAD
Credit facilities	59,620	– 260	59,360	49%	29,100
Checking accounts	14,066	1,454	15,520	49%	7,559
Loan commitments	6,412	1,117	7,529	39%	2,938
Guarantees	50,427	–	50,427	65%	32,942
Other (leasing and documentary credits)	1,009	–4	1,005	30%	296
Total exposure	**131,534**	**2,307**	**133,841**		**72,835**

P49. Credit risk management and credit risk disclosures, cont.

Exposure classes split by exposure type

31 Dec 2018, EURm	On-balance sheet items	Off-balance sheet items	Securities financing	Derivatives	Total exposure
Government, local authorities and central banks	76,929	1,456	1,084	3,179	82,649
Institutions	84,145	10,774	2,723	4,689	102,331
Corporate	82,056	35,188	1,134	7,155	125,533
Retail[1]	43,108	19,766	–	71	62,946
Other	17,138	5,651	–	–	22,789
Total exposure	**303,376**	**72,835**	**4,942**	**15,095**	**396,247**

1) Includes exposures secured by real estate.

Exposure split by geography and exposure classes

31 Dec 2018, EURm	Nordic countries	- of which Denmark	- of which Finland	- of which Norway	- of which Sweden	Baltic countries	Russia	US	Other	Total
Government, local authorithies and central banks	52,296	7,930	30,082	3,142	11,142	4	-	21,964	8,385	82,649
Institutions	90,490	27,263	15,013	11,315	36,899	2,099	613	559	8,570	102,331
Corporate	104,025	29,471	21,332	25,036	28,186	1,443	714	2,223	17,128	125,533
Retail[1]	62,406	24,637	13,676	18,959	5,134	19	6	53	462	62,946
Other	21,141	5,590	9,504	2,061	3,986	-	807	135	705	22,789
Total exposure	**330,358**	**94,891**	**89,607**	**60,513**	**85,347**	**3,565**	**2,140**	**24,934**	**35,250**	**396,247**

1) Includes exposures secured by real estate.

In the table below, the total exposure is split by industry. The industry breakdown mainly follows the Global Industries Classification Standard (GICS) and is based on NACE codes (statistical classification codes of economic activities in the European community). The industry group which has the largest share of total exposure is Other, public and organisations; they account for 47% of the total exposure.

Exposure split by industry sector

EURm	31 Dec 2018
Construction and engineering	4,744
Consumer durables (cars, appliances, etc.)	2,520
Consumer staples (food, agriculture etc.)	7,684
Energy (oil, gas, etc.)	2,200
Health care and pharmaceuticals	1,635
Industrial capital goods	3,122
Industrial commercial services	13,578
IT software, hardware and services	2,003
Media and leisure	1,833
Metals and mining materials	691
Other financial institutions	103,317
Other materials (chemical, building materials, etc.)	4,513
Other, public and organisations	186,807
Paper and forest materials	1,722
Real estate management and investment	31,232
Retail trade	9,841
Shipping and offshore	9,106
Telecommunication equipment	252
Telecommunication operators	1,356
Transportation	2,609
Utilities (distribution and production)	5,482
Total exposure	**396,247**

At the end of 2018, the share of total exposure secured by eligible collateral was 17%. Approximately 3% of total exposure was secured by guarantees and credit derivatives.

P49. Credit risk management and credit risk disclosures, cont.

Exposure secured by collaterals, guarantees and credit derivatives

31 Dec 2018, EURm	Original exposure	EAD	- of which secured by guarantees and credit derivatives	- of which secured by collateral
Government, local authorithies and central banks	81,198	80,171	350	–
Institutions	114,313	102,331	152	162
Corporate	159,674	125,533	10,332	37,748
Retail[1]	71,053	62,924	1,985	30,975
Other	30,980	25,288	–	21
Total exposure	**457,218**	**396,247**	**12,819**	**68,906**

1) Includes exposures secured by real estate.

Collateral distribution

The table presents the distribution of collateral used in the capital adequacy calculation process. The table shows that real estate collateral had the major share with a 49% of total eligible collateral. Commerical real estate represents approximately to 32%.

	31 Dec 2018
Financial Collateral	2.8%
Receivables	1.0%
Residential Real Estate	49.1%
Commercial Real Estate	31.8%
Other Physical Collateral	15.4%
Total	**100.0%**

Loan-to-value distribution

The loan-to-value (LTV) ratio is considered a useful measure to evaluate collateral's quality, i.e. the credit extended divided by the market value of the collateral pledged. In the table below, the retail mortgage exposures are distributed by LTV bucket based on the LTV ratio. In 2018, the majority of the exposure is classified in < 50% LTV bucket

Retail mortgage exposure

31 Dec 2018	EURbn	%
<50%	23.2	82
50–70%	3.5	13
70–80%	0.9	3
80–90%	0.4	1
>90%	0.3	1
Total	**28.3**	**100**

Forbearance

EURm	31 Dec 2018
Forborne loans	3,061
- of which defaulted	2,040
Allowances for individually assessed impaired and forborne loans	709
- of which defaulted	690

Key ratios

	31 Dec 2018
Forberance ratio[1]	1.4%
Forbearance coverage ratio[2]	23%
-of which defaulted	34%

1) Forborne loans/Loans before allowances (Central banks and credit institutions and the public)
2) Individual allowances/Forborne loans

Additional information on forbearance is disclosed in the risk management section of of the Board of Directors´ Report.

Assets taken over for protection of claims[1]

31 Dec 2018, EURm	
Land and buildings	5
Total	**5**

1) In accordance with Nordea's policy for taking over assets for protection of claims, which is in compliance with the local Banking Business Acts, wherever Nordea is located. Assets, used as collateral for the loan, are generally taken over when the customer is not able to fulfil its obligations to Nordea. The assets taken over are at the latest, disposed when full recovery is reached.

P49. Credit risk management and credit risk disclosures, cont.

Past due loans, excluding impaired loans

The table below shows loans past due 6 days or more that are not considered impaired, split by corporate and household customers. Past due is defined as a loan payment that has not been made as of its due date. Past due loans to corporate customers were at end of 2018 EUR 485m and past due loans for household customers were EUR 1,163m.

31 Dec 2018, EURm	Corporate customers	Household customers
6–30 days	131	701
31–60 days	44	104
61–90 days	18	37
>90 days	292	321
Total	**485**	**1,163**
Past due not impaired loans divided by loans to the public after allowances, %	0.3	2.7

Loans to corporate customers, by size of loan

The distribution of loans to corporate by size of loans, seen in the table below, shows a high degree of diversification where approximately 56% of the corporate volume represents loans up to EUR 50m per customer.

31 Dec 2018, Size in EURm	Loans EURm	%
0–10	26,308	28.0
10–50	26,643	28.4
50–100	15,532	16.5
100–250	14,165	15.1
250–500	4,321	4.6
500–	6,939	7.4
Total	**93,908**	**100.0**

Interest-bearing securities

For more information about credit risk related to interest-bearing securities, see Note P17 "Interest-bearing securities and subordinated receivables" where the carrying amount of interest-bearing securities is split on different types of counterparties.

P50. Customer Assets being Managed

31 Dec 2018, EURm	
Asset management	84,468
Custody assets	685,255
Total	**769,723**

Customers' Long term savings account (PS-account) were minor amounting to EUR 4m as 31 December 2018.
Total of customers PS investmets are EUR 47m.

Signing

The Board of Directors' and the CEO's signing of the Board of Directors' report and the Financial Statements 2018

Nordea Bank Abp is the parent company of the Nordea Group and domiciled in Helsinki, Finland. A copy of the report by the Board of Directors and financial statement is available from Nordea Bank Abp, Aleksis Kiven katu 7, 00500 Helsinki and from Nordea's website www.nordea.com.

Nordea Bank Abp's distributable retained earnings including profit for the year are EUR 18,896,473,415.98 and the unrestricted equity reserve is EUR 4,591,670,261.24. The Board of Directors proposes a dividend of EUR 0.69 per share for 2018. The total dividend payment for 2018 would then be EUR 2,787,859,824.33, excluding dividend for treasury shares and would be paid from retained earnings. After the dividend pay-out, EUR 16,108,613,591.65 is to be carried forward as distributable retained earnings.

21 February 2019

Björn Wahlroos
Chairman

Lars G Nordström
Vice Chairman

Dorrit Groth Brandt
Board member[1]

Pernille Erenbjerg
Board member

Nigel Hinshelwood
Board member

Robin Lawther
Board member

Torbjörn Magnusson
Board member

Gerhard Olsson
Board member[1]

Hans Christian Riise
Board member[1]

Sarah Russell
Board member

Silvija Seres
Board member

Birger Steen
Board member

Maria Varsellona
Board member

Casper von Koskull
President and CEO

Auditor's note

A report on the audit performed has been issued today.

Helsinki 26 February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant (KHT)

1) Employee representative.

Auditor's report *(Translation of the Swedish original)*

To the Annual General Meeting of Nordea Bank Abp

Report on the Audit of the Financial Statements

Opinion

In our opinion

- the consolidated financial statements give a true and fair view of the group's financial position and financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU
- the financial statements give a true and fair view of the parent company's financial performance and financial position in accordance with the laws and regulations governing the preparation of the financial statements in Finland and comply with statutory requirements.

Our opinion is consistent with the additional report to the Audit Committee.

What we have audited

We have audited the financial statements of Nordea Bank Abp (business identity code 2858394-9) for the financial year ended 31 December 2018. The financial statements comprise:

- the consolidated 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
- the parent company's balance sheet, income statement, statement of cash flows and notes.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

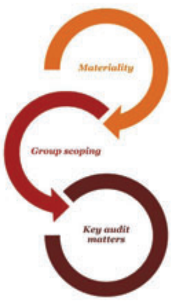
Independence

We are independent of the parent company and of the group companies in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, the non-audit services that we have provided to the parent company and to the group companies are in accordance with the applicable law and regulations in Finland and we have not provided non-audit services that are prohibited under Article 5(1) of Regulation (EU) No 537/2014. The non-audit services that we have provided are disclosed in Note G8 Other expenses/Auditors' fees to the consolidated financial statements.

Our Audit Approach

Overview



- Overall group materiality: € 200 million, which represents 5 % of operating profit.

- The group audit scope encompassed all significant group companies, as well a number of smaller group companies in Nordic countries and Luxembourg, covering the vast majority of revenue, assets and liabilities.

- Impairment of loans to customers
- Valuation of financial instruments held at fair value
- Actuarial assumptions related to the Life business
- 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 group materiality for the consolidated financial statements as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial statements as a whole.

Overall group materiality	€ 200 million
How we determined it	5 % of operating profit
Rationale for the materiality benchmark applied	We chose operating profit as the benchmark because, in our view, it is the benchmark against which the performance of the group is most commonly measured by users, and is a generally accepted benchmark. We chose 5% which is within the range of acceptable quantitative materiality thresholds in auditing standards.

How we tailored our group audit scope

We tailored the scope of our audit, taking into account the structure of the Nordea group, the accounting processes and controls, and the industry in which the group operates.

We determined the type of work that needed to be performed at group companies by us, as the group engagement team, or by component auditors from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we issued specific instructions to reporting component auditors which included our risk analysis, materiality and audit approach to centralized systems. Audits were performed in group companies which were considered significant either because of their individual financial significance or due to their specific nature, covering the majority of revenue, assets and liabilities of the group.

By performing the procedures above at group companies, combined with additional procedures at the group level, we have obtained sufficient and appropriate evidence regarding the financial information of the group as a whole to provide a basis for our opinion on the consolidated financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Key audit matter in the audit of the group	How our audit addressed the key audit matter
Impairment of loans to customer	
Refer to the Note G1 - Accounting policies (Critical judgements and estimation uncertainty), Note G10 – Net loan losses and Note G13 – Loans and impairment to the consolidated financial statements. IFRS 9, the new accounting standard for financial instruments, came into effect on 1 January 2018 and has significant impact on processes and models for impairment of loans to customers. IFRS 9 categorises loans into three stages depending on the level of credit risk or changes in credit risk for each individual loan. For loans without significant increase in credit risk, stage 1, expected credit losses are calculated for estimated defaults within 12 months. For loans where there is a significant increase in credit risk, stage 2, or loans in default, stage 3, a lifetime of expected losses are calculated. Expected credit losses are calculated as a function of the probability of default, the exposure at default and the loss given default, as well as the timing of the loss. These calculations are a central part of the assessment of impairment of loans to customers. The calculations include critical judgements and estimates. IFRS 9 also allows for expert credit judgement to be applied to loan loss provisioning. This is also a key audit matters with respect to our audit of the parent company financial statements.	Our audit included a combination of testing of internal controls over financial reporting and substantive testing. The testing of internal controls included procedures relating to the governance structure, segregation of duties and key controls in the lending processes. We had a special focus on loans to customers in the shipping, offshore and oil services, exposures affected by US sanctions and the Agricultural sector in Denmark due to the macro economic environment impacting these industries. In addition, our credit modelling experts have performed recalculations for a sample of loans and model outputs in order for us to obtain comfort over the calculated ECL. We have also audited adjustments related to expert credit judgements. We have assessed that rationale exists to account for the adjustments at year-end and we have reviewed minutes of Risk Committee meetings to ensure that the correct governance procedures have been performed. In addition we have audited the financial effects and disclosures related to the transition to IFRS 9.
Valuation of financial instruments held at fair value	
Refer to the Note G1 - Accounting policies (Critical judgements and estimation uncertainty), Note G18 – Derivatives and Hedge accounting, Note G39 – Classification of financial instruments and Note G40 – Assets and liabilities at fair value to the consolidated financial statements. Given the ongoing volatility and macro economic uncertainty, valuation of financial instruments continues to be an area of inherent risk. The valuation of Level II and III financial instruments utilise observable, and for level III unobservable inputs, for recurring fair value measurements. Significant portfolios of financial instruments are valued based on models and certain assumptions that are not observable by third parties. Important areas in valuation of financial instruments held at fair value relate to: • Framework and policies relating to models and valuation; • Internal controls relating to fair value hierarchy, fair value adjustments, price testing and model control & governance; and • Disclosures of financial instruments. This is also a key audit matters with respect to our audit of the parent company financial statements.	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 Group's independent price verification processes, model validation and approval processes, controls over data feeds and inputs to valuation and the Group's governance and reporting processes and controls. For the valuations dependent on unobservable inputs or which involve a higher degree of judgment, we assessed the assumptions, methodologies and models used by the Group. We performed an independent valuation of a sample of positions. In respect of fair value adjustments, specifically Credit, Debt and Funding fair value adjustments (CVA, DVA and FFVA) for derivatives we assessed the methodology applied, underlying models and assumptions made by the Group and compared it with our knowledge of current industry practice. We tested the controls over the data inputs to the underlying models and on a sample basis tested underlying transactions back to supporting evidence.

Actuarial assumptions related to the Life business

Refer to the Note G1 - Accounting policies (Critical judgements and estimation uncertainty) and Note G27 – Liabilities to policyholders to the consolidated financial statements.

Technical provisions involves subjective judgments over uncertain future outcomes. The value is based on models where significant judgment is applied in setting economic assumptions, actuarial assumptions as well as customer behavior. Changes in these assumptions can materially impact the valuation of technical provisions.

We assessed the design and tested operating effectiveness of the controls over the process for calculating provisions within the Life business.

Our audit also included assessments of applied methods, models and assumptions used in calculating the provisions. We have on a sample basis performed recalculations of the provisions. The audit was carried out involving PwC actuaries.

It systems supporting processes over financial reporting

Due to the significant number of transactions that are processed, the Group'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 controls over appropriate access rights, program development and changes are designed and operates effectively.

This is also a key audit matters with respect to our audit of the parent company financial statements.

We have tested the design and operating effectiveness for controls related to the IT systems relevant for financial reporting. Our assessment included, access to program and data as well as program development and changes.

For logical access to program and data, audit activities included testing of addition of access rights, removal of access rights and monitoring of appropriateness as well as appropriate segregation of duties. Other areas tested included monitoring of IT systems and controls over changes to IT-systems.

There are no significant risks of material misstatement referred to in Article 10(2c) of Regulation (EU) No 537/2014 with respect to the consolidated financial statements or the parent company financial statements.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and of financial statements that give a true and fair view in accordance with the laws and regulations governing the preparation of financial statements in Finland and comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the parent company's and the group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the parent company or the group or to 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 about 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 with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the parent company's or the group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the parent company's or the group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the parent company or the group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Appointment

As set forth in the Memorandum of Association of Nordea Bank Abp, we have acted as the auditor as of 21 September 2017. Our appointment represents a total period of uninterrupted engagement of one financial year.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included 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 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
- 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.

Other Statements

We support the proposal that the financial statements are adopted. The proposal by the Board of Directors regarding the distribution of profits is in compliance with the Limited Liability Companies Act. We support that the Members of the Board of Directors and the Managing Director of the parent company should be discharged from liability for the financial period audited by us.

Helsinki 26 February 2019

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant (KHT)

Capital adequacy for the Nordea Group

Capital adequacy is a measure of the financial strength of a bank, usually expressed as a ratio of capital to assets. There is 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 Capital Requirements Directive IV (CRD IV) and Capital Requirements Regulation (CRR).

CRD IV was implemented through national law within all EU countries during 2014, while the CRR entered into force in all EU countries on the 1 January 2014.

The Basel III framework is built on three Pillars:

- **Pillar I** – requirements for the calculation of REA and Capital
- **Pillar II** – rules for the Supervisory Review Evaluation Process (SREP) including the Internal Capital Adequacy Assessment Process (ICAAP)
- **Pillar III** – rules for the disclosure on risk and capital management, including capital adequacy

Nordea performs an ICAAP with the purpose to review the management, mitigation and measurement of material risks within the business environment in order to assess the adequacy of capitalisation and to determine an internal capital requirements reflecting the risks of the institution.

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

Nordea's capital levels continue to be adequate to support the risks taken, both from an internal perspective as well as from the perspective of supervisors. Heading into 2019, Nordea will continue to closely follow the development of the new capital requirement regime as well as maintain its open dialogue with the supervisory authorities.

The disclosures in this note cover the Nordea Group as defined on page 273.

Own funds

Own funds is the sum of Tier 1 and Tier 2 capital. Tier 1 capital consists of both Common Equity Tier 1 (CET1) and additional Tier 1 capital.

Tier 1 capital

Tier 1 capital is the sum of common equity tier 1 capital and additional Tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbing 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 capital items consist of additional Tier 1 instruments and the related share premium.

Additional Tier 1 instruments

Additional Tier 1 instruments are subordinated capital instruments that rank senior only to share capital. CRR specifies the necessary characteristics required for inclusion in additional Tier 1 capital. The instruments are loss-absorbing from a going concern perspective as coupons can be cancelled at any time at the full discretion of the issuer and the principal will be written down if the Common Equity Tier 1 capital ratio would fall below a pre-defined trigger level. The instruments are perpetual and can only be repaid with the permission from the national competent authorities and not earlier than five years after original issuance of the instrument. Additional Tier 1 instruments that fulfil the CRR requirements are fully included whereas remaining instruments are phased out according to transitional rules. During 2018, Nordea did not issue any additional Tier 1 instrument. At year-end, Nordea held EUR 2.9bn in undated subordinated instruments..

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-á-vis depositors and other bank creditors.

Tier 2 instruments

Tier 2 instruments are subordinated instruments. The basic principle for subordinated instruments in own funds is the order of priority in case of a default or bankruptcy situation.

Under such conditions, the holder of the subordinated instrument would be repaid after other creditors, but before shareholders. Tier 2 instruments have an original maturity of at least five years. According to the regulation, Tier 2 instruments that fulfil the CRD IV requirements are fully included whereas remaining instruments are phased out according to transitional rules.

The inclusion of outstanding Tier 2 instruments in the Tier 2 capital is reduced if the remaining maturity is less than five years. As of year-end, Nordea held EUR 5.0bn in dated subordinated instruments.

The tables below shows the main features of outstanding-Common Equity Tier 1, additional Tier 1 and Tier 2 instruments.

Common Equity Tier 1 capital: instruments and reserves

		A) Amount at disclosure date, EURm	(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	5,130	–
	of which: Instrument type 1	4,050	–
2	Retained earnings	23,943	–
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	–541	–
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**28,532**	**–**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		
7	Additional value adjustments (negative amount)	–210	–
8	Intangible assets (net of related tax liability) (negative amount)	–3,885	–
11	Fair value reserves related to gains or losses on cash flow hedges	12	–
12	Negative amounts resulting from the calculation of expected loss amounts	–76	–
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–108	–
15	Defined-benefit pension fund assets (negative amount)	–116	–
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–9	–
25a	Losses for the current financial year (negative amount)	–6	–
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	–	57
	Of which: ...filter for unrealised loss on AFS debt instruments	–	–51
	Of which: ...filter for unrealised gain on AFS debt instruments	–	108
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**–4,398**	**57**
29	**Common Equity Tier 1 (CET1) capital**	**24,134**	**57**
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	2,878	–
31	of which: classified as equity under applicable accounting standards	750	–
32	of which: classified as liabilities under applicable accounting standards	2,128	–
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**2,878**	**–**
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	–28	–
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**–28**	**–**
44	**Additional Tier 1 (AT1) capital**	**2,850**	**–**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**26,984**	**–**
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	4,973	–
50	Credit risk adjustments	135	–
51	**Tier 2 (T2) capital before regulatory adjustments**	**5,108**	**–**
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–64	–
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–1,000	–
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–1,064**	**–**
58	**Tier 2 (T2) capital**	**4,044**	**–**
59	**Total capital (TC = T1 + T2)**	**31,028**	**–**
60	**Total risk weighted assets**	**155,886**	**–**

Common Equity Tier 1 capital: instruments and reserves, cont.

		A) Amount at disclosure date, EURm	(C) Amounts subject to pre- regulation (eu) no 575/2013 treatment or prescribed residual amount of regulation (eu) no 575/2013
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	15.5%	–
62	Tier 1 (as a percentage of risk exposure amount)	17.3%	–
63	Total capital (as a percentage of risk exposure amount)	19.9%	–
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	3.4%	–
65	of which: capital conservation buffer requirement	2.5%	–
66	of which: countercyclical buffer requirement	0.9%	–
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	11.0%	–
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)	299	–
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)	909	–
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)	135	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	646	–
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase out arrangements	788	–
84	Current cap on T2 instruments subject to phase out arrangements	443	–

Minimum capital requirement and REA

	31 Dec 2018		31 Dec 2017	
EURm	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	**9,678**	**120,969**	**8,219**	**102,743**
- of which counterparty credit risk	534	6,671	488	6,096
IRB	8,611	107,635	7,104	88,808
- sovereign	–	–	149	1,869
- corporate	5,749	71,868	4,560	57,004
- advanced	4,850	60,626	3,774	47,173
- foundation	899	11,242	786	9,831
- institutions	477	5,953	493	6,163
- retail	2,078	25,979	1,671	20,888
- secured by immovable property collateral	1,369	17,118	934	11,678
- other retail	709	8,861	737	9,210
- items representing securitisation positions	132	1,648	68	850
- other	175	2,187	163	2,034
Standardised	1,067	13,334	1,115	13,935
- central governments or central banks	48	600	22	281
- regional governments or local authorities	7	86	1	7
- public sector entities	0	2	0	3
- multilateral development banks	–	–	–	–
- international organisations	–	–	–	–
- institutions	20	248	14	171
- corporate	312	3,904	261	3,264
- retail	259	3,243	258	3,225
- secured by mortgages on immovable properties	79	984	197	2,458
- in default	28	344	47	592
- associated with particularly high risk	65	811	60	754
- covered bonds	–	–	–	–
- institutions and corporates with a short-term credit assessment	–	–	–	–
- collective investments undertakings (CIU)	–	–	–	–
- equity	198	2,472	208	2,598
- other items	51	640	47	582
Credit Value Adjustment Risk	**74**	**931**	**96**	**1,207**
Market risk	**485**	**6,064**	**282**	**3,520**
- trading book, Internal Approach	351	4,388	196	2,444
- trading book, Standardised Approach	86	1,070	86	1,076
- banking book, Standardised Approach	48	606	–	–
Operational risk	**1,319**	**16,487**	**1,345**	**16,809**
Standardised	1,319	16,487	1,345	16,809
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	**53**	**657**	**–**	**–**
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	**850**	**10,626**	**–**	**–**
Additional risk exposure amount due to Article 3 CRR	**12**	**152**	**120**	**1,500**
Sub total	**12,471**	**155,886**	**10,062**	**125,779**
Adjustment for Basel I floor				
Additional capital requirement according to Basel I floor	–	–	6,132	76,645
Total	**12,471**	**155,886**	**16,194**	**202,424**

Leverage ratio

	31 Dec 2018	31 Dec 2017
Tier 1 capital, transitional definition, EURm[1]	26,984	28,008
Leverage ratio exposure, EURm	528,163	538,338
Leverage ratio, percentage	5.1	5.2

1) Including profit for the period.

Capital requirements for market risk

	Trading book, IA		Trading book, SA		Banking book, SA		Total	
31 Dec 2018, EURm	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement
Interest rate risk & other[1]	967	77	652	52	–	–	1,619	129
Equity risk	89	7	370	30	–	–	459	37
Foreign exchange risk	132	11	–	–	606	48	738	59
Commodity risk	–	–	32	3	–	–	32	3
Settlement risk	–	–	16	1	–	–	16	1
Diversification effect	–464	–37	–	–	–	–	–464	–37
Stressed Value-at-Risk	2,173	174	–	–	–	–	2,173	174
Incremental Risk Measure	1,066	85	–	–	–	–	1,066	85
Comprehensive Risk Measure	425	34	–	–	–	–	425	34
Total	**4,388**	**351**	**1,070**	**86**	**606**	**48**	**6,064**	**485**

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

Nordea may transfer capital within its legal entities without material restrictions, subject to the general conditions for entities considered solvent with sufficient liquidity under local law and satisfying minimum capital adequacy requirements. International transfers of capital between legal entities are normally possible after approval by the local regulator and are of importance in governing the capital position of Nordea's entities. Such approval has to be applied and authorised by the local FSA for internal subordinated loans as prescribed by Article 77 in the CRR. Table A3–A5 include disclosure of capital instruments' main features in accordance with Article 3 in Commission implementing regulation (EU) No 1423/2013, where the template in Annex II is used.

Table A3 – Capital instruments' main features template – CET1

	Common equity Tier 1 capital	
1	Issuer	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	FI4000297767
3	Governing law(s) of the instrument	Finnish
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital as published in Regulation (EU) No 575/2013 article 28
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 4,050m
9	Nominal amount of instrument	EUR 4,049,951,919
10	Accounting classification	Shareholders' equity
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
	Coupons/dividends	
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1
36	Non-compliant transitioned features	No

Table A4 – Capital instruments' main features template – AT1

	Disclosure according to Article 3 in Commission implementing regulation (EU) No 1423/2013						
1	Issuer	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US65557CAM55/ US65557DAM39	US65557CAN39/ US65557DAL55	XS1202091325	XS1202091671	XS1202090947	XS1725580465
3	Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)
	Regulatory treatment						
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 873m	EUR 435m	EUR 219m	EUR 125m	EUR 480m	EUR 745m
9	Nominal amount of instrument	USD 1,000m / EUR 875m	USD 500m / EUR 437m	SEK 2,250m / EUR 220m	NOK 1,250m / EUR 126m	USD 550m / EUR 481m	EUR 750m
9a	Issue price	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Equity
11	Original date of issuance	23 Sep 2014	23 Sep 2014	12 Mar 2015	12 Mar 2015	12 Mar 2015	28 Nov 2017
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	23 Sep 2019 In addition tax/regulatory call 100 per cent of nominal amount	23 Sep 2024 In addition tax/regulatory call 100 per cent of nominal amount	12 Mar 2020 In addition tax/regulatory call 100 per cent of nominal amount	12 Mar 2020 In addition tax/regulatory call 100 per cent of nominal amount	13 Sep 2021 In addition tax/regulatory call 100 per cent of nominal amount	12 Mar 2025 In addition tax/regulatory call 100 per cent of nominal amount

Table A4 – Capital instruments' main features template – AT1, cont

Disclosure according to Article 3 in Commission implementing regulation (EU) No 1423/2013							
16	Subsequent call dates, if applicable	23 Mar and 23 Sep each year after first call date	23 Mar and 23 Sep each year after first call date	12 Mar, 12 Jun, 12 Sep and 12 Dec each year after first call date	12 Mar, 12 Jun, 12 Sep and 12 Dec each year after first call date	13 Sep each year after first call date	12 Mar each year after first call date
Coupons / dividends							
17	Fixed or floating dividend / coupon	Fixed	Fixed	Floating	Floating	Fixed	Fixed
18	Coupon rate and any related index	Fixed 5.50 per cent per annum, until first call date, there-after fixed 5-year mid swap +3.563 per cent per annum	Fixed 6.125 per cent per annum, until first call date, thereafter fixed 5-year mid swap +3.388 per cent per annum	Floating 3-month STIBOR +3.10 per cent per annum	Floating 3-month NIBOR +3.10 per cent per annum	Fixed 5.25 per cent per annum, until first call date, thereafter fixed 5-year mid swap +3.244 per cent per annum	Fixed 3.5 per cent per annum, until first call date, thereafter fixed 5-year mid swap +3.003 per cent per annum
19	Existence of a dividend stop-per	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	Yes	Yes	Yes	Yes	Yes	Yes
31	If write-down, write-down trigger(s)	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent
32	If write-down, full or partial	Fully or Partially	Fully or Partially	Fully or Partially	Fully or Partially	Fully or Partially	Fully or Partially
33	If write-down, permanent or temporary	Temporary	Temporary	Temporary	Temporary	Temporary	Temporary
34	If temporary write-down, description of write-up mechanism	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group
35	Position in subordination hier-archy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
36	Non-compliant transitioned features	No	No	No	No	No	No

Table A5 – Capital instruments' main features template – T2

Disclosure according to Article 3 in Commission implementing regulation (EU) No 1423/2013					
1	Issuer	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0497179035	XS0544654162	US65557FAA49/ US65557HAA05	US65557FAD87/ US65557HAD44
3	Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorpora-tion of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorpora-tion of the Issuer (Finnish law)	Governed by the laws of the State of New York, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by the laws of the State of New York, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)
Regulatory treatment					
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regula-tion (EU) No 575/2013 article 63	Tier 2 as published in Regula-tion (EU) No 575/2013 article 63	Tier 2 as published in Regula-tion (EU) No 575/2013 article 63	Tier 2 as published in Regula-tion (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 247m (24.7 per cent of Nominal amount, <5 yrs to maturity)	EUR 336m (44.8 per cent of Nominal amount, <5 yrs to maturity)	EUR 516m (47.2 per cent of Nominal amount, <5 yrs to maturity)	EUR 648m (74.1 per cent of Nominal amount, <5 yrs to maturity)
9	Nominal amount of instrument	EUR 1,000m	EUR 750m	USD 1,250m / EUR 1,093m	USD 1,000m / EUR 875m
9a	Issue price	99.810 per cent	99.699 per cent	99.508 per cent	99.364 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	26 Mar 2010	29 Sep 2010	13 May 2011	21 Sep 2012
12	Perpetual or dated	Dated	Dated	Dated	Dated
13	Original maturity date	26 Mar 2020	29 Mar 2021	13 May 2021	21 Sep 2022
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Tax/regulatory call 100 per cent of nominal amount	Tax call 100 per cent of nominal amount	Tax call 100 per cent of nominal amount	Tax/regulatory call 100 per cent of nominal amount
Coupons / dividends					
17	Fixed or floating dividend / coupon	Fixed	Fixed	Fixed	Fixed
18	Coupon rate and any related index	4,50%	4,00%	4,875%	4,250%
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior non-preferred	Senior non-preferred	Senior non-preferred	Senior non-preferred
36	Non-compliant transitioned features	No	No	No	No

Table A5 – Capital instruments' main features template – T2, cont.

Disclosure according to Article 3 in Commission implementing regulation (EU) No 1423/2013					
1	Issuer	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS1292434146	XS1292433767	N/A	XS1317439559
3	Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)
Regulatory treatment					
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 166m	EUR 225m	EUR 119m	EUR 747m
9	Nominal amount of instrument	SEK 1,700m / EUR 166m	SEK 2,300m / EUR 225m	JPY 15,000m / EUR 119m	EUR 750m
9a	Issue price	100 per cent	100 per cent	100 per cent	99.434 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	17 Sep 2015	17 Sep 2015	6 Oct 2015	10 Nov 2015
12	Perpetual or dated	Dated	Dated	Dated	Dated
13	Original maturity date	17 Sep 2025	17 Sep 2025	6 Oct 2025	10 Nov 2025
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	17 Sep 2020 In addition tax/regulatory call 100 per cent of nominal amount	17 Sep 2020 In addition tax/regulatory call 100 per cent of nominal amount	Tax/regulatory call 100 per cent of nominal amount	10 Nov 2020 In addition tax/regulatory call 100 per cent of nominal amount
16	Subsequent call dates, if applicable	17 Mar, 17 Jun, 17 Sep and 17 Dec each year after first call date	17 Sep each year after first call date	N/A	10 Nov each year after first call date
Coupons / dividends					
17	Fixed or floating dividend / coupon	Floating	Fixed	Fixed	Fixed
18	Coupon rate and any related index	Floating 3-month STIBOR +1.5 per cent per annum	Fixed 1.935 per cent per annum, until first call date, thereafter fixed 5-year mid swap +1.5 per cent per annum	1,160%	Fixed 1.875 per cent per annum, until first call date, thereafter fixed 5-year mid swap +1.7 per cent per annum
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior non-preferred	Senior non-preferred	Senior non-preferred	Senior non-preferred
36	Non-compliant transitioned features	No	No	No	No

Table A5 – Capital instruments' main features template – T2, cont.

	Disclosure according to Article 3 in Commission implementing regulation (EU) No 1423/2013				
1	Issuer	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS1486520403	N/A	N/A	N/A
3	Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)
	Regulatory treatment				
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 995m	EUR 79m	EUR 159m	EUR 79m
9	Nominal amount of instrument	EUR 1,000m	JPY 10,000m / EUR 79m	JPY 20,000m / EUR 159m	JPY 10,000m / EUR 79m
9a	Issue price	99.391 per cent	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	07 Sep 2016	06 Jun 2018	06 Jun 2018	06 Jun 2018
12	Perpetual or dated	Dated	Dated	Dated	Dated
13	Original maturity date	07 Sep 2026	26 Feb 2034	04 Mar 2040	12 Oct 2040
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	07 Sep 2021 In addition tax/regulatory call 100 per cent of nominal amount	26 Feb 2029 In addition tax/regulatory call 100 per cent of nominal amount	04 Mar 2035 In addition tax/regulatory call 100 per cent of nominal amount	12 Oct 2035 In addition tax/regulatory call 100 per cent of nominal amount
16	Subsequent call dates, if applicable	7 Sep each year after first call date	26 Feb and 26 Aug each year after first call date	4 Mar and 4 Sep each year after first call date	12 Apr and 12 Oct each year after first call date
	Coupons / dividends				
17	Fixed or floating dividend / coupon	Fixed	Fixed to floating	Fixed to floating	Fixed to floating
18	Coupon rate and any related index	Fixed 1.00 per cent per annum, until first call date, thereafter fixed 5-year mid swap +1.25 per cent per annum	Fixed USD 4.51 per cent per annum to call date, thereafter floating rate equivalent to 6-month JPY Deposit +1.1 per cent per annum	Fixed USD 3.75 per cent per annum, until first call date, thereafter floating 6-month JPY deposit +1.2 per cent per annum	Fixed USD 3.84 per cent per annum, until first call date, thereafter floating 6-month JPY deposit +1.2 per cent per annum
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior non-preferred	Senior non-preferred	Senior non-preferred	Senior non-preferred
36	Non-compliant transitioned features	No	No	No	No

Table A5 – Capital instruments' main features template – T2, cont.

	Disclosure according to Article 3 in Commission implementing regulation (EU) No 1423/2013			
1	Issuer	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US65557FAH91/ US65557HAH57	XS1884708238	NO0010833015
3	Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorpora-tion of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorpora-tion of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorpora-tion of the Issuer (Finnish law)
	Regulatory treatment			
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regula-tion (EU) No 575/2013 article 63	Tier 2 as published in Regula-tion (EU) No 575/2013 article 63	Tier 2 as published in Regula-tion (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 435m	EUR 171m	EUR 50m
9	Nominal amount of instrument	USD 500m / EUR 437m	SEK 1,750m / EUR 171m	NOK 500m / EUR 50m
9a	Issue price	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	13 Sep 2018	26 Sep 2018	26 Sep 2018
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	13 Sep 2033	26 Sep 2028	26 Sep 2028
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	13 Sep 2028 In addition tax/regulatory call 100 per cent of nominal amount	26 Sep 2023 In addition tax/regulatory call 100 per cent of nominal amount	26 Sep 2023 In addition tax/regulatory call 100 per cent of nominal amount
16	Subsequent call dates, if applicable	N/A	26 Mar, 26 Jun, 26 Sep and 26 Dec each year after first call date	26 Mar, 26 Jun, 26 Sep and 26 Dec each year after first call date
	Coupons / dividends			
17	Fixed or floating dividend / coupon	Fixed	Floating	Floating
18	Coupon rate and any related index	Fixed 4.625 per cent per annum, until first call date, thereafter fixed 5-year mid swap +1.69 per cent per annum	Floating 3-month STIBOR +1.4 per cent per annum	Floating 3-month NIBOR +1.4 per cent per annum
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior non-preferred	Senior non-preferred	Senior non-preferred
36	Non-compliant transitioned features	No	No	No

Specification of group undertakings 31 December 2018

Owner	Company name	Voting power of holding, %	Accounting consolidation
Nordea Bank Abp	Nordea Finance Finland Ltd	100	Acquisition method
	Nordea Mortgage Bank Plc	100	Acquisition method
	Nordea Funds Ltd	100	Acquisition method
	Automatia Pankkiautomaatit Oy	33	Equity method
Nordea Finance Finland Ltd	Tukirahoitus Oy	100	Acquisition method
Nordea Bank Abp	Nordea Eiendomskreditt AS	100	Acquisition method
	Nordea Finans Norge AS	100	Acquisition method
	Eksportfinans ASA	23	Equity method
	Nordea Utvikling AS	100	Acquisition method
Nordea Bank Abp	Nordea Finans Danmark A/S	100	Acquisition method
	Nordea Kredit Realkreditaktieselskab	100	Acquisition method
	LR-Realkredit A/S	39	Equity method
	Fionia Asset Company A/S	100	Acquisition method
Nordea Finans Danmark A/S	BH Finance K/S	100	Acquisition method
	NAMIT 10 K/S	100	Acquisition method
	UL Transfer Aps	100	Acquisition method
	DT Finance K/S	100	Acquisition method
	BAAS 2012 K/S	100	Acquisition method
Fionia Asset Company A/S	Ejendomsselskabet Vestre Stationsvej 7, Odense A/S	100	Acquisition method
Nordea Bank Abp	LLC Promyshlennaya Kompaniya Vestkon	100	Acquisition method
Promyshlennaya Companiya Vestkon / Nordea Bank Abp	Joint Stock Company Nordea Bank	100	Acquisition method
Joint Stock Company Nordea Bank	Nordea Leasing LLC	100	Acquisition method
Nordea Bank Abp	Nordea Hypotek AB (publ)	100	Acquisition method
	Nordea Finans Sverige AB (publ)	100	Acquisition method
	Nordea Asset Management Holding AB	100	Acquisition method
	Bankomat AB	20	Equity method
	Getswish AB	20	Equity method
	Luminor Group AB	49,9	Equity method
	Nordea Markets Holding Company INC	100	Acquisition method
Nordea Markets Holding Company LLC	Nordea Markets LLC	100	Acquisition method
Nordea Asset Management Holding AB	Nordea Investment Management AB	100	Acquisition method
	Nordea Investment Funds S.A.	100	Acquisition method
	Madrague Capital Partners AB	40	Equity method
	NAM Alternative Investment AB	100	Acquisition method
Nordea Investment Management AB	Nordea Investment Management North America Inc	100	Acquisition method
	Nordea Investment Management AG	100	Acquisition method
	Nordea Asset Management UK Ltd	100	Acquisition method
Nordea Bank Abp	Nordea Bank S.A.	100	Acquisition method

Capital adequacy for the Nordea Parent company

Capital Management
Nordea strives to be efficient in its use of capital and therefore actively manages its balance sheet with respect to different asset, liability and risk categories. The goal is to enhance returns to shareholders while maintaining a prudent capital structure. The Board of Directors decide ultimately on the targets for capital ratios, capital policy and the overall framework of capital management in Nordea. 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.

Capital requirements
The capital requirement and the own funds described in this section follow the rules in the Capital Requirements Regulation (CRR) and not accounting standards, see Note P42 for details. Therefore, the capital requirement and the own funds are only applicable for Nordea Bank Abp on its consolidated situation, in which the insurance companies are not consolidated.

Capital policy
The Nordea Group's current capital policy states that Nordea Group under normal business conditions should have minimum targets for Common Equity Tier 1 (CET1) capital ratio, Tier 1 capital ratio and the Total capital ratio that exceed the capital requirements received from the competent authorities and, in addition, Nordea will maintain a management buffer.

Minimum capital requirements
Risk exposure amount (REA) is calculated in accordance with the requirements in the Capital Requirements Regulation. Nordea had 72% of the credit risk exposure amount covered by internal rating based (IRB) approach by the end of 2018. Nordea is approved to use its own internal Value-at-Risk (VaR) models to calculate capital requirements for the major share of the market risk in the trading book. For operational risk the standardised approach is applied.

Internal capital requirement
The ICR is calculated based on a Pillar I equivalent plus add-ons approach and includes a buffer for economic stress. In addition, supervisors require Nordea to hold capital for other risks which are identified and communicated as part of the Supervisory Review and Evaluation Process (SREP).

Own funds
Own funds is the sum of Tier 1 and Tier 2 capital. Tier 1 capital consists of both Common Equity Tier 1 (CET1) and Additional Tier 1 capital. CET1 capital is considered to be capital of the highest quality with ultimate loss-absorbance characteristics and consists predominately of paid in capital and retained earnings. Profit may only be included after permission from the financial supervisory authority and after deduction of proposed dividend. Additional Tier 1 and Tier 2 capital consists mostly of undated and dated subordinated loans, respectively. Holdings of other financial sector entities' subordinated loans are deducted from the corresponding tier.

Capital situation of the financial conglomerate
As Sampo Plc has an owner share of more than 21.3% in Nordea Bank Abp, Nordea is part of the Sampo financial conglomerate in accordance with the Finnish Act on the Supervision of Financial and Insurance Conglomerates (2004/699), based on Directive 2002/87/EC.

Capital adequacy ratios

	31 Dec 2018
Common Equity Tier[1] (CET[1]) capital ratio excluding Basel I floor (%)	16,0
Tier 1 ratio excluding Basel I floor (%)	17,9
Capital ratio excluding Basel I floor (%)	20,6
Capital adequacy quotient (Own funds/capital requirement excluding Basel I floor)	2,6
Capital adequacy quotient (Own funds/capital requirement including Basel I floor)	2,6

Summary of items included in own funds

	31 Dec 2018[3]
Calculation of own funds	–
Equity in the consolidated situation	26,869
Proposed/actual dividend	–
Common Equity Tier 1 capital before regulatory adjustments	26,869
Deferred tax assets	–
Intangible assets	–2,331
IRB provisions shortfall (–)	–
Deduction for investments in credit institutions (50%)	–
Pension assets in excess of related liabilities[1]	–116
Other items, net	–363
Total regulatory adjustments to Common Equity Tier 1 capital	–2,810
Common Equity Tier 1 capital (net after deduction)	**24,059**
Additional Tier 1 capital before regulatory adjustments	2,860
Total regulatory adjustments to Additional Tier 1 capital	–11
Additional Tier 1 capital	2,849
Tier 1 capital (net after deduction)	**26,908**
Tier 2 capital before regulatory adjustments	4,960
IRB provisions excess (+)	111
Deduction for investments in credit institutions (50%)	–
Deductions for investments in insurance companies	–1,000
Pension assets in excess of related liabilities	–
Other items, net	–51
Total regulatory adjustments to Tier 2 capital	–940
Tier 2 capital	4,020
Own funds (net after deduction)[2]	**30,928**

1) Based on conditional FSA approval.
2) Own Funds adjusted for IRB provision, i.e. adjusted own funds equal 30,817m by 31 Dec 2018.
3) Including profit of the period.

Common Equity Tier 1 capital: instruments and reserves

		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	5,130	–
	of which: Instrument type 1	4,050	
2	Retained earnings	21,577	–
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	171	–
6	**Common Equity Tier 1 (CET1) capital before regulatory adjustments**	**26,878**	**–**
	Common Equity Tier 1 (CET1) capital: regulatory adjustments		**–**
7	Additional value adjustments (negative amount)	–199	–
8	Intangible assets (net of related tax liability) (negative amount)	–2,331	–
11	Fair value reserves related to gains or losses on cash flow hedges	9	–
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	–173	–
15	Defined-benefit pension fund assets (negative amount)	–116	–
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	–9	–
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	–	57
	Of which: ...filter for unrealised loss on AFS debt instruments	–	–51
	Of which: ...filter for unrealised gain on AFS debt instruments	–	108
28	**Total regulatory adjustments to Common equity Tier 1 (CET1)**	**–2,819**	**57**
29	**Common Equity Tier 1 (CET1) capital**	**24,059**	**57**
	Additional Tier 1 (AT1) capital: instruments		
30	Capital instruments and the related share premium accounts	2,878	–
31	of which: classified as equity under applicable accounting standards	749	–
32	of which: classified as liabilities under applicable accounting standards	2,128	–
36	**Additional Tier 1 (AT1) capital before regulatory adjustments**	**2,878**	**–**
	Additional Tier 1 (AT1) capital: regulatory adjustments		
37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	–29	–
43	**Total regulatory adjustments to Additional Tier 1 (AT1) capital**	**–29**	**–**
44	**Additional Tier 1 (AT1) capital**	**2,849**	**–**
45	**Tier 1 capital (T1 = CET1 + AT1)**	**26,908**	**–**
	Tier 2 (T2) capital: instruments and provisions		
46	Capital instruments and the related share premium accounts	4,973	–
50	Credit risk adjustments	111	–
51	**Tier 2 (T2) capital before regulatory adjustments**	**5,084**	**–**
	Tier 2 (T2) capital: regulatory adjustments		
52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	–64	–
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	–1,000	–
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**–1,064**	**–**
58	**Tier 2 (T2) capital**	**4,020**	**–**
59	**Total capital (TC = T1 + T2)**	**30,928**	**–**
60	**Total risk weighted assets**	**150,266**	**–**

Common Equity Tier 1 capital: instruments and reserves, cont.

		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
Capital ratios and buffers			
61	Common Equity Tier 1 (as a percentage of risk exposure amount)	16.0%	–
62	Tier 1 (as a percentage of risk exposure amount)	17.9%	–
63	Total capital (as a percentage of risk exposure amount)	20.6%	–
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)	3.4%	–
65	of which: capital conservation buffer requirement	2.5%	–
66	of which: countercyclical buffer requirement	0.9%	–
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	11.5%	–
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)	298	–
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)	796	–
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)	111	–
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	532	–
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
82	Current cap on AT1 instruments subject to phase out arrangements	788	–
84	Current cap on T2 instruments subject to phase out arrangements	443	–

Minimum capital requirement and REA

	31 Dec 2018	
EURm	Minimum Capital requirement	REA
Credit risk	**9,899**	**123,740**
- of which counterparty credit risk	539	6,741
IRB	7,089	88,619
- sovereign	–	–
- corporate	5,359	66,992
- advanced	4,875	60,935
- foundation	484	6,057
- institutions	493	6,164
- retail	1,104	13,803
- secured by immovable property collateral	449	5,617
- other retail	655	8,186
- other	133	1,660
Standardised	2,810	35,121
- central governments or central banks	36	452
- regional governments or local authorities	6	76
- public sector entities	–	–
- multilateral development banks	–	–
- international organisations	–	–
- institutions	1,061	13,259
- corporate	366	4,567
- retail	4	45
- secured by mortgages on immovable properties	1	9
- in default	0	0
- associated with particularly high risk	63	793
- covered bonds	49	617
- institutions and corporates with a short-term credit assessment	–	–
- collective investments undertakings (CIU)	–	–
- equity	1,223	15,285
- other items	1	18
Credit Value Adjustment Risk	**73**	**922**
Market risk	**995**	**12,433**
- trading book, Internal Approach	351	4,387
- trading book, Standardised Approach	87	1,084
- banking book, Standardised Approach	557	6,962
Operational risk	**1,039**	**12,986**
Standardised	1,039	12,986
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	**–**	**–**
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	**10**	**123**
Additional risk exposure amount due to Article 3 CRR	**5**	**62**
Total	**12,021**	**150,266**

Leverage ratio

	31 Dec 2018
Tier 1 capital, transitional definition, EURm[1]	26,908
Leverage ratio exposure, EURm	453,689
Leverage ratio, percentage	5.9

1) Including profit of the period

Capital requirements for market risk

	Trading book, IA		Trading book, SA		Banking book, SA		Total	
EURm	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement	REA	Capital requirement
Interest rate risk & other[1]	967	77	665	53	–	–	1,632	130
Equity risk	88	7	371	30	–	–	459	37
Foreign exchange risk	132	11	–	–	6,962	557	7,094	568
Commodity risk	–	–	32	3	–	–	32	3
Settlement risk	–	–	16	1	–	–	16	1
Diversification effect	−464	−37	–	–	–	–	−464	−37
Stressed Value-at-Risk	2,173	174	–	–	–	–	2,173	174
Incremental Risk Measure	1,066	85	–	–	–	–	1,066	85
Comprehensive Risk Measure	425	34	–	–	–	–	425	34
Total	**4,387**	**351**	**1,084**	**87**	**6,962**	**557**	**12,433**	**995**

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

Nordea may transfer capital within its legal entities without material restrictions, subject to the general conditions for entities considered solvent with sufficient liquidity under local law and satisfying minimum capital adequacy requirements. International transfers of capital between legal entities are normally possible after approval by the local regulator and are of importance in governing the capital position of Nordea's entities. Such approval has to be applied and authorised by the local FSA for internal subordinated loans as prescribed by Article 77 in the CRR.

Table A3–A5 include disclosure of capital instruments' main features in accordance with Article 3 in Commission implementing regulation (EU) No 1423/2013, where the template in Annex II is used.

Table A3 – Capital instruments' main features template – CET1

	Common equity Tier 1 capital	
1	Issuer	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	FI4000297767
3	Governing law(s) of the instrument	Finnish
	Regulatory treatment	
4	Transitional CRR rules	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital as published in Regulation (EU) No 575/2013 article 28
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 4,050m
9	Nominal amount of instrument	EUR 4,049,951,919
10	Accounting classification	Shareholders' equity
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
	Coupons / dividends	
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Additional Tier 1
36	Non-compliant transitioned features	No

Table A4 – Capital instruments' main features template – AT1

	Additional Tier 1 instrument						
1	Issuer	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US65557CAM55/ US65557DAM39	US65557CAN39/ US65557DAL55	XS1202091325	XS1202091671	XS1202090947	XS1725580465
3	Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)
	Regulatory treatment						
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1	Additional Tier 1
6	Eligible at solo/(sub-) consolidated/solo & (sub-) consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52	Additional Tier 1 as published in Regulation (EU) No 575/2013 article 52
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 873m	EUR 435m	EUR 219m	EUR 125m	EUR 480m	EUR 745m
9	Nominal amount of instrument	USD 1,000m / EUR 875m	USD 500m / EUR 437m	SEK 2,250m / EUR 220m	NOK 1,250m / EUR 126m	USD 550m / EUR 481m	EUR 750m
9a	Issue price	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Equity
11	Original date of issuance	23 Sep 2014	23 Sep 2014	12 Mar 2015	12 Mar 2015	12 Mar 2015	28 Nov 2017
12	Perpetual or dated	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	23 Sep 2019 In addition tax/regulatory call 100 per cent of nominal amount	23 Sep 2024 In addition tax/regulatory call 100 per cent of nominal amount	12 Mar 2020 In addition tax/regulatory call 100 per cent of nominal amount	12 Mar 2020 In addition tax/regulatory call 100 per cent of nominal amount	13 Sep 2021 In addition tax/regulatory call 100 per cent of nominal amount	12 Mar 2025 In addition tax/regulatory call 100 per cent of nominal amount
16	Subsequent call dates, if applicable	23 Mar and 23 Sep each year after first call date	23 Mar and 23 Sep each year after first call date	12 Mar, 12 Jun, 12 Sep and 12 Dec each year after first call date	12 Mar, 12 Jun, 12 Sep and 12 Dec each year after first call date	13 Sep each year after first call date	12 Mar each year after first call date
	Coupons / dividends						
17	Fixed or floating dividend / coupon	Fixed	Fixed	Floating	Floating	Fixed	Fixed
18	Coupon rate and any related index	Fixed 5.50 per cent per annum, until first call date, thereafter fixed 5-year mid swap +3.563 per cent per annum	Fixed 6.125 per cent per annum, until first call date, thereafter fixed 5-year mid swap +3.388 per cent per annum	Floating 3-month STIBOR +3.10 per cent per annum	Floating 3-month NIBOR +3.10 per cent per annum	Fixed 5.25 per cent per annum, until first call date, thereafter fixed 5-year mid swap +3.244 per cent per annum	Fixed 3.5 per cent per annum, until first call date, thereafter fixed 5-year mid swap +3.003 per cent per annum
19	Existence of a dividend stopper	No	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	Yes	Yes	Yes	Yes	Yes	Yes

Table A4 – Capital instruments' main features template – AT1, cont.

Additional Tier 1 instrument							
31	If write-down, write-down trigger(s)	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent	Group CET1 ratio 8 per cent Issuer CET1 ratio 5.125 per cent
32	If write-down, full or partial	Fully or Partially	Fully or Partially	Fully or Partially	Fully or Partially	Fully or Partially	Fully or Partially
33	If write-down, permanent or temporary	Temporary	Temporary	Temporary	Temporary	Temporary	Temporary
34	If temporary write-down, description of write-up mechanism	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group	Fully discretionary, if a positive net profit of both Issuer and Group
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
36	Non-compliant transitioned features	No	No	No	No	No	No

Table A5 – Capital instruments' main features template – T2

Tier 2 instruments				
1 Issuer	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp
2 Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0497179035	XS0544654162	US65557FAA49/ US65557HAA05	US65557FAD87/ US65557HAD44
3 Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by the laws of the State of New York, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by the laws of the State of New York, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)
Regulatory treatment				
4 Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5 Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
6 Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7 Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8 Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 247m (24.7 per cent of Nominal amount, <5 yrs to maturity)	EUR 336m (44.8 per cent of Nominal amount, <5 yrs to maturity)	EUR 516m (47.2 per cent of Nominal amount, <5 yrs to maturity)	EUR 648m (74.1 per cent of Nominal amount, <5 yrs to maturity)
9 Nominal amount of instrument	EUR 1,000m	EUR 750m	USD 1,250m / EUR 1,093m	USD 1,000m / EUR 875m
9a Issue price	99.810 per cent	99.699 per cent	99.508 per cent	99.364 per cent
9b Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10 Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11 Original date of issuance	26 Mar 2010	29 Sep 2010	13 May 2011	21 Sep 2012
12 Perpetual or dated	Dated	Dated	Dated	Dated
13 Original maturity date	26 Mar 2020	29 Mar 2021	13 May 2021	21 Sep 2022
14 Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15 Optional call date, contingent call dates and redemption amount	Tax/regulatory call 100 per cent of nominal amount	Tax call 100 per cent of nominal amount	Tax call 100 per cent of nominal amount	Tax/regulatory call 100 per cent of nominal amount
Coupons / dividends				
17 Fixed or floating dividend / coupon	Fixed	Fixed	Fixed	Fixed
18 Coupon rate and any related index	4,50%	4,00%	4,875%	4,250%
19 Existence of a dividend stopper	No	No	No	No
20a Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory
20b Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory
21 Existence of step up or other incentive to redeem	No	No	No	No
22 Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23 Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30 Write-down features	No	No	No	No
35 Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior non-preferred	Senior non-preferred	Senior non-preferred	Senior non-preferred
36 Non-compliant transitioned features	No	No	No	No

Table A5 – Capital instruments' main features template – T2, cont.

Tier 2 instruments					
1	Issuer	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS1292434146	XS1292433767	N/A	XS1317439559
3	Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)
Regulatory treatment					
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 166m	EUR 225m	EUR 119m	EUR 747m
9	Nominal amount of instrument	SEK 1,700m / EUR 166m	SEK 2,300m / EUR 225m	JPY 15,000m / EUR 119m	EUR 750m
9a	Issue price	100 per cent	100 per cent	100 per cent	99.434 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	17 Sep 2015	17 Sep 2015	6 Oct 2015	10 Nov 2015
12	Perpetual or dated	Dated	Dated	Dated	Dated
13	Original maturity date	17 Sep 2025	17 Sep 2025	6 Oct 2025	10 Nov 2025
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	17 Sep 2020 In addition tax/regulatory call 100 per cent of nominal amount	17 Sep 2020 In addition tax/regulatory call 100 per cent of nominal amount	Tax/regulatory call 100 per cent of nominal amount	10 Nov 2020 In addition tax/regulatory call 100 per cent of nominal amount
16	Subsequent call dates, if applicable	17 Mar, 17 Jun, 17 Sep and 17 Dec each year after first call date	17 Sep each year after first call date	N/A	10 Nov each year after first call date
Coupons / dividends					
17	Fixed or floating dividend / coupon	Floating	Fixed	Fixed	Fixed
18	Coupon rate and any related index	Floating 3-month STIBOR +1.5 per cent per annum	Fixed 1.935 per cent per annum, until first call date, thereafter fixed 5-year mid swap +1.5 per cent per annum	1,160%	Fixed 1.875 per cent per annum, until first call date, thereafter fixed 5-year mid swap +1.7 per cent per annum
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior non-preferred	Senior non-preferred	Senior non-preferred	Senior non-preferred
36	Non-compliant transitioned features	No	No	No	No

Table A5 – Capital instruments' main features template – T2, cont.

Tier 2 instruments					
1	Issuer	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS1486520403	N/A	N/A	N/A
3	Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorporation of the Issuer (Finnish law)
Regulatory treatment					
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63	Tier 2 as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 995m	EUR 79m	EUR 159m	EUR 79m
9	Nominal amount of instrument	EUR 1,000m	JPY 10,000m / EUR 79m	JPY 20,000m / EUR 159m	JPY 10,000m / EUR 79m
9a	Issue price	99.391 per cent	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	07 Sep 2016	06 Jun 2018	06 Jun 2018	06 Jun 2018
12	Perpetual or dated	Dated	Dated	Dated	Dated
13	Original maturity date	07 Sep 2026	26 Feb 2034	04 Mar 2040	12 Oct 2040
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	07 Sep 2021 In addition tax/regulatory call 100 per cent of nominal amount	26 Feb 2029 In addition tax/regulatory call 100 per cent of nominal amount	04 Mar 2035 In addition tax/regulatory call 100 per cent of nominal amount	12 Oct 2035 In addition tax/regulatory call 100 per cent of nominal amount
16	Subsequent call dates, if applicable	7 Sep each year after first call date	26 Feb and 26 Aug each year after first call date	4 Mar and 4 Sep each year after first call date	12 Apr and 12 Oct each year after first call date
Coupons / dividends					
17	Fixed or floating dividend / coupon	Fixed	Fixed to floating	Fixed to floating	Fixed to floating
18	Coupon rate and any related index	Fixed 1.00 per cent per annum, until first call date, thereafter fixed 5-year mid swap +1.25 per cent per annum	Fixed USD 4.51 per cent per annum to call date, thereafter floating rate equivalent to 6-month JPY Deposit +1.1 per cent per annum	Fixed USD 3.75 per cent per annum, until first call date, thereafter floating 6-month JPY deposit +1.2 per cent per annum	Fixed USD 3.84 per cent per annum, until first call date, thereafter floating 6-month JPY deposit +1.2 per cent per annum
19	Existence of a dividend stopper	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior non-preferred	Senior non-preferred	Senior non-preferred	Senior non-preferred
36	Non-compliant transitioned features	No	No	No	No

Table A5 – Capital instruments' main features template – T2, cont.

	Tier 2 instruments			
1	Issuer	Nordea Bank Abp	Nordea Bank Abp	Nordea Bank Abp
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US65557FAH91/ US65557HAH57	XS1884708238	NO0010833015
3	Governing law(s) of the instrument	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorpora-tion of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorpora-tion of the Issuer (Finnish law)	Governed by English law, except for the subordination provisions which are governed by the jurisdiction of incorpora-tion of the Issuer (Finnish law)
	Regulatory treatment			
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Tier 2 as published in Regula-tion (EU) No 575/2013 article 63	Tier 2 as published in Regula-tion (EU) No 575/2013 article 63	Tier 2 as published in Regula-tion (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	EUR 435m	EUR 171m	EUR 50m
9	Nominal amount of instrument	USD 500m / EUR 437m	SEK 1,750m / EUR 171m	NOK 500m / EUR 50m
9a	Issue price	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent of Nominal amount	100 per cent of Nominal amount	100 per cent of Nominal amount
10	Accounting classification	Liability – amortised cost	Liability – amortised cost	Liability – amortised cost
11	Original date of issuance	13 Sep 2018	26 Sep 2018	26 Sep 2018
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	13 Sep 2033	26 Sep 2028	26 Sep 2028
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	13 Sep 2028 In addition tax/regulatory call 100 per cent of nominal amount	26 Sep 2023 In addition tax/regulatory call 100 per cent of nominal amount	26 Sep 2023 In addition tax/regulatory call 100 per cent of nominal amount
16	Subsequent call dates, if applicable	N/A	26 Mar, 26 Jun, 26 Sep and 26 Dec each year after first call date	26 Mar, 26 Jun, 26 Sep and 26 Dec each year after first call date
	Coupons / dividends			
17	Fixed or floating dividend / coupon	Fixed	Floating	Floating
18	Coupon rate and any related index	Fixed 4.625 per cent per annum, until first call date, thereafter fixed 5-year mid swap +1.69 per cent per annum	Floating 3-month STIBOR +1.4 per cent per annum	Floating 3-month NIBOR +1.4 per cent per annum
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
30	Write-down features	No	No	No
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior non-preferred	Senior non-preferred	Senior non-preferred
36	Non-compliant transitioned features	No	No	No

Board of Directors

Björn Wahlroos, *Chairman*

Ph.D (Economics), 1979. Board member since 2008[1] and Chairman since 2011. Born 1952.

Nationality: Finnish.
Board Chairman of Sampo plc and UPM-Kymmene Corporation.

Other assignments: Board Chairman of Hanken School of Economics.
Board member of several charities, including the Finnish Business and Policy Forum EVA/ETLA and the Mannerheim Foundation.

Previous positions:

2001–2009	Group CEO and President of Sampo plc.
2005–2007	Chairman of Sampo Bank plc.
1998–2000	Chairman and CEO of Mandatum Bank plc.
1992–1997	President of Mandatum & Co Ltd.
1985–1992	Various positions with Union Bank of Finland including executive vice president and member of the executive committee 1989–1992.
1974–1985	Various academic positions, including Professor of Economics at Hanken School of Economics and visiting professor at Brown University and Kellogg Graduate School of Management, Northwestern University.

Shareholding in Nordea: 100,000.[2]

Lars G Nordström, *Vice Chairman*

Law studies at Uppsala University.
Board member since 2003[1] and Vice Chairman since 2017. Born 1943.

Nationality: Swedish.
Board Chairman of Vattenfall AB.
Board member of Viking Line Abp.

Other assignments: Board Chairman of the Finnish-Swedish Chamber of Commerce. Board member of the Swedish-American Chamber of Commerce and the Centre for Business and Policy Studies (SNS). Member of the Royal Swedish Academy of Engineering Sciences (IVA). Honorary Consul of Finland in Sweden.

Previous positions:

2008–2011	President and Group CEO of Posten Norden AB.
2006–2010	Board member of TeliaSonera AB.
2005–2009	Board Chairman of the Royal Swedish Opera.
2002–2007	President and Group CEO of Nordea Bank AB.
1993–2002	Various executive management positions within Nordea Group.
1970–1993	Various positions within Skandinaviska Enskilda Banken (Executive Vice President from 1989).

Shareholding in Nordea: 23,250.[2]

Pernille Erenbjerg

MSc (Business Economics and Auditing) and State Authorised Public Accountant.
Board member since 2017[1]. Born 1967.

Nationality: Danish.

Deputy Chairman of Millicom International Cellular S.A.
Board member of Genmab A/S.

Previous positions:

2015–2018	Group CEO and President TDC A/S
2011–2015	Group Chief Financial Officer TDC A/S
2003–2011	Various management positions TDC A/S
2002–2003	Partner Deloitte Touche Tohmatsu
1987–2002	Auditor Arthur Andersen

Shareholding in Nordea: 0.[2]

Robin Lawther

BA Honours (Economics) and MSc (Accounting & Finance).
Board member since 2014[1]. Born 1961.

Nationality: American and British.
Board member of Oras Invest Ltd

Other assignments: Board member of UK Government Investments.

Previous positions:

1985–2012	Various positions within J.P. Morgan.
2007–2011	Head, Nordic Investment Bank, UK.
2005–2007	Head, Mergers & Acquisitions Execution, European Financial Institutions, UK.
2003–2005	Head, Commercial Banking Group, UK.
1994–2005	Managing Director, Financial Institutions Investment Banking, UK
1990–1994	Vice President, Mergers & Acquisitions, UK.
1985–1990	International Capital Markets, USA.

Shareholding in Nordea: 50,000.[2]

Sarah Russell

Master of Applied Finance. Board member since 2010[1]. Born 1962.

Nationality: Australian.
CEO Aegon Asset Management and Board member of several group companies incl. Chairman of the board of Aegon Asset Management Holdings BV and member of the Management Board of Aegon NV. Vice chairman of the Supervisory Board of La Banque Postale Asset Management SA.

Other assignments: Member of the Supervisory Board of Nederlandse Investeringsinstelling NV. Board member of the American Chamber of Commerce in the Netherlands.

Previous positions:

1994–2008	Various executive management positions within ABN AMRO, including Senior Executive Vice President and CEO of ABN AMRO Asset Management 2006–2008.
1981–1994	Various management and other positions in Financial Markets within Toronto Dominion Australia Ltd.

Shareholding in Nordea: 0.[2]

Birger Steen

MSc (Computer Science) and MBA. Board member since 2015[1]. Born 1966.

Nationality: Norwegian.
Chairman of the board of Nordic Semiconductor ASA.
Board member of Schibsted ASA and Skooler AS
Other assignments: Member of the Board of Trustees of the Nordic Heritage Museum in Seattle.

Previous positions:

2011–2016	CEO of Parallels, Inc.
2009–2010	Vice President of Worldwide SMB & Distribution at Microsoft Corporation.
2004–2009	General Manager of Microsoft Russia.
2002–2004	General Manager of Microsoft Norge.
2000–2002	CEO of Scandinavia Online AS.
1996–1999	Vice President of Business Development of Schibsted ASA.
1993–1996	Consultant of McKinsey & Company.
1992–1993	Oil Trader at Norwegian Oil Trading AS.

Shareholding in Nordea: 0.[2]

Silvija Seres

MBA, Ph.D (Mathematical science) and MSc (Computer Science).
Board member since 2015[1]. Born 1970.

Nationality: Norwegian.
Board member of Academedia AB, DNV GL Group AS, Oslo Børs VPS Holding ASA, Oslo Børs ASA and Syncron International AB.

Other assignments: Board member of Norsk rikskringkasting AS (NRK), Stiftelsen Det Norske Veritas and Ruter AS. Chairman of the Board of Polyteknisk Forening. Member of the Corporate Assembly (Nor. Bedriftsforsamlingen) of Telenor ASA.

Previous positions:

2011–2016	Managing director of TechnoRocks AS.
2008–2011	Director of Business Management at Microsoft Development Center, Norway.
2004–2008	Vice President for Services Strategic Development, Product Marketing and Strategic Development at Fast Search & Transfer ASA.
1997–2003	Prize Fellow, Tutor and Lecturer at University of Oxford, the UK.
2003	Visiting Researcher at the Chinese Academy of Sciences in Beijing, China.
2002	Assistant Professor and Programme Manager at Dar Al Hekma University in Jeddah, Saudi Arabia.
1999	Visiting Researcher at DEC/Compaq Systems Research Center in Palo Alto, USA.
1996–1997	Scientific Researcher at Norwegian Computing Centre
1994–1996	IT developer at Skrivervik Data.

Shareholding in Nordea: 0.[2]

Nigel Hinshelwood

HCIMA (Management). Board member since 2018[1]. Born 1966.

Nationality: British.

Member of Franchise Board of Lloyd's of London.
Board member of Lloyds Bank plc and Bank of Scotland plc.

Previous positions:

2016–2017	Head of UK Bank and Deputy CEO HSBC Bank plc
2015–2016	Group General Manager & Global Head of Operations HSBC Group Holdings
2011–2015	Group General Manager & Chief Operating Officer Europe, Middle East and Africa HSBC Group Holdings
2010–2011	Global Head HSBC Insurance Holdings
2008–2010	Global Chief Operating Officer HSBC Group Holdings
2005–2007	Head of Programme Management and Business Transformation
2003–2005	General Manager, Head of Global Banking and Insurance Services Asia Pacific Unisys Corporation
2000–2003	Chief Executive Officer South East Asia Capgemini
1997–2000	Partner Ernst & Young
1996–1997	National Sales Director Australia Sequent Computer Systems
1990–1996	Chief Operating Officer Asia Pacific Policy Management Systems Corporation

Shareholding in Nordea: 0.[2]

Maria Varsellona

Law degree (Juris Doctor). Board member since 2017[1]. Born 1970.

Nationality: Italian.
Board member of Alcatel-Lucent Shanghai Bell.

Other assignments: Chief Legal Officer and member of the Group Leadership Team in Nokia Corporation.

Previous positions:

2013–2014	Group General Counsel and member of the Executive Board Nokia Siemens & Networks
2011–2013	Group General Counsel and member of the Global Leadership Team Tetra Pak, Tetra Laval Group
2009–2010	Group General Counsel and member of the Global Leadership Team Sidel, Tetra Laval Group
2008–2009	Adjunct professor and lecturer Università degli Studi di Firenze, Italy
2006–2009	Senior Legal Counsel GE Oil & Gas
2005–2006	Senior Legal Counsel The Hertz Corporation
2001–2004	Senior Legal Counsel GE Oil & Gas
1998–2001	Lawyer Pini, Bingham & Partners
1994–1998	Lawyer The Greco Law firm

Shareholding in Nordea: 0.[2]

Torbjörn Magnusson

Licentiate (Engineering). Board member since 2018[1]. Born 1963.

Nationality: Swedish.
President and CEO of If P&C Insurance Holding Ltd (publ).
Board Chairman of If P&C Insurance Ltd (publ) and Topdanmark A/S.
Board member of If P&C Insurance Holding Ltd (publ).

Other assignments: Vice President of Insurance Europe and board member of the Swedish Insurance Employer Association and the Swedish Insurance Federation.

Previous positions:

2001–2002	Head of Commercial Business Division If P&C Holding Ltd (publ)
1999–2001	Head of Commercial Products If P&C Holding Ltd (publ)
1998–1999	Head of P&C Support and Chief Actuary Försäkringsaktiebolaget Skandia
1996–1997	Chief Controller Försäkringsaktiebolaget Skandia
1995–1996	Chief Actuary Non-Life Mercantile & General Insurance
1994–1995	Deputy Actuary Non-Life Mercantile & General Insurance
1990–1993	Actuary Non-Life Skandia International
1988–1989	Information Systems Consultant Arthur Andersen & Company

Shareholding in Nordea: 4,000.[2]

1) Refers to when the person became board member in the Nordea Group's parent company, irrespective of whether it is Nordea Bank Abp, Nordea Bank AB (publ) or another company.

2) Shareholdings, as of 31 December 2018, also include shares held by family members and closely affiliated legal entities.

Employee representatives

Kari Ahola
Datanome (Institue of Information Technology)
Board member since 2006.[1]
Born 1960.
Shareholding in Nordea: 0.[2]

Dorrit Groth Brandt
Finance Diploma Program, Finansrådet, and various extensive internal banking courses during the time in Nordea
Board member since 2018.[1]
Born 1967.
Shareholding in Nordea: 605[2]

Gerhard Olsson
MBA and Bachelor of Economics
Board member since 1 October 2016.[1]
Born 1978.
Shareholding in Nordea: 0.[2]

Hans Christian Riise
MBA
Board member since 2013.[1]
Born 1961.
Shareholding in Nordea: 0.[2]

Group Executive Management

Group Executive Management (from left to right): Snorre Storset, Frank Vang-Jensen, Jussi Koskinen, Julie Galbo, Erik Ekman, Casper von Koskull, Martin Persson, Karen Tobiasen, Matthew Elderfield, Christopher Rees, Torsten Hagen Jørgensen.

Casper von Koskull

President and Group CEO since 2015.
Born 1960.

Member of Group Executive Management 2010.

Education: MSc in Economics, Helsinki School of Economics and Business Administration, Finland. Program for Management Development, PMD, Harvard Business School, USA.

Shareholding in Nordea: 277,218.[1]

Previous positions:
2010–2015 Head of Wholesale Banking Nordea Bank AB.
1998–2010 Managing Director and Partner of Goldman Sachs International in London, Head of Nordic Investment Banking.
1994–1998 Managing Director, Nordic Investment Banking, UBS London.
1992–1994 Head of Derivatives Marketing and Structuring for German Corporate Clients, Citibank, Frankfurt.
1990–1992 Vice President Leverage Finance, Citibank, New York.
1987–1990 Vice President Nordic Coverage Citicorp Investment Bank, Ltd, London.
1984–1987 Account Manager, Citibank, Helsinki.

Torsten Hagen Jørgensen

Group COO and Deputy Group CEO since 2015.
Born 1965.
Member of Group Executive Management 2011.

Education: MSc in Economics, University of Copenhagen, Denmark.

Shareholding in Nordea: 146,159.[1]

Martin Persson

Head of Wholesale Banking.
Born 1975.
Member of Group Executive Management 2016.

Education: Bachelor of Business Administration, Accounting & Finance, University of Stockholm (1998–1999). Bachelor of Business Administration, Accounting & Finance, Blekinge Tekniska Högskole (1997–1998). Bachelor of Business Administration, Economics, Lunds University (1996–1997).

Shareholding in Nordea: 10,000.[1]

Christopher Rees

Group CFO, Head of Group Finance & Treasury.
Born 1972.
Member of Group Executive Management 2018.

Education: MSc in Economics, Accounting and Finance, London School of Economics. Université Paul Valéry, Montpellier, France.

Shareholding in Nordea: 0.[1]

Jussi Koskinen

Chief Legal Officer
Born 1973.
Member of Group Executive Management 2018.

Education: Master of Laws (LLM), University of Turku, School of Law, Finland. Executive Education, Global Business Consortium, London Business School, United Kingdom. Visiting Researcher, Louis D Brandeis School of Law, University of Louisville, United States. Specialization in Maritime Law, Nordisk Institutt for Sjørett, University of Oslo, Norway.

Shareholding in Nordea: 0.[1]

Erik Ekman

Head of Commercial & Business Banking.
Born 1969.
Member of Group Executive Management 2015.

Education: PhD in Economics, Uppsala University, Sweden.

Shareholding in Nordea: 0.[1]

Frank Vang-Jensen

Head of Personal Banking.
Born 1967.
Member of Group Executive Management 2018.

Education: Executive Programme, Harvard Business School, USA. Management Programme, INSEAD, France/Singapore. Organization & Leadership, Copenhagen Business School, Denmark. Finance & Credit, Copenhagen Business School, Denmark.

Shareholding in Nordea: 2,306.[1]

Julie Galbo

Chief Risk Officer, Head of Group Risk Management and Control.[2]
Born 1971.
Member of Group Executive Management 2017.

Education: Master of Law, University of Copenhagen.
Executive Management Programme, INSEAD/Business Kolding.

Shareholding in Nordea: 0.[1]

Matthew Elderfield

Group Compliance Officer and Head of Group Compliance.[3]
Born 1966.
Member of Group Executive Management 2016.

Education: London Business School, Corporate Finance Programme. Trinity Hall, Cambridge University, M Phil in International Relations. School of Foreign Service, Georgetown University, B.S. in Foreign Service.

Shareholding in Nordea: 0.[1]

Snorre Storset

Head of Wealth Management.
Born 1972.
Member of Group Executive Management 2015.

Education: MSc in Economics and Business Administration, Norwegian School of Economics, Bergen, Norway.

Shareholding in Nordea: 12,300.[1]

Karen Tobiasen

Chief People Officer
Born 1965.
Member of Group Executive Management 2016.

Education: MSc in Gestalt Psychotherapy, Gestalt Akademin, Sweden Executive MBA, SIMI, Denmark. BSc in Organization and Personal Administration, Copenhagen Business School, Denmark.

Shareholding in Nordea: 0.[1]

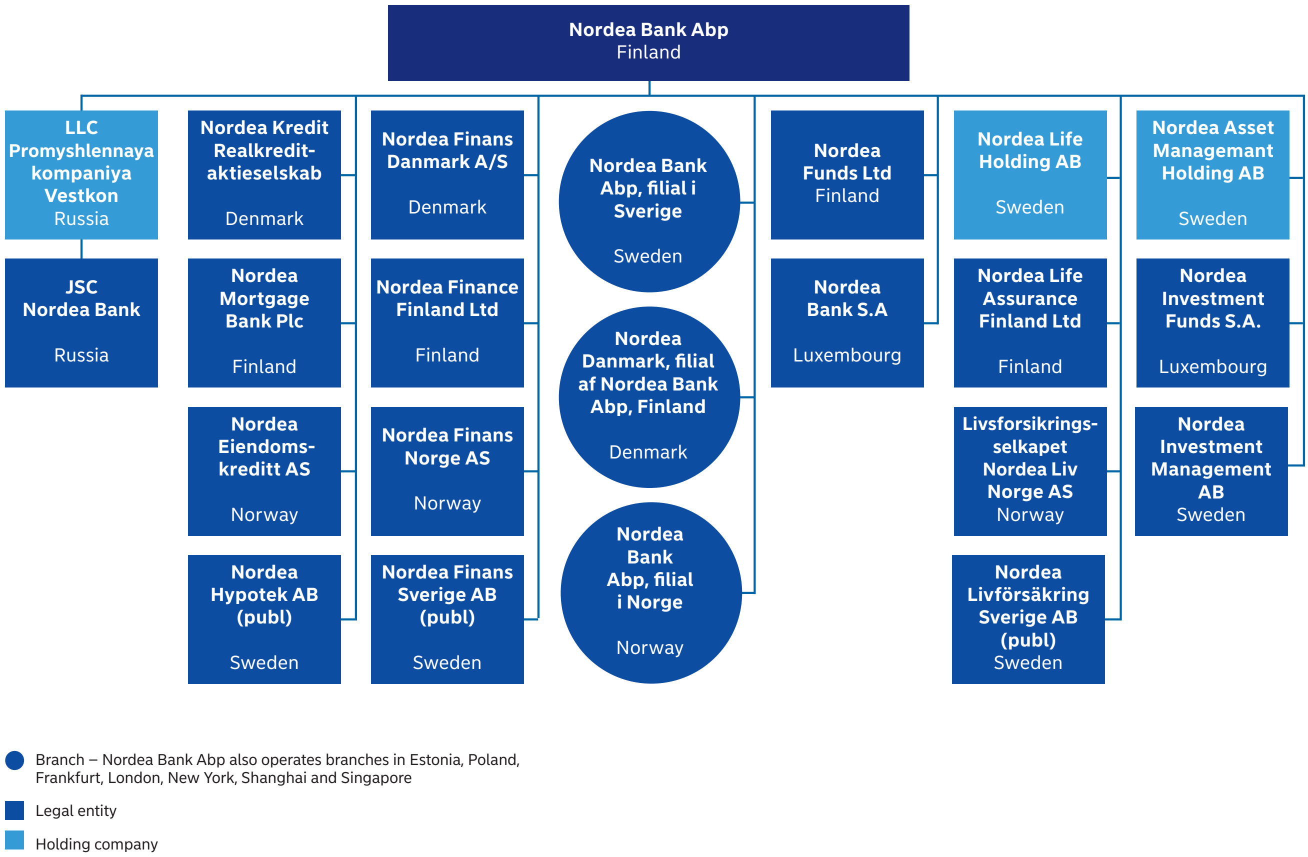
1) Shareholdings, as of 31 December 2018, also include shares held by family members and closely affiliated legal entities.

2) With effect as from 1 January 2019, Julie Galbo no longer holds the positions as Chief Risk Officer and Head of Group Risk Management and Control but instead holds the position as Head of Group Business Risk Management, a new function in the first line of defence.

3) With effect as from 1 January 2019, Matthew Elderfield no longer holds the positions as Group Compliance Officer and Head of Group Compliance but instead holds the position as Chief Risk Officer and Head of Group Risk and Compliance, a function formed thorough the consolidation of the second line of defence functions, Group Compliance and Group Risk Management & Control, into one organisational unit.

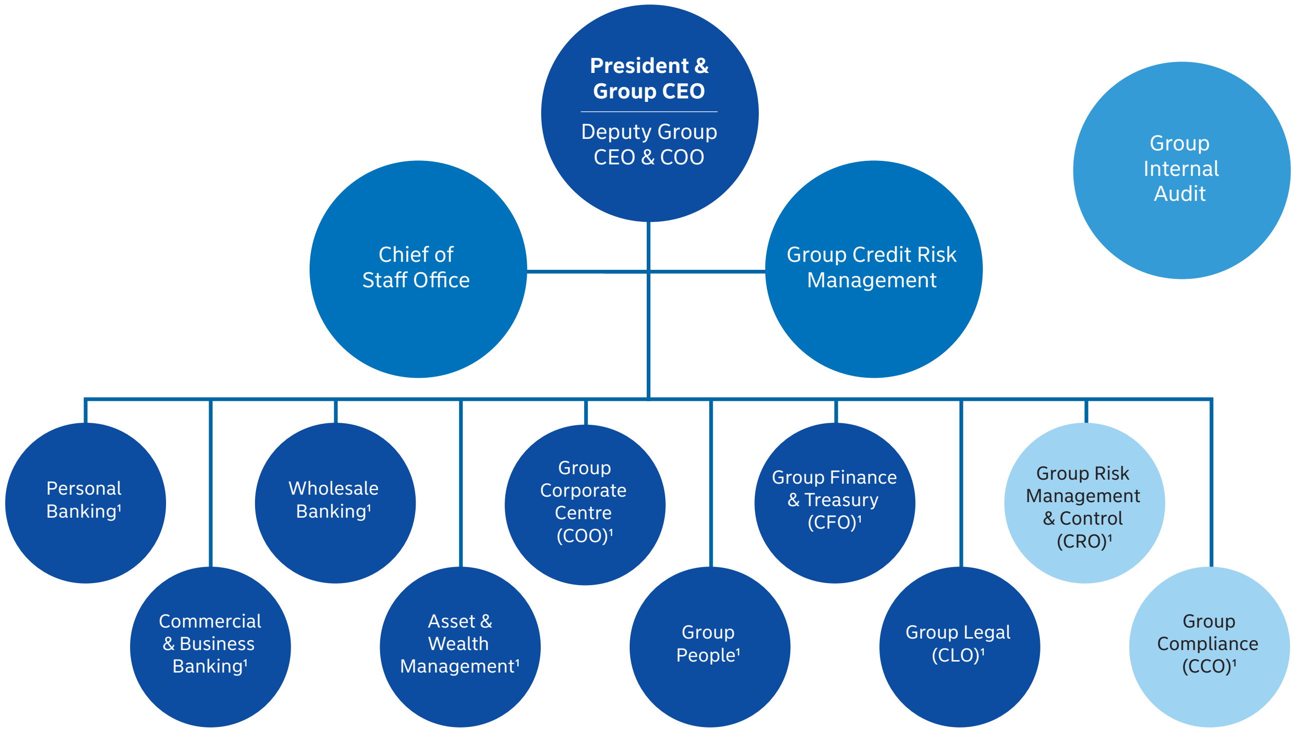
Main legal structure

As of 31 December 2018



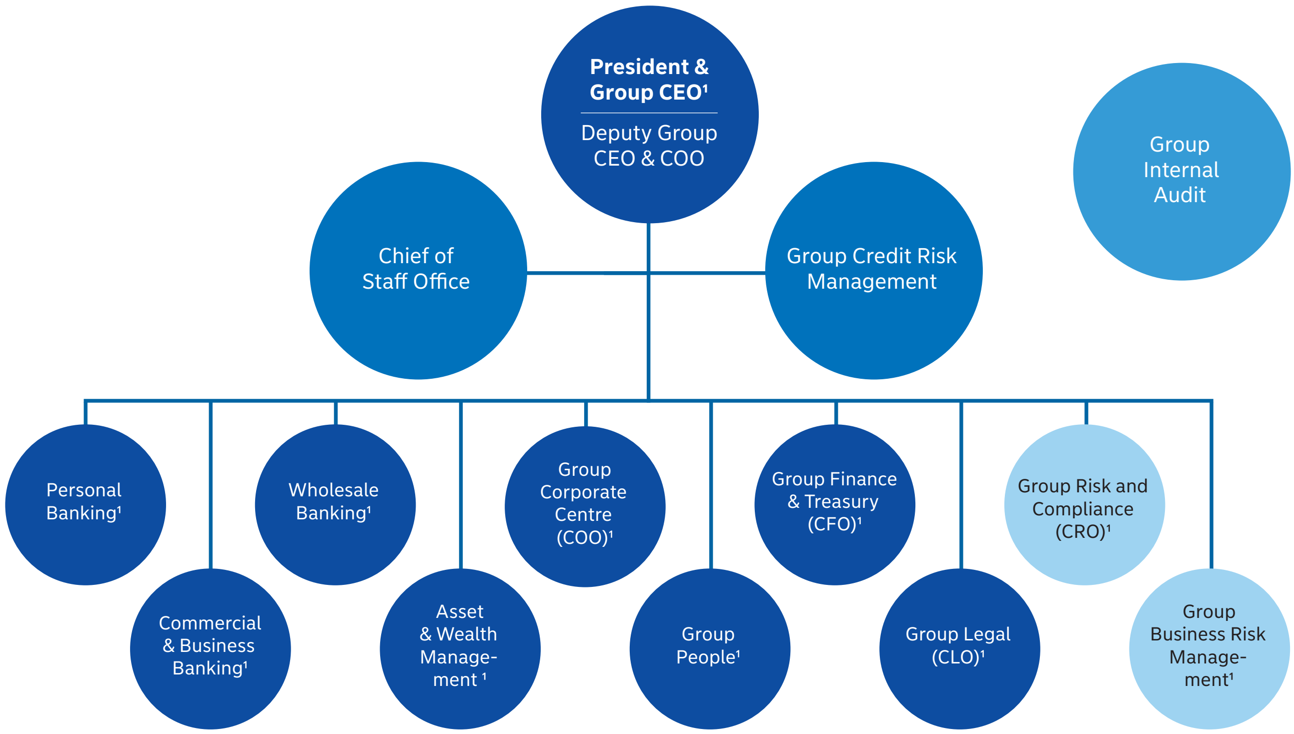
Group organisation

As of 31 December 2018



1) Head of the units together with the CEO is part of the Group Executive Management team (GEM).

As of 1 January 2019



1) Head of the units together with the CEO is part of the Group Executive Management team (GEM).

Annual General Meeting 28 March 2019

Nordea's Annual General Meeting (AGM) 2019 will be held on Thursday 28 March at Finlandia Hall, Mannerheimintie 13 e, Helsinki at 13.00 EET.

Notification of participation, etc.

Shareholders who wish to participate in the AGM shall be registered as shareholders in the shareholders' register maintained by Euroclear Finland Oy (the Finnish Securities Register Center) on 18 March 2019 and notify Nordea.

Participants holding shares registered with Euroclear Finland Oy in Finland

Notification of participation in the general meeting shall be made at the latest on 22 March 2019 by post under address Computershare AB, "Nordea's AGM 2019", Aleksanterinkatu 15B, 6. krs, 00100 Helsinki, Finland, or by telephone +358 942721429, or at the Company's web site www.nordea.com.

Participants holding shares registered with Euroclear Sweden AB in Sweden

Notification of participation in the general meeting shall be made at the latest on 19 March 2019 by post under address Computershare AB, "Nordea's AGM 2019", Box 610, SE-182 16 Danderyd, Sweden, or by telephone +46 851801553, or at the Company's web site www.nordea.com.

Participants holding shares registered with VP Securities A/S in Denmark

Notification of participation in the general meeting shall be made at the latest on 19 March 2019 by post under address Computershare A/S, "Nordea's AGM 2019", Lottenborgvej 26, DK-2800 Kgs. Lyngby, Denmark, or by telephone +45 45460997, or at the Company's web site www.nordea.com.

Shares held in trust

Shareholders whose shares are held in trust must temporarily re-register their shares to the shareholders' register maintained by Euroclear Finland Oy (the Finnish Securities Register Center) at the latest on 25 March 2019 at 10.00 EET.

Financial calendar

Financial calendar 2019

Annual General Meeting	28 March
Ex-dividend date	29 March
Record date	1 April
Dividend payments	8 April
1st quarter results	30 April
2nd quarter results	18 July
3rd quarter results	24 October

Contacts

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Group CFO

Investor Relations
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Website

All reports and press releases are available on the Internet at: www.nordea.com. Financial reports published by the Nordea Group may be ordered on the website and via Investor Relations.

Nordea's report on Capital and risk management, in accordance with the Pillar III disclosure requirements according to the EU Capital Requirements Regulation, is presented on www.nordea.com.

The Annual Report 2018

This Annual Report covers Nordea Bank Abp and pertains to the operations of the Nordea Group, whose main legal structure is presented on page 290. The original annual report is in Swedish. This is an English version thereof. In the event of any inconsistencies between the Swedish and English versions, the first shall prevail.
A Swedish version may be obtained upon request.

In this Annual Report, the Nordea Group presents income statements and o ther financial data quoted in euro (EUR).

Layout and production: Chimney Group

Photo: Nordea | Print: Hylte Tryck AB, 2019

This Annual Report covers Nordea Bank Abp and pertains to the operations of the Nordea Group, whose main legal structure is presented on page 290. The original annual report is in Swedish. This is an English version thereof a Swedish version may be obtained upon request.

In this Annual Report, the Nordea Group presents income statements and other financial data quoted in euro (EUR).

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