Nordea

Annual Report 2019

Nordea Annual Report

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 levels 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.

Contents

Dear shareholder,

Recent years have been challenging for Nordea, and our financial performance has been below expectations. I fully recognise that the absolute and relative share price performance has been disappointing for our shareholders. Therefore, it is clear that our financial performance must be improved.

In the autumn of 2019, we entered a new phase with clear priorities and targets. As CEO of Nordea, I am humble, proud and determined to lead the bank through the challenges. I am convinced that we will unlock Nordea's full potential and create more value for our customers and shareholders by significantly improving both services and financial performance.

At our Capital Markets Day in October 2019, we presented the new direction of Nordea, with an updated business plan and new financial targets. Nordea has a strong foundation to build on, with highly skilled staff, a solid balance sheet and a great customer base. The strategy and business plans are in place. Now it is all about execution to close the performance gaps.

Our updated business plan is about retaking lost ground and making us truly competitive again. It is about greater empowerment and accountability to the business areas to take the necessary actions to deliver on the three group priorities:

- To optimise operational efficiency
- To drive income growth initiatives
- To create great customer experiences

The first priority focuses on simplifying and streamlining our organisation, reducing the number of products and IT systems and lowering our cost base. We need to create a stronger cost culture at Nordea where all leaders and employees strive to work in a more efficient way and take pride in improving the balance between cost and revenues.

We also need to consider the rapidly changing business environment with low-cost services, digital transformation and new ways of working. It leads to a need for fewer employees, different skill sets and a change in the composition of employees. This is a general trend in the banking industry and Nordea is not an exception. We will be fewer people going forward, but we will ensure that the changes will not hurt our business. Today we have better solutions and tools to face this new business environment. At the same time, we will do our utmost to support our people and assist those impacted by change.

Since we are the biggest bank in the Nordics, we have possibilities to leverage our Nordic scale compared to our local peers, while having the advantage of being more local than our global peers. We need to be better at this, and I am committed to getting that balance right to the benefit of both customers and shareholders.

The second priority is to drive income growth initiatives. This we do by putting the customers in focus for everything we do, and by freeing up time for our customer facing people to spend more time with our customers.

I am pleased to see that during 2019 we saw encouraging signs of improved business activity. For example, within the important mortgage business we have increased the activity level and improved market shares of new lending in all four Nordic markets. Within Asset Management we have started to see an improved development in inflows.

Our focus is on organic growth, and we will invest to strengthen the core of our business. However, should opportunities arise, we will also evaluate bolt-on acquisitions that complement our strategy and core Nordic business, such the recently announced acquisition of SG Finance's Nordic business and Gjensidige Bank in Norway. When we find possibilities to strengthen our business, we will seize the opportunities.

The third priority is to create great customer experiences for all our customers. At the end of the day, this is the only way to achieve sustainable success.

I meet customers every day, because I want to truly learn how they want us to serve them, how they experience us and what we can do to improve our services. Even though we have very satisfied customers in several segments like large corporates and private banking, the learning is clear: we have to step up, our customer satisfaction is not on a good level. But we are making progress and taking steps forward. We have managed to shorten waiting times to our 24/7 contact centres significantly, the number of customer complaints has decreased, and we have better stability in our systems.

With our significant investments in IT and technology, we are continuously expanding our digital offerings to our customers. During 2019, following successful launches in Sweden and Finland, we expanded the new mobile bank platform to Denmark. The new mobile app has been very well received by customers, and we are approaching 1bn touchpoints on our digital platform. More recently, we now offer our customers an easy digital solution to track their carbon footprint on their mobile.

Our target is to meet and exceed our customers' needs proactively. We are expected to be available anywhere and anytime, in all channels. Therefore, we continue to invest in our omnichannel set-up, where our customers decide when, where and how they want to meet with us. We continue to deliver relevant services with a personal approach – no matter what the channel is. Our clear vision is to become a strong personal financial partner for all of our customers.

We have during the autumn decided on new financial targets for 2022:

- A cost to income ratio of 50 percent
- A return on equity above 10 percent

Furthermore, our new capital and dividend policy stipulates that we should hold Common Equity Tier 1 (CET1) capital equivalent to a management buffer of 150–200 bps above the regulatory CET1 requirement and a dividend pay-out ratio of 60–70 per cent of net profit, both starting from 2020. We will continuously assess the opportunity to use share buy backs as a tool to distribute excess capital to our shareholders. The 2019 fourth quarter results show that we are continuing to strengthen our capital position and for 2019 the Board proposes a dividend per share of EUR 0.40.

For several years Nordea has invested significantly to strengthen our risk and compliance functions and processes.

We and many other financial institutions, but also authorities, have historically underestimated the complexity related to financial crime matters. We have continued the dialogues with authorities with respect to historical anti-money laundering matters, including those in Denmark, with a very clear ambition - fight against financial crime and settle all queries about our historical anti-money laundering processes.

We are in a clearly better position today compared to a few years back. However, we still need to continuously improve our risk and compliance as well as anti-money laundering capabilities to meet the expectations that customers, stakeholders and the society at large rightly have on us.

Preventing money laundering is a societal issue. We cannot fight this battle alone. I am convinced that it requires better exchange of information and closer collaboration between banks and authorities to succeed.

We have during 2019 been through a number of regulatory reviews by the Single Supervisory Mechanism (SSM), including a comprehensive assessment of our asset quality, the EU-wide stress test of liquidity and we have now received the first decision within the Supervisory Review and Evaluation Process (SREP) by the European Central Bank. This is an important milestone in our move to the banking union and being regulated by the SSM.

Looking ahead, differing supervisory standards and legal environments within EU still pose challenges for cross border banks. I welcome further coordination and alignment in the regulation to ensure level playing field among competitors. Coming regulatory changes through the so-called banking package is one step in this process, but the differentiated use of macroprudential buffers will still leave room for further need of harmonisation.

A topic close to my heart is sustainable banking. In our business, we put sustainability into practice, making it concrete and real to our customers.

"A topic close to my heart is sustainable banking. In our business, we put sustainability into practice, making it concrete and real to our customers."

In 2019, we expanded green corporate loans, which are now available to customers in all our four Nordic home markets. We also have green mortgages available in Finland and Norway to our household customers owning their homes, following good experiences from Sweden. We launched 11 new sustainability funds included in the Sustainability Selection, and I was also pleased to see an almost 87% increase in Assets under Management (AuM) in Sustainable Selection during the year. In 2020, I expect this green trend to continue and accelerate further.

Sustainable banking is not only about new products and services, it is also an integrated part of our governance and our way of working. The sustainability risks are implemented into our risk management frameworks. We identify, assess and mitigate sustainability risks by integrating sustainability into key processes like the credit and relevant product approval processes.

I am proud of that Nordea, as the only Nordic bank, was amongst the 30 founding banks of the Principles for Responsible Banking developed together with United Nations Environment Programme Finance Initiative (UNEP FI), officially launched and signed in September 2019. The Principles is a comprehensive framework for banks to collectively address the global sustainability challenges and work towards the objectives of the Paris Agreement and the Sustainable Development Goals.

Our ability to grow sustainably depends on our people. Much like our customers, we believe our workforce needs to be truly diverse to ensure excellent customer experience, to stimulate innovation and to drive financial performance.

When we look at the gender balance at Nordea, I am happy with the overall gender split of 49% women and 51% men. We strive to achieve a better-balanced ratio also on all managerial levels. In 2020, we will intensify our efforts towards managerial gender balance by improving our people processes, such as succession management, development, and promotion.

Finally, while I have been at Nordea since 2017, during my short time as CEO I have had the opportunity to meet many more colleagues from different parts of the bank. I am impressed by our employees' expertise, passion to serve our customers and shared determination to improve our financial results. I am convinced that a strong customer focus, combined with enhanced operational efficiency, will enable us to deliver on our targets and new business plan, and significantly improve Nordea's financial performance.

Best regards,

Frank Vang-Jensen
President and Group CEO

Who we are

Nordea is a Nordic universal bank with a purpose. We are helping our customers realise their dreams and aspirations – and we have done that for 200 years. We want to make a real difference for our customers and for the communities in which we operate. It makes us proud, because when our customers succeed, so do we. We have a strong market position within our four business areas – Personal Banking, Business Banking, Large Corporates & Institutions and Asset & Wealth Management. At Nordea we can create great customer experiences by combining our cross-border teams, highly competent people and our ability to invest in core services. That is us – local with a Nordic mindset.

Our purpose

We are led by our purpose – Together we lead the way enabling dreams and everyday aspirations for a greater good

Our vision

Our vision is to become a strong and personal financial partner

Our people and values

Our success depends on skilled people and highly competent teams with passion for customers and great customer experiences. Our employees are given opportunities to grow and become great at what they do. We promote diversity and inclusion. We believe in a core set of values that influence our culture and guide our behaviours.

Ownership
It starts with me

Passion
To serve our customers

Courage
To do what is right

Collaboration
For the common good

Our customer promise

We serve both personal and business customer across our markets with a vision to become a strong and personal financial partner. Everything we do, starts and ends with our customers. When banking with Nordea, we want our customers to experience that we are:

Easy to deal with

Relevant and competent

Anywhere and anytime (24/7)

Personal and digital

Safe and trusted

Sustainable banking and Community engagement

At Nordea, we make sustainability concrete and real to our customers. Through our size and engagement, we can make a real difference. We contribute in business and more broadly in the Nordic societies. We want to lead the way by taking actions for a greater good by integrating sustainability throughout the bank. Our main business areas – Personal Banking, Business Banking, Large Corporates & Institutions and Asset & Wealth Management – are continuously developing our services and offerings to enable our customers to make conscious sustainable choices. This is made consistently in our core areas like lending, savings and advice. This includes for instance green mortgages for customers' energy-efficient buildings, green bonds, green corporate loans, green car loans for electric vehicles, several new sustainability funds and the incorporation of sustainability into our advisory sessions. We identify, assess and mitigate sustainability risks by integrating sustainability into key processes like the credit approval process, relevant product approval processes, procurement processes as well as in the internal capital adequacy assessment process (ICAAP).

We create positive impact by engaging with society through our core competencies within financial skills and entrepreneurship. We help young people across the Nordics to increase their knowledge in financial skills and senior citizens to learn mobile banking services. Many of the community engagement activities are based on volunteering and our volunteering policy encourages all employees to spend two days per year doing voluntary work. Several key local and Nordic partnerships have been established to support start-up companies and social entrepreneurs.

Further information on our views and initiatives on sustainable banking can be found in the Non-Financial statement section on pages 53–54 and in Nordea Sustainability Report 2019 (www.nordea.com/en/sustainability/).

Our priorities

Nordea has decided to focus on three key priorities to make us truly competitive and improve our financial performance. To achieve our financial targets our focus is on execution with full empowerement to the business areas. Our priorities and operating model are guiding us on how we run the bank today and tomorrow – to become a strong and personal financial partner.

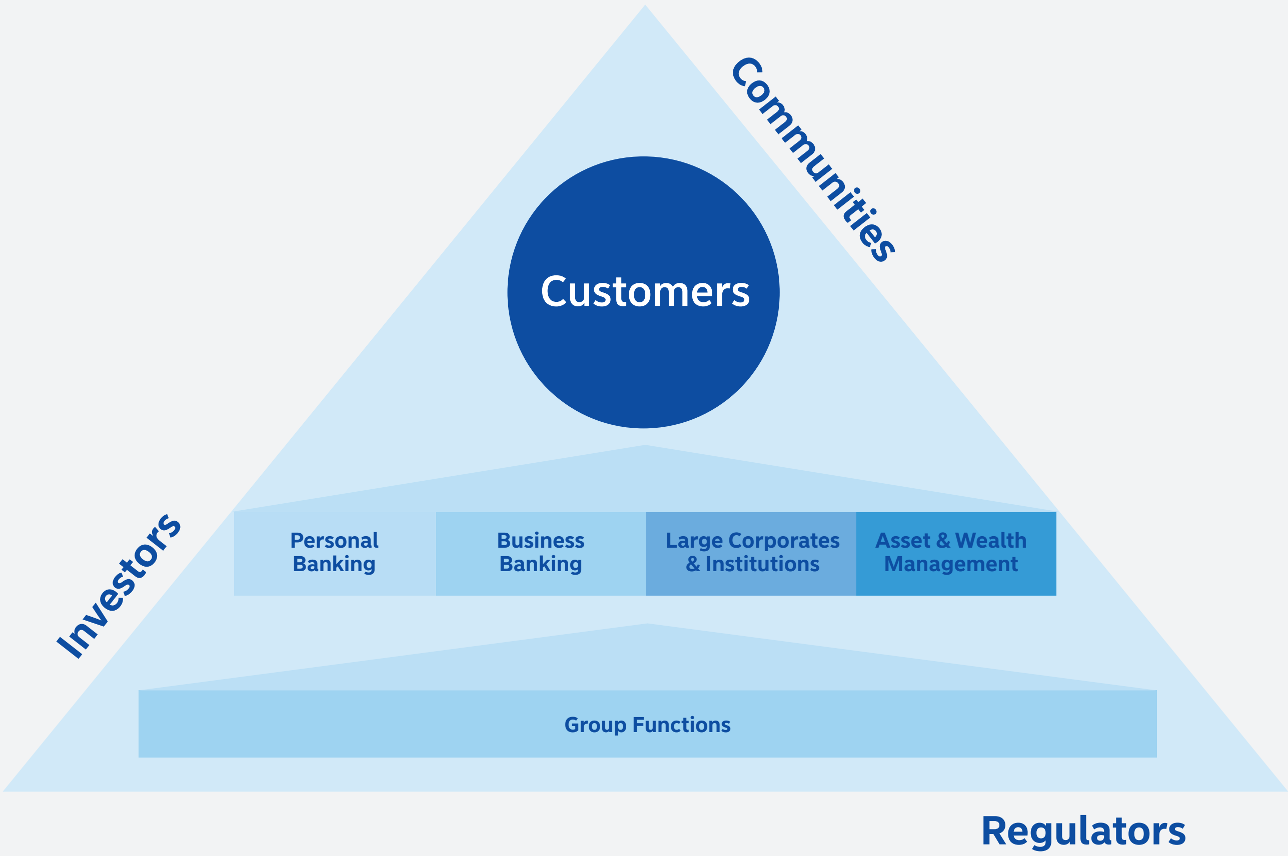
Optimise operational efficiency	Drive income growth initiatives	Create great customer experiences

Execution and accountability

A strong and personal financial partner

How we operate

We have a clear operating model towards our customers. Everyday our advisors, contact centres and all other staff do their utmost to deliver great customer experiences whether it is through physical advisory sessions, chats or any other digital or online interaction. This is primarily done through our four business areas. They have the full responsibility for the customer offerings, the distribution model and their profit and loss account. The business areas determine the level of service required from the internal support functions. The risk and compliance function has the role as independent second line function, overseeing adherence to regulatory requirements. The bank is acting in tune with local and regional communities, suppliers, regulators, law makers and shareholders to create value for all stakeholders.



Nordea 2019 in Brief

2019 has been an eventful year for Nordea with both a new Chairman of the Board and President and Group CEO taking the lead of the bank. Nordea also entered a new phase with new financial targets and a new direction.

2019 →

1 March
Close of Gjensidige acquisition.

28 March
Torbjörn Magnusson elected as new Chairman of the Board.

10 June
A new mobile bank is launched in Denmark.

20 June
Nordea ranked as one of the world's most sustainable banks.

5 July
Nordea together with six other Nordic banks created a joint company to prevent financial crime.

5 September
Frank Vang-Jensen appointed as President and Group CEO.

23 September
Nordea co-founder of the ground breaking United Nations Environment Programme Finance Initiative (UNEP FI) and the banking sector sustainability initiative.

30 September
Finalisation of the sale of Nordea's Baltic operations.

25 October
Capital Markets Day where new financial targets, new capital and dividend policy were presented.

28 November
Nordea ranked best corporate bank in the Nordics.

19 December
Announcement of the acquisition of SG Finans.

→ **2020**

Key figures

ROE[1]	C/I[1]	CET1 ratio
8.1%	57%	16.3%
(8.5%)[2]	(57%)[2]	(15.5%)[2]

1) Excluding items affecting comparability.
2) 2018 results.

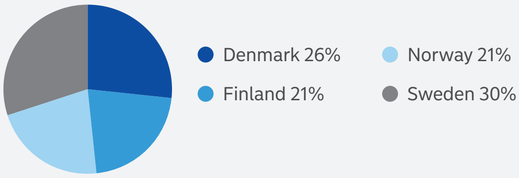
Nordea as an investment

One of few truly diversified banks in Europe

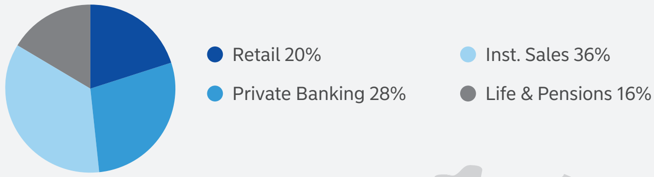
The leading Nordic bank with a strong market position in all Nordic countries and in all business areas.

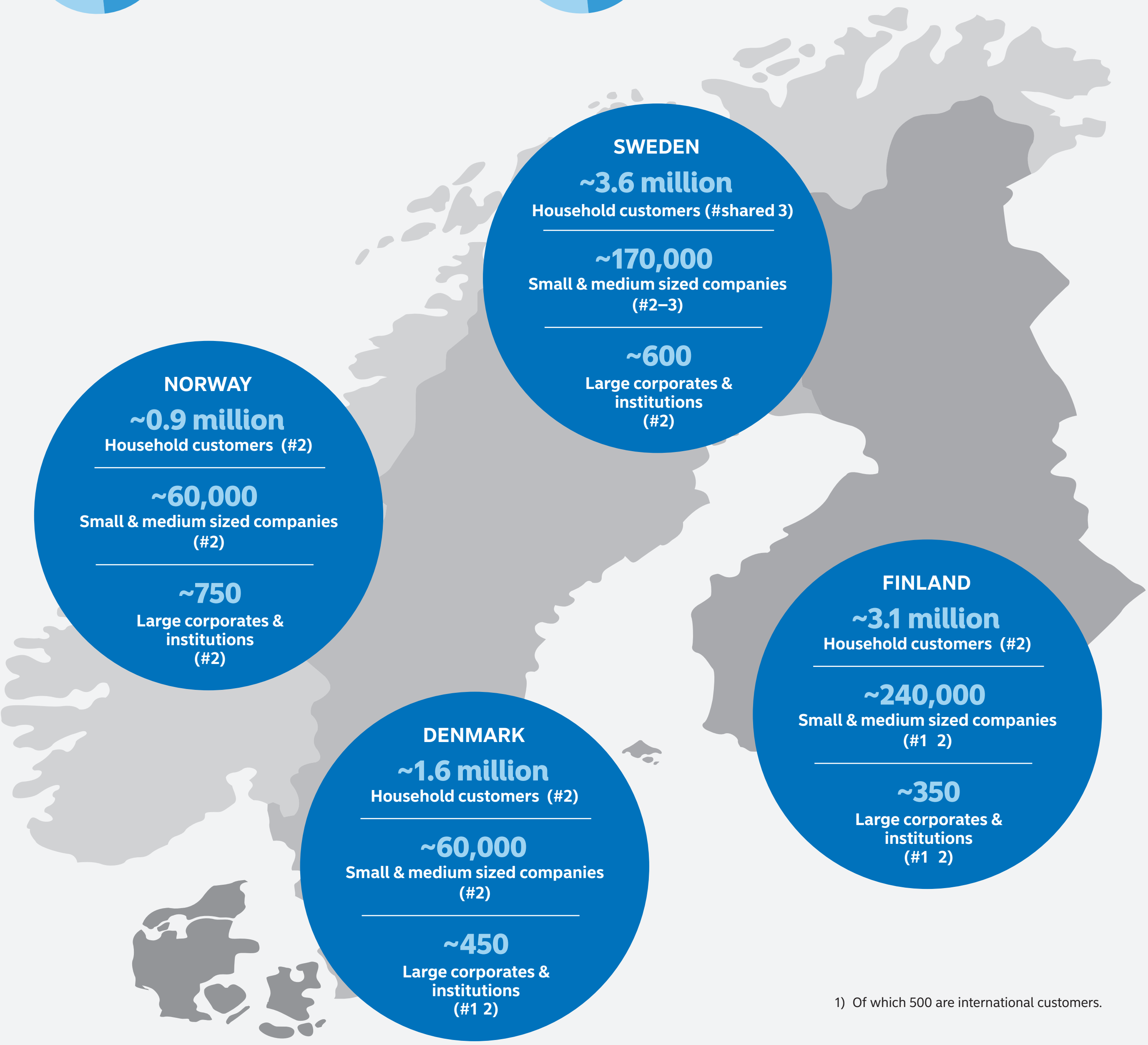
Household customers	Small & medium sized companies	Large corporates & institutions
~9.3 million	**~530,000**	**~2,650**[1]

Credit portfolio by country as per December 2019



Assets under Management distribution, EUR 324bn as per December 2019





1) Of which 500 are international customers.

Improving key ratios driven by our key priorities

Our targets are clear and anchored in the Business Areas and Support Functions with strong business plans to deliver.

Our new financial targets

50%
Cost/income ratio in 2022

>10%
Return on equity in 2022

Strong balance sheet and cash flow generation enabling growth and shareholders return

Our target is to have stable and competitive dividends to our shareholders as well as to maintain a strong balance sheet to create business flexibility and shareholder returns in the future.

Capital policy from 2020

150–200bps
management buffer above the regulatory CET1 requirement

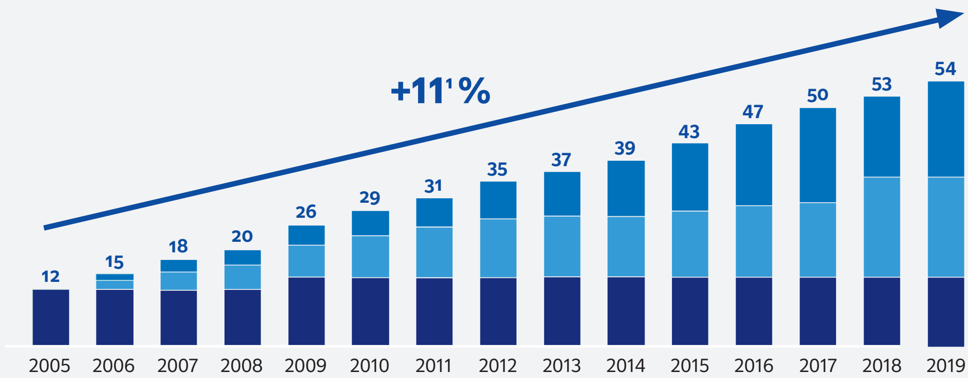
Dividend policy from 2020

60–70%
pay-out of distributable profits to shareholders[1]. Excess capital intended to be distributed to shareholders through buybacks

1) For 2019 Nordea targets a dividend of EUR 0.40 per share.

Nordea has consistently generated new capital even through financial crisis

Strong and persistent growth in equity.



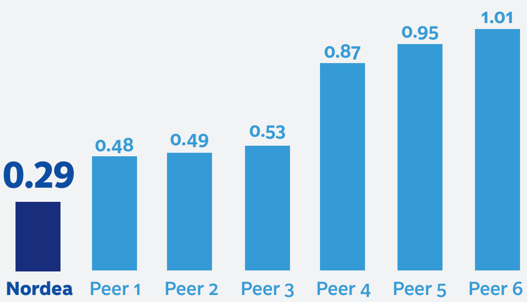
Nordea has delivered strong capital generation over time

1) CAGR 2019 vs. 2005, adjusted for EUR 2.5bn rights issue in 2009. Equity columns represents end-of-period equity less dividends for the year. No assumption on reinvestment rate for paid out dividends

Lower historical volatility than Nordic and other European peers

Since 2006 Nordea has the most stable earnings generation and capital ratios in the Nordics.

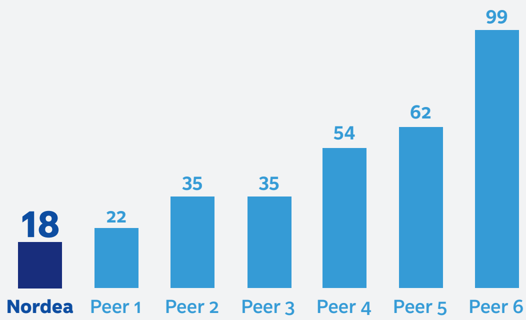
Stable capital base



Quarterly CET1 downside volatility[1], %

1) 2006–2019 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. Excl. Q4 18 for all the banks (due to Nordea move to SSM and for Swedish peers move of Pillar 2 mortgage risk weight add-ons into Pillar 1).

Lower volatility in net profit

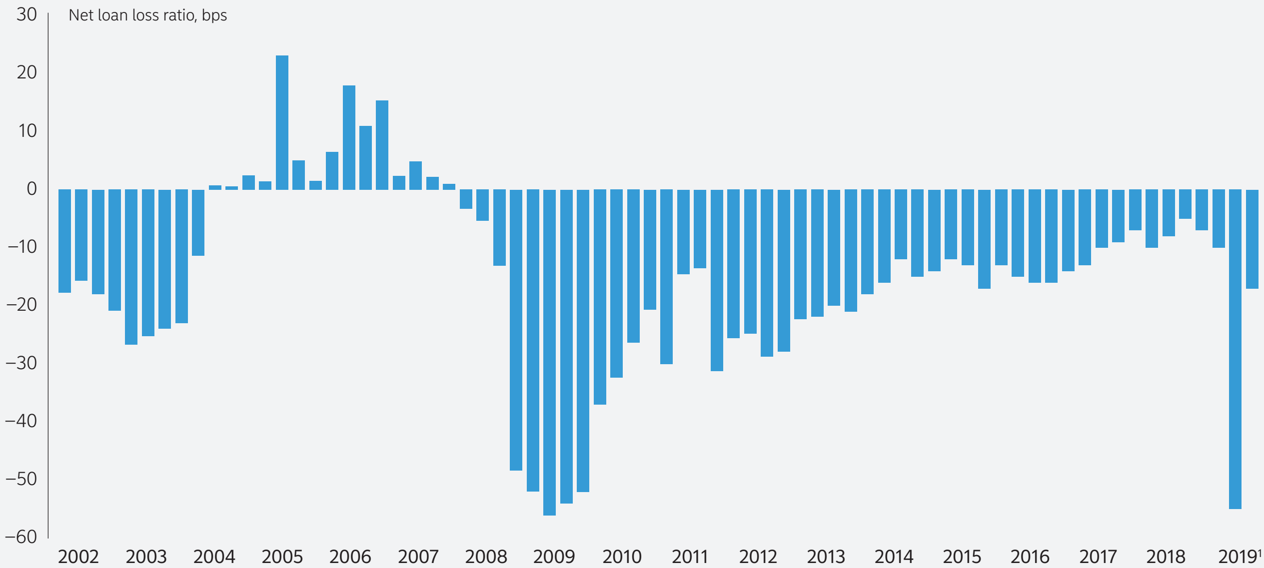


Quarterly net profit volatility[1], %

1) 2006–2019 Nordea net income excluding items affecting comparability 2018 and 2019 as per company definition

Generating low credit losses over a business cycle

Our credit quality has proven strong over many years, even under the financial crisis, following strong risk management and a well diversified lending portfolio.

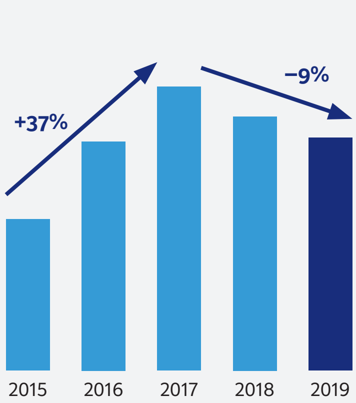


1) Q3 2019, after dialogue with the ECB, includes an increase in provisions (EUR 229m) reflecting a more subdued outlook in certain sectors and a revision of Nordea's collective provisioning models (EUR 59m).

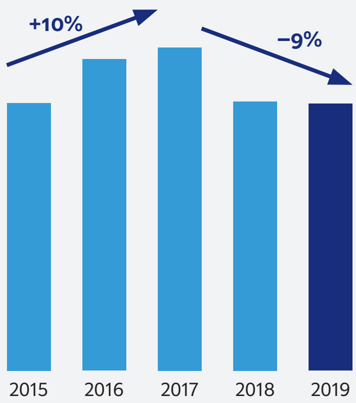
Scale to invest in our compliance and technology platforms

Nordea has had the scale to invest in our compliance and technology platforms and we can now start to see the benefits from these investments.

Compliance & Risk investments



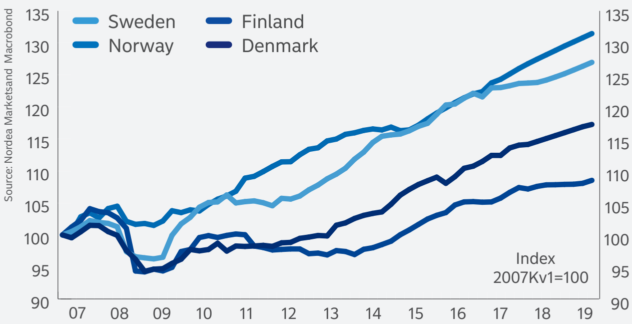
Cash spend in IT & Technology



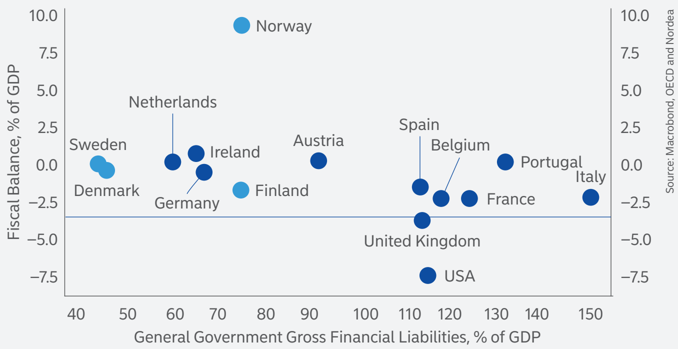
We are operating in robust Nordic economies

Solid GDP growth and public finances in all Nordic countries.

Gross domestic product growth (%)



Public balance/debt, % of GDP, 2020E



New direction with clear targets and a strong financial foundation to build on

Solid capital position

Solid credit quality

Proven capital generation capacity

AA

AA rating level

Strong liquidity position

Diversified business and funding base

Business areas

The four 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

- Prominent relationship bank with great customer experience.
- Seamless and easy banking through omnichannel setup.
- Safe and trusted, offers cus tomers relevant and com petent advice.

Business Banking

- Leading market position in the Nordics.
- Relevant and competent advice, provides access to a wide variety of specialists across the bank.
- Offers financial solutions, digital services and advice to corporate customers across the Nordics.

Large Corporates & Institutions

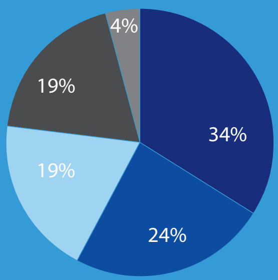
- Leading corporate and institutional bank in the Nordics.
- Top ranked in large corpo rate customer satisfaction.
- Offers a focused range of financing, payment, invest ment banking and capital markets services.

Asset & Wealth Management

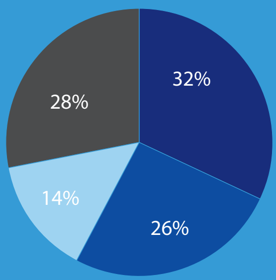
- Largest private bank, asset manager and life & pension provider in the Nordics.
- Strong investment perfor mance, integrated wealth manager with clear growth strategy.
- Leading ESG provider, leverages strong platform for continued growth.

Business areas and Group Functions contribution, 2019

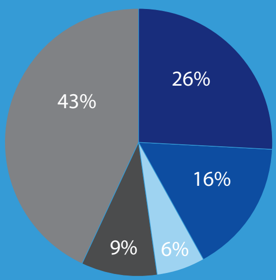
Operating income[1]



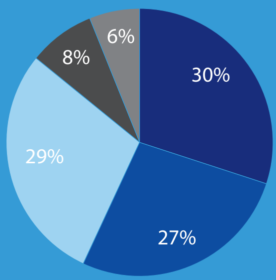
Operating profit



FTEs



Economic capital



● Personal Banking ● Business Banking ● Large Corporates & Institutions ● Asset & Wealth Management ● Group Functions

1) Excluding distribution agreement with Asset & Wealth Management.
Group Functions revenues and economic capital are mainly related to Group Treasury.

Personal Banking

Sara Mella
Head of Personal Banking

In Personal Banking around 7,500 people are working every day to deliver greater customer experiences to more than 9 million household customers. We do this by offering a full range of financial services and solutions through a combination of physical and digital channels. We leverage our scale in operations and platforms, and drive Nordic efficiency with local market adaptability, to deliver easy banking.

Through strong engagement and valuable advice, our 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 our range of products and services in the mobile app.

Key figures

Total income[1]: **EUR 3,475m**

Costs[1]: **EUR 1,976m**

Cost/Income Ratio[1,2]: **57%**

Operating profit[1]: **EUR 1,366m**

ROCAR[1,2]: **12%**

Target 2022

Cost/Income ratio[1]

~50%

Our achievements in 2019

The new mobile bank in Denmark, Sweden and Finland received the highest rating among banking apps – both in Apple's App Store and Google Play store.

1) Excluding distribution agreement.
2) Excluding items affecting comparability.

Business development

In 2019 we launched new services, solutions and functionalities for our customers, in addition to improving availability and accessibility. For instance we improved our customer's digital daily banking experience by launching the new banking app in Denmark. In Finland and in Sweden, where the new app was launched in 2018, we leveraged our scale to build one platform with local adaptability. With the new app, the bank is available anywhere at anytime and personalised to the preferences of the customer.

During the year, we also focused on improving our advisors' availability by extending opening hours, reducing administrative tasks and leveraging the scale of our advisory networks to serve customers' needs across the individual country's regions.

Our service robot Nova makes it possible for our customers to instantly chat with us and is the first agent greeting the customer in most cases in all markets. Nova received approximately 200,000 chats a month on a Nordic level.

Personal Banking's strong focus on winning homeowners is paying off as our market share of new sales is increasing. Key activities across the Nordics include improved availability, faster response time, strong presence locally with customer events, leverage of referral partnerships, such as real estate agents, as well as increased visibility through marketing campaigns.

Furthermore, we expanded our sustainable offering by launching green mortgages to Finnish, Norwegian and Swedish customers. In October, Denmark followed with a green car loan, where household customers can finance their new electric cars at an interest rate lower than ordinary car loan. Moreover, the loan process is paperless to ensure a green profile and the application process takes only a few minutes.

In our savings business, both advisory meetings and digital advisory sessions grew compared to last year. The main customer deliveries include the continued expansion of the Nora digital advisory offer in all markets. This allows customers to receive investment advice on their own at any time, and with a significantly easier and faster advisory experience for certain savings needs, such as monthly savings.

The focus in consumer finance remains on growing our digital solutions and increasing digital sales traffic across all countries. As a key advancement, Gjensidige Bank's consumer finance platform was leveraged to provide all Nordea customers in Norway with faster and smoother access to consumer finance.

Result

Total income increased by 2% in local currencies compared to 2018, on the back of improved business momentum.

Net interest income increased by 2% in local currencies from lending volume growth as well as higher deposit margins, though partly offset by lower lending margins across the markets. Non-interest income in local currency remained on the same level as last year, as higher income on items at net fair value were offset by decreased payments income.

Total expenses increased by 1% in local currencies compared to last year from higher depreciations and costs related to the Gjensidige Bank integration.

Provision for loan losses were higher in 2019 as extraordinary reservations for unsecured consumer lending were made this year in Sweden. Furthermore, collective provision models were re-calibrated in the third quarter of 2019 impacting loan losses for Denmark, Norway and Sweden.

Denmark

Net interest income decreased by 1% driven by lower lending margins as well as deposit margin contraction by the end of the year.

Net commission income increased by 14% compared to last year mainly from higher fee and commission income related to mortgage refinancing and conversion activities.

Finland

Net interest income decreased by 4% driven mainly by lower deposit margins slightly offset by increased mortgage lending volumes.

Net commission income decreased by 6% mainly due to payments and savings income.

Loan loss provisions were lower for 2019 compared to last year due to the sale of a debt portfolio this year.

Norway

Net interest income increased by 25% in local currency compared to last year driven by the consolidation of Gjensidige Bank from 1 March 2019 as well as lending volume growth. Lending margins were under pressure throughout the year.

Net commission income decreased by 23% in local currency compared to last year from a lower level of payments commission income.

The consolidation of Gjensidige Bank also impacted the provision of loan losses in 2019.

Sweden

Net interest income decreased by 3% in local currency compared to last year, as continued positive development on mortgage volume couldn't fully compensate pressure on lending margins.

Net commission income decreased by 4% in local currency compared to 2018 from both lower payments and lending fees.

Strategic focus areas and value drivers

In Personal Banking, we want to be the leading relationship bank in the Nordics, trusted by customers, partners and society, and known for being competent and safe. We are focused on delivering great customer experiences through a combination of physical and digital channels. Through strong engagement and valuable advice, the aim is that customers entrust Nordea with all their banking business. We offer a full range of needs-based financial services and solutions to our customers enabling dreams and everyday desires.

Our relationship business model drives higher income from cross- and up-selling, combined with lower risk due to greater knowledge about the individual customer. We focus especially on the areas within home and savings, where we aim to deliver great customer experience. In providing these services, we leverage our Nordic scale in operations and platforms, together with local presence and market adaptability, to deliver easy banking.

The mobile bank is increasingly at the centre of Nordea's relationship with customers, providing easy access to all Nordea's digital solutions as well fast access to personal advice and services. We continue to develop customer driven services and functionalities through both own and partner development.

Delivering a smooth omnichannel banking experience for our customers to solve their needs is a core focus. All our customers can choose their preferred channel making the bank available anywhere, anytime. This means that we meet our customers in-person through our branch network or contact centres as well as digitally through either our mobile bank or web, or other digital solutions such as our service agent Nova and investment advisor Nora.

2020 priorities

Optimise operational efficiency

- Increase cost efficiency by e.g. branch network efficiency and increasing self-service functionalities

Drive income growth initiatives

- Win the home owners
- Grow savings income through highly competent advice, in person and digital
- Turn volume trend on consumer finance from easy and convenient access to lending
- Scale digital sales

Create great customer experiences

- Improve proactivity and availability
- Be easy to deal with and show care
- Engage and empower employees

Business Banking

Erik Ekman
Head of Business Banking

Business Banking serves more than 500,000 corporate customers across the Nordics and consists of around 4,500 people. Business Banking also consists of Transaction Banking, which provides payments and transaction services to customers, and Nordea Finance, which provides asset-based lending, sales finance and receivable finance to corporate and household customers.

We deliver great customer experience by serving our customers digitally, online, and/or locally dependent on the complexity of their needs. We do this through the combination of service models: a people-intense service model, which is digitally supported and offers high availability, and a digital-intense service model, supported by people, ensuring high flexibility and fast response.

Key figures

Total income[1]: **EUR 2,169m**

Costs[1]: **EUR 1,135m**

Cost/Income Ratio[1,2]: **52%**

Operating profit[1]: **EUR 896m**

ROCAR[1,2]: **10%**

Target 2022

Cost/Income ratio[1]

~45%

Our achievements in 2019

Improved Cost/Income[1] ratio with 2%-points to 52% and continued positive development in customer satisfaction.

1) Excluding distribution agreement.
2) Excluding items affecting comparability.

Business development

Focus in Business Banking has been on continuous improvements to enhance our service and performance gradually. We launched and accelerated several initiatives in 2019 to free up time for our staff to meet more customers, improve operational efficiency and to enhance our digital offering.

In our 2019 internal customer satisfaction survey, we saw positive developments in Denmark, Norway, and Sweden. In Finland, where we had already achieved a higher starting point, the scores were unchanged.

A key achievement for 2019 was the acquisition of SG Finans, with the intention of combining this business with Nordea Finance. This acquisition will increase our ability to serve corporate customers with their financing needs in three of our home markets, while aligning with Nordea's priority to focus core business in the Nordics.

In the second half of 2019, we also launched Nordea's new Dashboard to corporate customers to provide them with a simple overview of their finances. The new Dashboard provides real-time aggregation of a company's key financial data, conveniently packaged in a single user-friendly front-end. This solution is available through our e-Markets platform and has been rolled out to around 1,600 Nordea customers, with more expected to be onboarded throughout 2020.

Providing our customers with digital solutions is a key to enable self-service and easy access to products. The roll-out of the enhanced Netbank for corporate customers named 'Nordea Business' continues. In Sweden, close to 100,000 Swedish customers are now invited, while pilots in Denmark and Finland are ongoing. Nordea Business will be our new digital channel for serving the majority of our corporate customers going forward.

We continue to enhance our sustainable offerings so we can provide our customers with a green alternative. In the fourth quarter, we launched green mortgages in Denmark and corporate customers in all Nordic countries are now able to finance with green loans. Discounted car loans and leasing were also introduced to customers in Denmark, for customers looking to finance cars which run on 100% electricity.

The good momentum in our Cash Management business continues with a strong pipeline and improved customer satisfaction (now #2 in Prospera Nordics).

Result

Total income decreased by 2% negatively impacted by model related fair value adjustments. Underlying income increased.

Net interest income increased by 2% in local currencies compared to 2018. Positive impact from increasing lending volumes and deposit volumes (both 3% in local currencies) was supported by increasing deposit margins and partly offset by decreasing lending margins.

Net commission income increased by 8% supported by growth in lending related commissions and an increase in capital markets transactions. Net result from items at fair value decreased by 31%, negatively impacted by model related fair value adjustments. Underlying net result from items at fair value increased driven by increased customer activity.

Total expenses decreased by 6%. Net loan losses returned to a more normalized level whereas 2018 included large reversals. Operating profit was EUR 816m and decreased by 11%.

ROCAR decreased from 11% to 10% for the full year driven by normalisation of loans losses from low levels in 2018, increased capital requirements and model related fair value adjustments.

Strategic focus areas and value drivers

In Business Banking, our ambition is to maintain and continuously improve our leading position in the Nordics while delivering a Cost/Income ratio[1] of ~45% in 2022. Our strategic direction was presented at the Nordea Capital Markets Day in October with the following key focus areas:

- Protect and develop our business model for complex customer needs
- Continue to develop a digital scalable model for basic corporate needs
- Increase operational efficiency
- Simplify and improve key processes

Business Banking creates great customer experiences when interacting with our customers. Our customers value and appreciate our advisors, who understand their business and provide access to a wide variety of specialists across the bank. A key for improving our customer experience going forward will therefore be our ability to increase the time our advisors and specialists spend with customers by simplifying and improving main processes such as KYC and credit.

Freeing up time will also support further improvement of our financial performance, by enabling our staff to do more cross-selling, customer acquisitions, pricing and business selection. From 2016-2018 our income pr. frontline employee has improved with +20% which proves our track record of continuous improvements – a trend we expect to continue.

Another key focus area is to continue to develop the digital user interfaces allowing Business Banking to actively choose how to service the customers – either digital, online or being locally present. This will support Business Banking's cost to serve as well as our digital offering towards our customers.

2020 priorities

Optimise operational efficiency

- Improve the KYC process
- Simplify the credit process

Drive income growth

- Free-up time to do more cross selling, customer acquisitions and business selection

Create great customer experiences

- Free-up time for our frontline employee by simplifying processes
- Continue roll-out of new digital front-end for basic corporate needs
- Leverage specialists across the bank

1) Excluding distribution agreement

Large Corporates & Institutions

Martin Persson
Head of Large Corporates & Institutions

Large Corporates & Institutions (LC&I) provides financial solutions to large Nordic corporate and institutional customers. The offering includes a focused range of financing, cash management and payment services, investment banking, capital markets and securities services in the Nordics and through our international branches.

LC&I is the Nordic leader within sustainable finance and has the leading Large Corporate and Institutional customer franchise in the Nordics. Through Nordea Markets, we also service a broad range of Nordea customers. Approximately 3,000 customer groups are served by around 1,800 LC&I employees.

We aim to create the best Large Corporate and Institutional franchise across the Nordics, that will significantly enhance our current return profile, and become the preferred strong personal financial partner for our customers while positively contribute to the societies we operate in.

Key figures

Total income: **EUR 1,607m**

Costs: **EUR 927m**

Cost/Income Ratio: **58%**

Operating profit: **EUR 430m**

ROCAR: **4%**

Target 2022

ROCAR

~10%

Our achievements in 2019

Strong customer satisfaction continued with No. 1 position in 2019 Large Corporates Prospera ranking, showing first signs of traction of our three-year plan. Perennial leader in the Nordic DCM market with 18% market share per fourth quarter 2019 and solid income growth trajectory.

Business development

With the implementation of the new strategic direction, LC&I continued to focus on customer centric value-adding services, capital efficient initiatives as well as leveraging the No. 1 Nordic position and client franchise. The business area strengthened its leading position in sustainable financing and launched LC&Ix, the new incubator unit for business initiatives aiming to fuel income growth.

Corporates, Institutions & Investment Banking

Debt Capital Markets (DCM) had a very strong year with a full year income growth of 28% compared to the previous year. The performance was good across products and customer segments, largely driven by a high activity level and dominant market share, especially in high margin segments. In 2019 Nordea also took further steps to establish our leading platform in Sustainable Bonds, by arranging more Nordic Green and Sustainable Bonds than any other bank in the Nordic region. Customer relationships strengthened further, as documented by improving customer satisfaction in Prospera. We scored an all-time high for large corporates with No. 1 rankings across the Nordic region, Denmark, Finland and Norway. The Leveraged Finance team was again voted the leading Nordic house for Acquisition Finance.

The underlying customer momentum was further evidenced by increasing lending volumes of 4% compared to the previous year.

Nordea enjoys leading market positions in Nordic M&A and ECM through our advisory business within CI&IB. 2019 marked another solid year with landmark transactions for important clients, including Bakkafrost's acquisition of The Scottish Salmon Company, EQT's IPO and the Metso/Outotec merger; the latter for which inter alia Mergermarket Europe selected Nordea as M&A Financial Advisor of the Year 2019 in Finland.

Markets

Throughout 2019 the financial markets were challenged by unfavourable conditions characterised by subdued activity levels and a continued negative impact from regulations, negative interest rates, intense competition, combined with generally low market volatility.

Customer activity in Markets related products picked up after the summer period and the year ended with positive income growth compared to previous year; however, the full year result is weighed down by development in trading activities and valuation adjustments. Overall, activities and income were driven by strong growth in Fixed Income products, especially within primary activities.

In the rates franchise, customer activity increased with higher market volatility. Nordea's registration as a U.S. Swap Dealer in January enabled the expansion of the derivatives business to include U.S. customers.

The credit franchise was characterised by high primary market activity and increased dominance in the market ending the year with significant income growth compared 2018.

Nordea Research was awarded StarMine recognition across the board, receiving 13 awards as Top Earnings Estimators and Top Stock Pickers, with first place in both categories for Nordics and European markets.

Nordea Markets received consistently good customer feedback as shown in Prospera throughout 2019.

Result

Total income was EUR 1,607m, -11% compared to 2018 mainly driven by lower Net result from items at fair value.

Net interest income was EUR 851m, –8% from last year. Net fee and commission income was EUR 444m, –6% compared to 2018. Net result from items at fair value amounted to EUR 311m, –24% compared to 2018, mainly due to lower income from risk management including negative Valuation Adjustments.

Lending volumes excluding repos increased by 2% compared to 2018 with CI&IB increasing with 4%, offset by lower volumes in Russia and Financial Institutions.

Total expenses at EUR 927m, –2% from last year, following firm cost control, also reflected in lower number of FTEs.

Operating profit was EUR 430m, –44% compared to 2018, due to reduced income and adjustments to loan loss provisions, following the dialogue with ECB reflecting a more subdued outlook in certain sectors. ROCAR was 4% (6% excl. adjustments to loan loss provisions following the dialogue with ECB) and the total year-end economic capital was EUR 7,418m.

Strategic focus areas and value drivers

In response to a challenging market environment, a punitive capital situation and to meet the customers' evolving needs and demands, we announced a new strategic direction at the Nordea Capital Markets Day in October. The strategy is targeting a ROCAR of approximately 10% by 2022 and rests on four main pillars: Reduce low-return assets, Streamline the Markets business model, Invest in environmental, social and governance (ESG) and LC&Ix and Optimise the international footprint.

The new strategic direction will enable Large Corporates & Institutions to become more profitable, improve shareholder returns and drive long-term growth in its prioritized areas. The plan will allow the business area to focus on its core strengths, reduce capital consumption, complexity and costs, whilst creating a more agile business model for an evolving market environment.

This will lead to a gross reduction of approximately EUR 1.5bn in Economic Capital corresponding to EUR 8bn of REA by 2022. Furthermore, significantly reducing the complexity, we will take out approximately EUR 200m in costs with significant return improvement to 10% from current unsustainable levels.

Building on Nordea's core strength as a true Nordic bank, we will also invest more in the advisory services within the core areas, such as ESG, where we are building leadership as well as expanding the customer offering in advising and distributing green bonds and loans. Further, LC&Ix has been launched as the incubator unit for business initiatives aiming to fuel income growth.

2020 priorities

Optimise operational efficiency

- Reduce low-return assets
- Streamline Markets business model
- Optimise international footprint

Drive income growth initiatives

- Invest in ESG advisory services and strengthen our leading position for sustainable financing
- Invest in new incubator unit LC&Ix, leveraging data and digitalisation for growth

Create great customer experiences

- Continue to develop and leverage all-time high customer satisfaction and leading market position in the Nordics
- Continue to focus on employee satisfaction, being the first choice for top talents to develop

Asset & Wealth Management

Snorre Storset
Head of Asset & Wealth Management

Asset & Wealth Management is the Nordic region's largest provider of products and services within institutional asset management, private banking and life & pensions. We offer Nordea's savings products through our own distribution network and through our partners.

Asset & Wealth Management has approximately 2,700 employees, of whom approximately 200 are employed outside the Nordic region. The business area includes:

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

Private Banking – serving 94,000 customers from 69 branches in the Nordics.

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

Asset & Wealth management's vision is to be acknowledged as a leading European Asset Manager and the leading Nordic Wealth Manager in each Nordic market with global reach and capabilities.

Key figures

Total income[1]: **EUR 1,626m**

Costs: **EUR 726m**

AuM: **EUR 324.1bn**

Net flows: **EUR 9bn**

Cost/Income Ratio[1]: **45%**

Operating profit[1]: **EUR 898m**

ROCAR[1]: **32%**

Target 2022

Cost/Income ratio[1]

<40%

Our achievements in 2019

Turn around in net flows, positive in each quarter and total EUR 9bn in 2019. Strong increase in Asset under Management to EUR 324.1bn, a 16% increase.

1) Including distribution agreement.

Business development

Asset & Wealth Management attracted new assets as the offering proved competitive in the 2019 economic climate. Assets under Management (AuM) increased to EUR 324.1bn driven by EUR 9bn netflow and EUR 35bn market appreciation. All businesses contributed positively to the net flow.

Asset Management continued to diversify the business by expanding the product range and client base. The outflow in the Stable Return fund levelled off and we saw increased traction in the Alpha product range and the Global Climate & Environment fund. The European Covered Bond strategies continued to attract significantly high inflows. New product development initiatives were primarily within illiquid alternatives, balanced offerings and ESG products. International third-party fund distribution experienced strong inflow of EUR 4.4bn and Institutional Distribution had an inflow of EUR 0.8bn with high value of AuM. During the year, we made some strategically important wins in the Americas. Net flows in Nordea bank's Nordic sales channels ex. Life saw a recovery compared to 2018 and ended with a net flow of EUR 2.2bn.

Asset Management was rewarded the Best ESG investment process in Europe for the sixth year in a row by the European magazine Capital Finance International. Asset Management also received an A+ score for Responsible Investment Strategy & Governance in UN Principles for Responsible Investment assessment report for 2019.

2019 investment performance was very strong and 85% of composites outperformed benchmarks on a 3-year basis. The ESG products: Global Stars Equity, Emerging Stars Equity North American Stars Equity had an exceptionally strong performance. Combined with the full suite of ESG labels for these funds Asset Management is in a good position to continue to diversify and gain flows in the coming years.

Private Banking had a successful year. Netflow was EUR 2.6bn in 2019 and AuM increased to EUR 90.8bn as a result of emphasis on customer acquisition and increased business with existing clients. Customer satisfaction has increased on a yearly basis since 2017, proving the strength of the revised value proposition. Global Finance recognised Nordea as the Best Private Bank 2020 across our growth markets in Norway and Sweden.

Life & Pensions' strong solvency capital position enabled dividends of EUR 375m, transferred to Nordea Bank Abp in 2019. At the end of December 2019, the solvency capital position was 160%, supported by self-financing growth in market return products and capital release from the runoff of traditional insurance portfolios. Gross written premiums have increased by 20% in 2019 compared to 2018, mainly driven by enhanced focus on occupational pension in Sweden and Norway. Growth is expected through acceleration of the bancassurance business model, an expanded value proposition and new partnerships.

Result

Total income was EUR 1,626m in 2019, down 3% from previous year.

Overall cost has decreased by 8% compared to 2018 reflecting prudent resource management. Operating profit was up 1% in 2019. ROCAR improved from 30% to 32%. The C/I ratio was 45%.

Asset Management

Total income was EUR 918m in 2019, a EUR 4m increase compared to 2018. Compared to 2018, total expenses are up 1%. Operating profit was EUR 618m, at par with 2018. The C/I ratio was 33%.

Private Banking

Total income was EUR 279m in 2019; a 9% increase compared 2018. The cost increased 5% over the year. Operating profit was EUR 29m, up 93% from 2018. The C/I ratio was 89%.

Life & Pensions

Total income was EUR 418m in 2019, an 11% decrease compared to 2018. Total expenses were EUR 110m, down 27% from 2018. The C/I ratio was 26%. Operating profit was EUR 308m, down 3% from 2018. Continued focus on capital efficiency has resulted in a Return on Equity of 20% in 2019.

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 in Asset & Wealth Management and net interest income related thereto.

Strategic focus areas and value drivers

Asset & Wealth Management's ambition is to be recognized as a leading European asset manager delivering returns with responsibility, and as the leading wealth manager in each Nordic market with global reach and capabilities. We are a profitable and globally competitive asset manager as well as an integrated wealth manager with clear growth strategy and plan for improved sales productivity. We want to continue to leverage our strong product and distribution platform driving growth and positive netflow development in 2020.

We also aspire to be a leading ESG provider. Recently Life & Pensions has advanced within the sustainability agenda and joined the UN-convened Net-Zero Asset Owner Alliance, committing to net-zero emissions from our investments by 2050. This commitment gives us and our customers the possibility to contribute against global warming.

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. Collaboration across Nordea is key to realise the full potential of our strong savings and investment offering in all customer segments.

2020 priorities

Optimise operational efficiency

- Grow digital savings: mobile banking app and robo-advice
- Simplify product offering
- Improve advisor efficiency

Drive income growth initiatives

- Increase and deepen distribution reach: expand market presence and develop new markets
- Reinvigorate Nordea distribution, strengthen savings products distribution through Nordea sales channels
- Increase Private Banking and occupational pension market shares

Create great customer experiences

- Being a leading ESG provider
- Deliver strong investment performance

Group Functions

Erik Ekman
Head of GBS

Group Business Support (GBS)

Role and responsibilities

- GBS provides the business areas with the services, data and technology infrastructure, and the three largest processes (lending operations, credit process and AML) required to become a strong and personal financial partner.
- GBS drives optimisation of Nordea's operational efficiencies, letting the business areas focus on what they do best, to serve our customers and drive income growth initiatives.
- Together we create the great customer experiences.

Johan Ekwall
Chief of Staff

Chief of Staff Office (CoSO)

Role and responsibilities

- CoSO is a function consisting of units being subject matter experts in areas of common interest for the Group. All units are delivering advice and services across the entire Group.
- CoSO provides services related to communication, brand, marketing, sustainability, M&A and internal governance.

Matthew Elderfield
Chief Risk Officer

Group Risk & Compliance (GRC)

Role and responsibilities

- GRC represents Nordea's independent second line of defense function.
- GRC oversees the implementation of the financial and the non-financial risk policies. According to a risk-based approach, GRC monitors and controls the Risk Management Framework including the Compliance Risk Framework. Thereby, GRC oversees that key risks that Nordea is or could be exposed to, are identified, assessed, monitored, managed and reported.

Christina Gadeberg
Chief People Officer

Group People (GP)

Role and responsibilities

- GP supports the employee lifecycle across the Group via dedicated services as attracting/recruiting, onboarding, performance management/reward, development, off-boarding.
- Together with Business Areas and other Group Functions, Group People is co-driving the strategic people agenda in terms of strategic workforce planning, organisational set-up, development of competencies.

James Graham
Chief Audit Executive

Group Internal Audit (GIA)

Role and responsibilities

- GIA is an independent unit mandated by the Nordea Board. The Group Chief Audit Executive (CAE) reports functionally to the Nordea Board and its Audit Committee, and administratively to the Group CEO.
- GIA's purpose is to support the Group Board and Group Leadership Team in protecting the assets, reputation and sustainability of the Nordea Group.
- GIA helps Nordea accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness and efficiency of governance, risk management, and control processes.

Jussi Koskinen
Chief Legal Officer

Group Legal (GL)

Role and responsibilities

- GL is responsible for effective and high quality legal advisory within the Nordea Group – the legal advisory covers, amongst others, banking, business, contracts, corporate, mergers and acquisitions, litigation and many other legal areas relevant for Nordea.
- GL engages as a strategic advisor and business partner with high professionalism and integrity in all areas where Nordea operates.
- In addition, GL is responsible for corporate governance, regulatory change management as well as authority reporting and interaction.

Christopher Rees
Group CFO

Group Finance (GF)

Role and responsibilities

- GF is mandated to drive financial performance management, provide high-quality and efficient financial reporting and planning across the Group, including financial and business control, procurement services and insightful analysis to meet business needs and regulatory requirements.
- Responsible for managing Nordea's capital, liquidity, funding and market risk ensuring regulatory compliance whilst supporting Business Areas ability to serve customers well.
- Ensures a fair reflection of Nordea's fundamentals, by providing transparent and relevant communication to the investor community.

Our people

Christina Gadeberg
Chief People Officer

The foundation of Nordea's culture is built on our purpose and values. We have simplified the organisational structure and governance, decreased organisational layers and integrated agile ways of working in our daily tasks. This has improved communication and collaboration as well as made decision-making faster. However, to reach the next level, we need to focus more on performance, execution and accountability.

Engaged employees create great customer experiences

Everyone at Nordea is encouraged to take ownership of their work and are offered support to grow and develop. We want to build high competence teams, who are passionate about creating great customer experiences. Teams that understand local needs and are able to incorporate cross-border knowledge. At Nordea we know, that engaged employees lead to more satisfied customers.

Our objective remains the same: To be a purpose-led and values-guided organisation.

In 2019, 86% of our people said, that we act according to our values. Our purpose and values are our inner compass to become a strong and personal financial partner with focus on empowerment and execution.

We recognise that interaction between leaders and employees is key in building engagement, increasing performance and well-being. We have introduced Leadership Programmes to ensure our people can develop their skills and have access to tools they need to succeed. The programmes are open to both current and new people leaders in all Nordic countries and Poland. We encourage leaders to be accessible and visible to their teams. At Nordea, leaders manage their teams in a differentiated way. They ensure that high performers have opportunities to advance.

Developing competencies

We are committed to ensure long-term and sustainable employability of our people. To meet future needs, Nordea has implemented a digital learning marketplace with access to more than 3000 top rated online courses. The offering ranges from agile project management to data modelling and artificial intelligence (AI). This is one of the ways we ensure that our people can acquire new skills and capabilities and deliver value to our customers. We strive to become a continuous learning organisation.

Supporting our people's employability

At Nordea, we have a clear target to become more efficient. This includes becoming simpler and faster, prioritising activities to meet our business requirements and transferring certain activities to Poland or Estonia.

This could lead to certain jobs changing, relocating or becoming redundant. Through constructive discussions and collaboration with unions, we respect all labour market conditions and keep our people engaged during times of change. We are committed to treating our people with respect and aim to help those at risk to develop skills to find new job opportunities inside or outside Nordea.

Promoting diversity and inclusion

We recognise the importance of diversity of our people's backgrounds and personal qualities. By fostering an inclusive culture, we are committed to ensure everyone can be themselves at work.

We want to attract talent regardless of gender, age, ethnicity, sexual orientation, religion or any other traits that are irrelevant to the job description.

Nordea takes part in Pride celebration across the Nordics and in Poland. We also make continuous efforts to become more accessible with regards to ability variation. These activities show our commitment to equality, human rights and inclusion, and are a result of cross-functional collaboration. The Diversity & Inclusion Committee, established in 2018, monitors and influences the overall strategic direction for diversity and inclusion at group level. The Diversity & Inclusion Committee focuses on creating a clear business case and ensuring that we put our priorities into practice, by embedding diversity and inclusion activities into our organisational DNA.

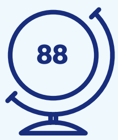
At Nordea we want to provide a workplace that is free from discrimination. We have zero tolerance of all forms of harassment, victimisation or similar violations in the workplace. All employees are encouraged to have resolute conversations about how we treat each other in their team dialogues. In 2019, 2% of the respondents to the People Pulse survey stated that they had been subjected to some form of harassment or other maltreatment.

> "We recognise the importance of diversity of our people's backgrounds and personal qualities."

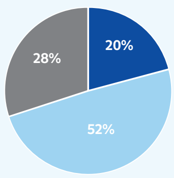
Number of employees (FTEs)
29,000

Women 49% **Men** 51%

Our values:
Ownership, Passion, Courage, Collaboration



Nationalities across total workforce



Workforce age distribution

- Of total workforce under 30 years old
- Of total workforce between 30–50 years old
- Of total workforce older than 50 years

Board of Directors' report

The Nordea share and ratings

Nordea's return on equity (ROE) target is to be above 10% in Full Year 2022.

Nordea's market capitalisation at the end of 2019 was EUR 29.3bn (EUR 29.4bn at the end of 2018). Ranked by market capitalisation, Nordea was the seventh 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 2019 the Nordea share price was broadly unchanged on the Nasdaq Helsinki exchange at EUR 7.24 versus EUR 7.27. The daily closing prices listed for the Nordea share in 2019 ranged between EUR 5.37 and EUR 8.22. In 2019, the Nasdaq OMXH index appreciated by approximately 13% and the STOXX Europe 600 Banks index appreciated by approximately 8%. 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 (–57.4%) and the Nasdaq OMXH index (–46%).

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 indices as well as find historical prices for the Nordea share.

Total shareholder return 2019

Total shareholder return (TSR) is the market value growth per share and reinvested dividends. Total shareholder return in 2019 was 10.5% (–19.5% in 2018).

Turnover – the most liquid Nordic financial share

The Nordea share was the most liquid Nordic financial share in 2019, with an average daily trading volume of approximately EUR 138m, corresponding to approximately 20 million shares. Turnover on all stock exchanges combined totalled EUR 35bn in 2019, corresponding to 5 billion shares.

31% of the total volume traded in Nordea shares takes place over other exchanges such as Cboe Europe and Equities, Turquoise and Aquis. Out of the total number of Nordea shares traded in 2019 on Nasdaq, approximately 49% were SEK-denominated, 45% 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 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.

The AT1 conversion notes issued in 2019 automatically convert into shares if the CET1 ratio of either the issuer on a sole basis or the Nordea Group on a consolidated basis falls below a specific trigger level. There are no convertible bonds issued by Nordea that give option exercise rights for holders to acquire shares in Nordea.

For information on share-based incentive programmes see note G8, Staff costs on page 135.

Capital policy

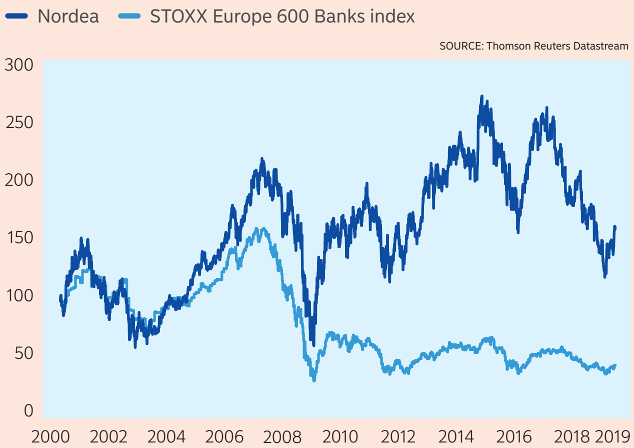
The Nordea Group's capital policy states that Nordea Group under normal business conditions should have minimum targets for Common Equity Tier 1 (CET1) capital ratio, Tier 1 capital ratio and the Total capital ratio that exceed the capital requirements received from the competent authorities. In addition, Nordea will maintain a management buffer. From 1 January 2020, the intention is to hold a CET1 capital management buffer of 150-200 bps above the CET1 capital ratio requirement (which is also the MDA level).

Proposed dividend and dividend policy

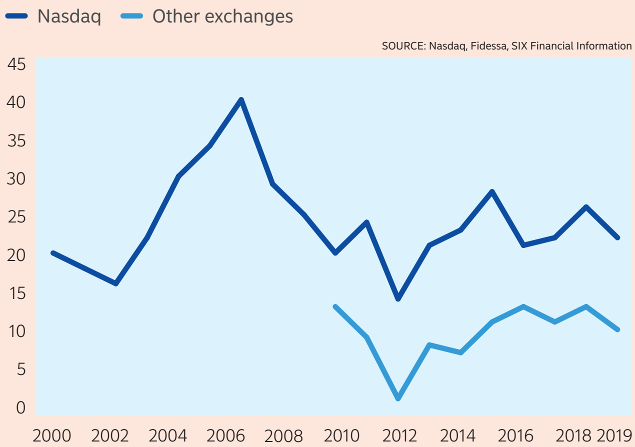
For 2019, the Board of Directors proposes a dividend of EUR 0.40 per share. The total dividend payment for 2019 would be EUR 1,616m[1]. The dividend yield calculated on the share price at 31 December 2019 was 5.5%.
Nordea has updated the dividend policy to be applicable on profit generated from 1 January 2020. Nordea strives to maintain a strong capital position in line with our capital policy. From 1 January 2020, the ambition is to distribute 60-70% of the distributable net profit for the year to shareholders. Excess capital in relation to capital targets will be used for organic growth and strategic business acquisitions as well as be subject to buy-back considerations.

1) The total amount of the dividend payment and the amount carried forward as distributable retained earnings after the dividend pay-out, will be adjusted based on the amount of treasury shares held by Nordea Bank Abp at the record date for the dividend payment.

Nordea share price performance compared to European banks, 2000–2019, %



Turnover of the Nordea share on stock exchanges, 2000–2019[1], EURbn



1) Nasdaq Exchanges from 2001. Other exchanges from 2010.

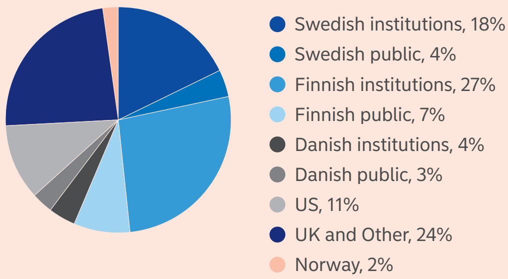
The dividend is denominated in EUR, Nordea's accounting currency. The payment currency depends on the country in which the shares are registered. Owners of shares registered in Sweden can choose between dividend in SEK or EUR. An official exchange rate is published. In Denmark, dividends are paid in EUR. If the shareholder does not have a EUR account the dividend is converted into local currency. Each custody institution decides its own conversion rate. In Finland, the dividend is paid in EUR.

Shareholders

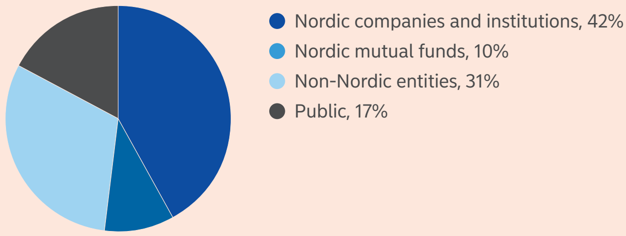
With approx. 580,000 registered shareholders at the end of 2019, Nordea has one of the largest shareholder bases of all Nordic companies. The number of shareholders in Sweden is approximately 141,000, in Finland approximately 311,000 and in Denmark approximately 128,000, an increase in Sweden and Finland from last year.

The largest shareholder category is Finnish institutions (including Sampo plc), with a 27% holding of Nordea shares. At year-end, Swedish institutional shareholders held 18% while non-Nordic shareholders held 31%. The largest individual shareholder is Sampo plc with a holding of 19.9%.

Shareholder structure, 31 Dec 2019



Shareholder structure, 31 Dec 2019



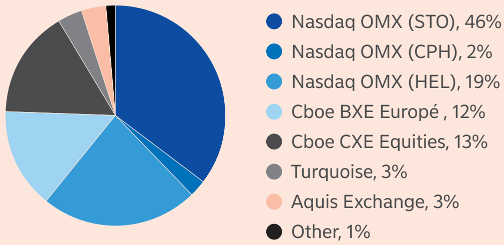
Largest registered[1] shareholders in Nordea, 31 Dec 2019

Shareholder	No of shares, million	Holdings, %
Sampo Plc	804.9	19.9
Nordea Fonden	158.2	3.9
BlackRock	116.2	2.9
Alecta	112.2	2.8
Vanguard Funds	107.8	2.7
Cevian Capital[2]	92.0	2.3
Swedbank Robur Funds	80.8	2.0
Varma Mutual Pension Insurance	60.5	1.5
Nordea Funds	43.2	1.1
Norwegian Petroleum Fund	40.1	1.0
Ilmarinen	38.9	1.0
SEB Funds	31.3	0.8
SHB Funds	29.9	0.7
T. Rowe Price	26.1	0.6
Nordea Vinstandelsstiftelse	25.6	0.6
Goverment of Japan Pension Fund	25.0	0.6
BNP Paribas Asset Management	22.9	0.6
First Swedish National Pension Fund	22.4	0.6
State Street Global Advisors	21.9	0.5
SPP Funds	20.4	0.5
Other	2,169.8	53.7
Total number of potential outstanding shares	**4,050.0**	**100.0**

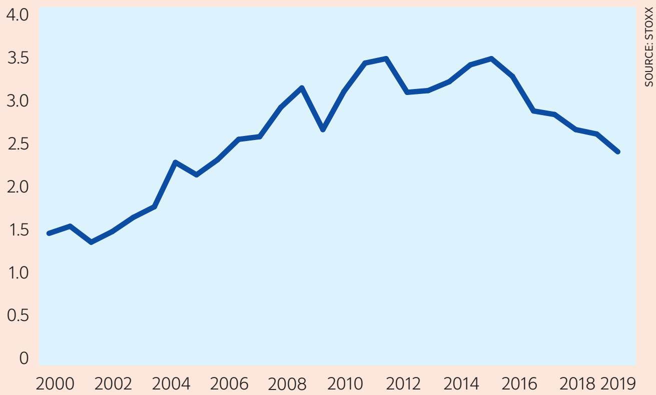
Source: Euroclear Sweden, Modular Finance and VP Online.

1) Excluding shares issued for the Long Term Incentive Program (LTIP).
2) In February 2020 Cevian Capital informed that they have further increased their shareholding in Nordea giving them approximately 4.3% holding in Nordea's share, thus making them the second biggest shareholder after Sampo Plc.

Nordea share, annual turnover on different stock exchanges 2019



Nordea weighting in the STOXX Europe 600 Banks index, 2000–2019, %



Distribution of shares, 31 Dec 2019

Distribution of shares	Number of shareholders	Shareholders, %	Number of shares	Shares, %
1–1,000	441,509	76	116,903,892	3
1,001–10,000	127,257	22	338,621,383	8
10,001–100,000	10,257	2	239,309,135	6
100,001–1,000,000	755	0	218,359,069	5
1,000,001–	264	0	3,136,758,440	78
Total	**580,042**		**4,049,951,919**	

Share data past 5 years

	2019	2018	2017	2016	2015
Share price (EUR)	7.24	7.27	10.09	10.60	10.15
High/Low (EUR)	8.22 / 5.37	10.54 / 7.25	11.75 / 9.74	10.93 / 6.94	12.56 / 9.47
Market capitalisation (EURbn)	29.3	29.8	40.9	42.8	41.3
Dividend (EUR)	0.40[2]	0.69	0.68	0.65	0.64
Dividend yield[3] (%)	5.5	9.5	6.7	6.2	7.6
Total shareholder return (TSR) (%)	10.5	–19.5	3.6	16.3	8.2
STOXX Europe 600 Banks index (%)	8.2	–28	7.5	–6.8	–3.3
P/E (actual)	19.1	9.6	13.5	11.4	11.2
Price-to-book	0.93	0.90	1.23	1.32	1.32
Equity per share (EUR)	7.80	8.15	8.21	8.03	7.69
Earnings per share[4] (EUR)	0.38	0.76	0.75	0.93	0.91
Outstanding shares[1]	**4,049,951,919**	**4,049,951,919**	**4,049,951,919**	**4,039,029,217**	**4,038,273,025**

1) Excluding shares held for the Long Term Incentive Programmes.
2) Proposed dividend.
3) Dividend yield for 2014 to 2018 calculated at starting price on payment day and for 2019 calculated at price per 31 December 2019.
4) Diluted earnings per share, total operations.

Ratings

Nordea's credit ratings are some of the strongest among banks globally. During 2019, Nordea's ratings were re-affirmed at unchanged levels with stable outlook from Moody's and Standard & Poor's (S&P) and were re-affirmed at unchanged levels but with negative outlook on the long-term issuer default rating from Fitch.

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

The negative outlook from Fitch reflects Nordea's lower profitability in recent periods and Fitch states that the outlook would be revised to stable if Nordea demonstrates that it will be able to meet its new financial targets.

The covered bond ratings for the covered bond-issuing entities are unchanged 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 and Gjensidige Bank Boligkreditt AS (in Norway).

The analysis from the rating agencies' side is in broad terms focused on credit risks and other risks, profitability, capitalisation, the strength of the business franchise as well as on the funding profile and liquidity strength. For these areas, the views on Nordea have been stable during the year, with exception of the view on profitability as described above.

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

Ratings, 31 Dec 2019

	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[2]	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]						
Gjensidige Bank ASA			A–1	A+[3]				
Gjensidige Bank Boligkreditt AS				AAA[1]				
Nordea Bank Abp Senior Non-Preferred (SNP) issuances		Baa1		A		AA–		
AT1 in March 2015 issue rating				BBB		BBB		
AT1 in Nov 2017 issue rating				BBB		BBB		
AT1 in March 2019 issue rating				BBB		BBB		

1) Covered bond rating
2) Negative outlook
3) Positive outlook

Financial Review 2019

Key figues and ratios

- Total operating income[1] EUR 8,497m (–1%, in local currencies 0%)
- Total operating expenses[1] EUR 4,877m (–1%, in local currencies 1%)
- Adj. Operating profit[1] EUR 3,366m (–4%, in local currencies –3%)
- Net loan loss ratio, amortised costs 22 bps (7 bps last year)
- Return on equity (ROE)[1] 8.1% (last year 8.5%)
- Common equity tier 1 (CET1) capital ratio 16.3% (last year 15.5%)
- Overall credit quality is solid
- Assets under Management up 16% to EUR 324.1bn
- Proposed dividend EUR 0.40 per share (dividend last year EUR 0.69 per share)

Macroeconomic trend

The world economy remained on a soft path in 2019 and growth was below 3% and at the weakest level since the financial crisis. Not least the manufacturing sector was hit hard by the trade war, Brexit uncertainty and problems related to the automotive industry. However, the weakness has also spilled over to the service sector, just like the cooling of the international economy has affected the Nordic countries, albeit to varying degrees. Particularly Sweden and Finland have been exposed to the development in the global business cycle, while Norway and Denmark have fared better thanks to different corporate sector structures. In 2019, Norway (mainland) had the highest growth rate in the Nordic region expanding by 2.5% followed by Denmark (2.1%), Finland (1.5%) and Sweden (1.1%).

The global economic slowdown coupled with sustained low inflation caused the major central banks around the world to make a monetary policy U-turn as bond yields moved to record lows during the summer. All discussions of a normalisation were put on the backburner and replaced by renewed easing. In the US, the Federal Reserve has cut rates three times by 25bp since July 2019 to prolong the historically long upswing, and in the Euro area, amid weak economic sentiment and in the absence of inflationary pressure, the ECB introduced a new easing package containing a rate cut by 10bp, a restart of the asset purchase programme from November, a change in the modalities of the TLTRO III and an introduction of a two-tiered deposit rate system. Meanwhile, Norges Bank and the Swedish Riksbank hiked rates during the year by 75bp and 25bp, respectively, motivated by strong growth in the Norwegian economy and a stronger focus on the adverse side effects of negative interest rates. In spite of this, both currencies were under pressure and ended 2019 on a weak note. The Danish central bank keeps mirroring the ECB and cut rates by 10bp in September to a record low of –75bp.

Equity markets performed strongly throughout the year supported by the ultra-easy monetary policy. The easing of financial conditions contributed to curb the dramatic slowdown in the global economy by the end of the year.

Results summary 2019

Total operating income in 2019 was unchanged in local currencies (down 1% in EUR) compared to 2018, excluding items affecting comparability. Total expenses were EUR 4,877m, an increase of 1% in local currencies (down 1% in EUR) excluding items affecting comparability, in line with guidance. Net loan losses increased from last year to a level of 22 bps of loans (7 bps in 2018). Operating profit was down 3% in local currencies (down 4% in EUR) excluding items affecting comparability.

Income

Net interest income was down 2% in 2019 compared to 2018 in local currencies, driven mainly by lower margins. Our income initiatives delivered better business momentum in the latter part of 2019, which is also evident in the top line. Average lending volumes in business areas in local currencies were up by 5% and average deposit volumes were up by 5% compared to 2018. The trading environment has been challenging throughout the year and weighed on net fair value. Net fee and commission income increased 2% in local currencies (1% in EUR) while net result from items at fair value increased by 10% in local currencies (13% in EUR) compared to the previous year, excluding items affecting comparability.

Expenses

Total operating expenses were up 1% in local currencies (down 1% in EUR)compared to 2018 excluding items affecting comparability, in line with our guidance. Staff costs were down 5% in local currencies (6% in EUR), excluding items affecting comparability. Other expenses were down 5% in local currencies (6% in EUR) excluding items affecting comparability. Depreciation was up 77% in local currencies (74% in EUR), excluding items affecting comparability.

Net loan losses

Net loan loss provisions increased to EUR 536m (EUR 173m in 2018), corresponding to a loan loss ratio of 22 bps (7 bps last year). The increase is primarily related to net loan losses of EUR 282m made in Q3 2019, after dialogue with the ECB on Asset Quality Review findings. This reflects a weaker outlook for certain sectors, and to IFRS9 model updates.

Nordea continues the review of its collective loan loss provisioning model during 2020, which may have some impact on provisions. We continue to have ongoing discussions with our supervisors regarding regulatory expectations including the introduction of new non-performing loan (NPL) coverage requirement that will guide prudential expectations on adequate coverage of dated NPLs.

Taxes

The effective tax rate in 2019 was 27% compared to 22% last year.

Net profit and Return on Equity (ROE)

Net profit decreased by 6% in local currencies (7% in EUR) to EUR 2,502m.

Return on Equity (ROE) was 8.1% excluding items affecting comparability (last year 8.5% excluding items affecting comparability).

Financial structure

Total assets increased by 1% or EUR 3.4bn to EUR 554.8bn in 2019. Total liabilities increased by 1% or EUR 4.8bn to EUR 523.3bn. 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

1) Excl. items affecting comparability. For more detailed information regarding ratios and key figures defined as alternative performance measures, see https://www.nordea.com/en/investor-relations/reports-and-presentations/group-interim-reports/.

accounting policies and section 30 therein for cross-currency rates used.

The euro strengthened against the Swedish krona and the Norwegian krone in 2019. The effect of changes in currency exchange rates amounted to a total decrease in the Group's assets of EUR 6bn and liabilities decreased by EUR 4bn.

Loans
Total lending increased by EUR 13.2bn or 4%.

Securities
Investments in interest-bearing securities and shares decreased by EUR 9.6bn.

Deposits
Deposits and borrowings were unchanged. Total debt securities in issue as per the end of 2019 amounted to EUR 193.7bn.

Life insurance activities
Liabilities to policyholders increased by EUR 1bn or 6%.

Derivatives
The balance sheet item "Derivatives" reflects the net present value of derivative contracts split into positive and negative fair values. The positive market value of derivatives increased from EUR 37bn to EUR 39bn and negative market values increased from EUR 40bn to EUR 42bn. For more information, see Notes G1 and G19.

Capital position
The CET1 capital ratio was 16.3% at the end of 2019, up from 15.5% last year while the nominal CET1 capital was EUR 24.4bn (EUR 24.1bn last year). The Group's total capital ratio was 20.8% and the total own funds were EUR 31.2bn at the end of 2019.

A description of the capital position is available under Capital management on page 35–38 and in the Capital and Risk Management Report at www.nordea.com.

Credit portfolio
Loans to the public excluding reverse repurchase agreements increased by 5% in local currencies (an increase of 4% in EUR) and amounted to EUR 303.9bn.

The share of loans to the public to corporate customers was 47%. The portfolio is well diversified across 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 4,610m at the end of the year. 50% of gross impaired loans are servicing and 50% are non-servicing.

Nordea's funding operations
Nordea issued approx. EUR 19.2bn of new and extended long-term funding during the year, excluding Danish covered bonds and subordinated debt. Liquidity management is presented on page 122–123. A maturity analysis is presented in Note G44.

Market risk
A description of market risk is presented on page 118–120.

Hedge accounting
Nordea uses hedge accounting in order to have symmetrical accounting treatment of 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 and G19.

The Nordea share
Nordea's Articles of Association do not contain any provisions on share classes or voting rights and consequently, Nordea has one class of shares and all shares in Nordea are ordinary shares. Each share confers one vote at General Meetings of Nordea, as well as an equal right to any dividend. On 31 December 2019, the total number of shares in Nordea is 4,049,951,919. See also Statement of changes in equity on page 67–68.

There are no restrictions 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, as Nordea is a credit institution, a direct or indirect acquisition of shares in Nordea, which results in the acquirer's total holdings to be considered qualified holdings (representing 10% or more of the equity capital or of the voting rights, 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 Nordea is subject to the direct supervision by the European Central Bank.

On 31 December 2019, Sampo plc was the largest individual shareholder with a holding of 19.9% and the only shareholder with holdings of more than 10%. A table showing the largest registered shareholders in Nordea as at the end of 2019 is provided on page 28.

On 31 December 2019, 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.

Nordea shares are listed on the Nasdaq Helsinki, Nasdaq Copenhagen and Nasdaq Stockholm stock exchanges. Furthermore, Nordea ADRs are listed in the US.

Authorisations held by the Board of Directors
The Annual General Meeting 2019 authorised, for the period until the end of the next Annual General Meeting, the Board of Directors to decide on the issuance of special rights entitling to shares, either new shares or treasury shares, against payment (convertibles). The maximum number of shares that may be issued based on this authorisation is 404,995,191 shares. The issuance of special rights by virtue of the authorisation may be made with or without preferential rights for existing shareholders and must be made on market terms.

The Annual General Meeting 2019 authorised the Board of Directors to decide on the repurchase of not more than 225,000,000 shares. The shares may be repurchased on one or several occasions either through an offer to all shareholders on equal terms or through other means and in another proportion than that of the shares held by current shareholders (directed purchases). The company's own shares must be repurchased using the unrestricted equity of the company. The company's own shares must be repurchased at a price that does not exceed the market price prevailing on the relevant stock exchange at the time of the repurchase or otherwise at a price formed on the market. The authorisation is in full force and effect until the earlier of (i) the end of the next annual general meeting or (ii) 18 months from the decision by the Annual General Meeting.

The Annual General Meeting 2019 authorised the Board of Directors to decide on the issuance of new shares or transfer of own shares in an amount of not more than 30,000,000 shares in total. The shares may be issued or transferred with deviation from the shareholders' pre-emptive rights (directed issues). The authorisation is in full force and effect until the earlier of (i) the end of the next Annual General Meeting or (ii) 18 months from the decision by the Annual General Meeting.

Share issue resolutions

The Annual General Meeting 2019 resolved that Nordea, before the end of the Annual General Meeting 2020, may transfer own shares in the ordinary course of its securities trading business, with deviation from the shareholders' pre-emptive rights, by way of a directed share issuance. The facilitation of the company's securities trading business, in which the ability to trade also in own shares is required, forms a weighty financial reason for a directed issue. The number of own shares to be transferred may not exceed 175,000,000 shares, which corresponds to approximately 4.32 per cent of the company's shares.

For information on share-based incentive programmes see G8. Staff costs on page 135–136.

Resolution on issuance of special rights entitling to shares (convertibles)

Nordea announced on 20 March 2019 the pricing of USD 1,250,000,000 Fixed Rate Reset Perpetual Non-Call March 2026 Additional Tier 1 Conversion Notes (Notes) to be issued under Nordea's Global Medium-Term Note Programme. The Notes constitute AT1 capital and were issued by Nordea to maintain Nordea's strong capital position and to take advantage of favourable market conditions. If the CET1 capital ratio of Nordea (on either a sole or a consolidated group level) decreases below 5.125 per cent, the Notes are automatically converted into shares in Nordea. The issuance is part of Nordea's normal capital management activities.

Holding of own shares

As of 31 December 2019, Nordea held 10,809,810 shares (0.3% of the total number of shares) in Nordea, a decrease of 4,347,856 shares compared to 31 December 2018. The acquisition price amounts to EUR 21m.

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 proposes to the AGM 2020 a dividend of EUR 0.40 per share (EUR 0.69 in 2019). The record date for the dividend payment is 27 March 2020. The dividend corresponds to a payout ratio of 105% of net reported profit and 77% of net distributable profit. The total proposed dividend amounts to EUR 1,616m[2].

The ex-dividend date for the Nordea share is 26 March 2020. The dividend payments are scheduled to be made at the earliest 3 April 2020.

Rating

Ratings of the Nordea Group are presented on page 29.

Personnel

Personnel expenses, significant agreements with key management personnel and the distribution by number of employees, by country and gender are disclosed in Note G8. More information is presented on page 25 on Our people.

2) The total amount of the dividend payment and the amount carried forward as distributable retained earnings after the dividend pay-out, will be adjusted based on the amount of treasury shares held by Nordea Bank Abp at the record date for the dividend payment.

Profit sharing and share-based incentive systems

The three decided criteria for the goals for the profit share programme 2019 are: Return on Capital at Risk (ROCAR), the development in the Return on Equity (ROE) against competitors and a customer satisfaction goal expressed as the likelihood to recommend. If performance goals are fully met, the cost will amount to approx. EUR 68m (EUR 77m in 2018). The provision for Nordea's profit-sharing scheme and the LTIPs was EUR 13m compared to EUR 57m in 2018.

The Profit sharing scheme and the share-based incentive systems as well as other remuneration principles are presented in the chapter Remuneration on page 56–59 and in Note G8.

Pension liabilities

The total pension obligation in defined benefit plans increased from EUR 3,494m to EUR 3,790m in 2019.
The increase is mainly due to re-measurements from changes in financial assumptions, mainly following lower discount rates. The increase in Sweden is partly offset by a lower inflation and salary increase assumption.

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 3,524m (EUR 3,342m). Asset returns across all asset classes were characterised by strong returns, primarily in equities and spread bonds. The net pension liability amounted to EUR 266m (EUR 152m). See Note G34 for more information.

Claims in civil lawsuits and possible fines

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, as well as possible fines due to e.g. weak anti-money laundering processes and procedures in the past. Presently, none of the current disputes are considered likely to have any significant adverse effect on Nordea or its financial position. As previously stated, Nordea expects to be fined in Denmark for weak AML processes and procedures in the past and has made a provision for ongoing AML-related matters. Nordea cannot exclude the possibility of fines, which could impact the bank's financial performance. In addition, some of these proceedings could lead to litigation. See also Note G2 "Risk and Liquidity management" on page 95–123 and Note G33 "Provisions" on page 154.

Foreign branches

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

Acquisition of Gjensidige Bank

On 1 March 2019, Nordea Bank Abp acquired Gjensidige Bank ASA. The acquisition has been approved by the Norwegian Competition Authority and the Norwegian Financial Supervisory Authority (NFSA).

The transfer of Gjensidige Bank ASA's car finance business to Nordea Finans Norge AS was completed on 1 November 2019.

On 12 June 2019, the Boards of Directors of Gjensidige Bank ASA and Nordea Bank Abp signed the merger plan and decided to initiate the cross-border merger process between Nordea Bank Abp and Gjensidige Bank ASA. The merger was formally approved by the Board of Directors of Gjensidige Bank ASA on 24 October 2019 as announced by the Norwegian Business Registry.

The effective date of the merger between Nordea Bank Abp and Gjensidige Bank ASA is expected to occur in the first half of 2021. A change of the migration strategy, in order to make the customer data migration more cost-efficient and to reduce risks, has resulted in an adjustment of the original expected merger date of 1 March 2020. The execution of the merger is subject to the necessary approvals from the NFSA and other relevant authorities, including the ECB.

Sale of Baltic operations

On 13 September 2018, Nordea Bank Abp and DNB announced an agreement to jointly sell 60 per cent of Luminor to a consortium led by private equity funds managed by Blackstone. As announced, the transaction was subject to customary regulatory approvals. After all regulatory approvals were received the deal was closed on 30 September 2019.

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.

As communicated in connection with the announcement of the deal on 13 September 2018, Nordea and Blackstone have additionally entered into a forward sale agreement for the sale of Nordea's remaining 20 per cent stake. The forward sale is subject to certain conditions but is expected to complete over the next three financial years.

Nordea realised a positive impact on the Common Equity Tier 1 ("CET1") ratio of approximately 10bps from closing the transaction. Nordea already received approval from the ECB to treat the holding in Luminor, for prudential purposes, using the equity method in Q2 2019. This approval had a positive impact on CET1 of approximately 10bps, recorded in our Q2 financial results. The total positive CET1 impact from the transaction is therefore approximately 20bps. 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 approximately 40bps.

Sale of Nordea's shares in LR Realkredit

Nordea announced on 11 April 2019 that the bank had entered into an agreement to sell all its shares in the Danish mortgage institution LR Realkredit to Nykredit. As previously announced, the transaction was subject to customary regulatory approvals. After the regulatory approvals were received the transaction was completed on 30 December 2019.

Nordea has sold its shares in LR Realkredit to focus on its core business and to find a better long-term solution for LR Realkredit. The purchase price for Nordea's 39% stake in LR Realkredit amounted to approx. DKK 1.1bn and the transaction generated a capital gain of EUR 138m for Nordea, net of tax, at closing of the transaction.

Sale of Nordea's holding in Velliv

Nordea has during Q2 2019 divested 11% of the shares in Velliv, former Liv & Pension Denmark. The remaining holding amounts to 19% and were divested during Q4 to Velliv Foreningen, who is now the sole owner of Velliv. The sale of the remaining 19% of the shares did not have any impact on the income statement for Nordea. The sale had a positive impact on the solvency ratio in Life & Pensions with 5%, while there was no impact on the capital ratios for the Group.

Acquisition of SG Finans

Nordea has entered into an agreement with Société Générale to acquire all shares in SG Finans AS and intends to combine the business with Nordea's pan-Nordic finance company, Nordea Finance. SG Finans is a Norwegian domiciled subsidiary of Société Générale and provides equipment finance and factoring solutions. SG Finans has 360 employees and operates in Norway, Denmark and Sweden.

The acquisition of SG Finans strengthens Nordea's ability to advise and help small and medium-sized companies with their financial needs. It fits well into Nordea's priority to focus on core business in the Nordics. SG Finans complements Nordea Finance well with its strong presence in Norway and direct distribution model. It also has a diversified customer base of about 50,000 companies in Norway, Sweden and Denmark.

The agreed purchase price for SG Finans is EUR 575m, which values the company at a price-to-book multiple of 1.07x. The purchase price will be adjusted for the equity generated up until closing. The transaction is expected to have a positive impact on total annual income by about EUR 140m and consume about 35–40 bps of the CET1 ratio for the Nordea Group. The transaction is also expected to result in a minor increase in the Nordea Group's earnings per share and return on equity.

Alongside the transaction, Nordea Finance and Société Générale Equipment Finance have entered into a commercial partnership agreement, to offer a wide range of equipment finance solutions and services to international vendors.

The acquisition of SG Finans is subject to customary regulatory approvals and is expected to close during the second half of 2020.

Announced organisational and management changes

On 1 January 2020 Nordea adjusted its organisational set-up to support the three priorities announced at our Capital Markets Day: 1) to optimise operational efficiency, 2) to drive income growth initiatives and 3) create great customer experiences. The business areas have a stronger mandate to take the necessary actions, supported by group functions, to deliver on these three priorities.

The Group Business Risk Management unit has been dismantled, and its activities assigned to the business areas, Group Risk & Compliance, and to other group functions. The set-up rebalances the roles and responsibilities between the first and second lines of defense. The Group Corporate Centre unit has been reviewed and renamed Group Business Support (GBS). The GBS area is now shaped to fully support the priorities of the business. The new set-up will create clearer accountability, remove overlaps and utilise synergies.

In addition, as part of Nordea's broader organisational review, the following name adjustments have been made to Nordea's business areas and Group Executive Management team, to better reflect the new organisation as well as roles and responsibilities: 1) Commercial & Business Banking has been renamed Business Banking, 2) Wholesale Banking has been renamed Large Corporates & Institutions, and 3) Group Executive Management (GEM) has been renamed Group Leadership Team (GLT).

Sara Mella has been appointed as Head of Personal Banking, Christina Gadeberg as Head of Group People and Erik Ekman as Head of Group Business Support. They are all members of the Group Leadership Team. Furthermore, Nordea has appointed Nina Arkilahti as Head of Business Banking replacing Erik Ekman and Ian Smith as Group CFO, replacing Christopher Rees who is relocating back to the UK in 2020 and leaving Nordea. They will both become members of the Group Leadership Team when they join Nordea in 2020.

Change in recognition and presentation of resolution fees

The Nordea Group's policy has been to amortise resolution fees and deposit guarantee (DGS) fees on a straight-line basis over the year. IFRS requires bank levies to be expensed when the legal obligation to pay arises. As the resolution fee is different in Finland versus Sweden, the full resolution fee has been recognised during Q1. DGS fees will continue to be amortised over the year.

Further information is provided on page 74 of the Annual Report.

Nordea creates a joint KYC company in collaboration with five other Nordic banks

On 5 July 2019, Danske Bank A/S, DNB Bank ASA, Nordea Bank Abp, Skandinaviska Enskilda Banken AB (publ), Svenska Handelsbanken AB (publ) and Swedbank AB (publ) announced that they have established a joint venture company to develop a platform for handling Know Your Customer (KYC) data. The European Commission has given its approval in accordance with the EU merger control rules.

The joint venture company is preparing for its first commercial launch in 2020. The company is autonomous and will initially offer KYC services to the market concerning large and medium-sized companies based in the Nordic region.

The banks' top priority in collaborating has been to develop a Nordic platform with standardised processes for handling KYC data. The objective is to improve customer experiences by simplifying the KYC processes for corporate customers while strengthening financial crime prevention in the Nordics.

The six banks will invest an equal share in the company.

Results of the ECB Comprehensive Assessment

On 18 July 2019 the ECB published Nordea´s result of the Comprehensive Assessment (CA) exercise including the Asset Quality Review (AQR) and the ECB stress test. The overall results of the exercise confirmed the resilient capital position of Nordea, exceeding all the thresholds defined by the ECB.

Nordea's AQR adjusted CET1 ratio in the baseline scenario amounted to 14.21%, which is above the 8% threshold. In addition, under the adverse stress scenario, the AQR adjusted CET1 ratio amounted to 9.23%, also above the 5.5% threshold set by the ECB. The application of the stress test methodology used by the ECB was more restrictive than in the 2018 EBA stress test exercise which in combination with the AQR impact explains why the estimated impact on Nordea was larger than in the EBA stress test.

Nordea assessed its reported loan loss provisions to reflect adequately its actual credit risk in the loan book and the outlook of future credit risks is stable. After the dialogue with the ECB, reflecting a more subdued outlook in certain sectors in the third quarter, Nordea decided to increase its provisions by a total of EUR 229m. In addition, Nordea reviewed its collective provisioning models. The model update generated a EUR 53m increase in collective provisions.

Outlook

Financial targets 2022 are –

- a return on equity above 10%
- a cost to income ratio of 50%

Costs

In 2020, Nordea expects to reach a cost base of below EUR 4.7bn with planned continued net cost reductions beyond 2020.

Capital policy

A management buffer of 150–200 bps above the regulatory CET1 requirement, from 1 January 2020.

Dividend policy

Our dividend policy stipulates a dividend payout ratio of 60–70%, applicable on profit generated from 1 January 2020. Nordea will continuously assess the opportunity to use share buy-backs as a tool to distribute excess capital.

Credit quality

Based on the current macroeconomic environment Nordea's expectations for the coming quarters is that credit quality will remain largely unchanged.

Annual General Meeting

The Annual General Meeting 2020 will be held in Helsinki on Wednesday 25 March 2020.

Further information is presented on page 294 of the Annual Report.

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

Capital policy

The capital policy states that the 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. In addition, Nordea will maintain a management buffer. From 1 January 2020, the intention is to hold a CET1 capital management buffer of 150-200 bps above the CET1 capital ratio requirement (which is also the MDA level)

Minimum capital requirements

The calculation method for Risk Exposure Amount (REA) depends on regulatory approval. Nordea had 88% of the credit risk exposure amount covered by internal rating based (IRB) approach by the end of 2019. 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. Based on total REA, Nordea needs to hold the applicable minimum and combined buffer requirements. In addition, competent authorities require Nordea to hold capital for other risks which are identified and communicated as part of the Supervisory Review and Evaluation Process (SREP). In December 2019, the ECB communicated that the Pillar 2 requirement (P2R) for Nordea Group was 1.75%, applicable from 1 January 2020. This will replace the transitional pillar 2 level of approximately 3.1% applicable to the end of 2019. Including P2R, the Q4 2019 proforma CET1 capital ratio requirement (MDA level) amounted to approximately 13.1%. Nordea Bank Abp is also required to hold a P2R of 1.75% on solo level. Including the minimum and combined buffer requirements the total CET1 capital ratio requirement amounts to 10.0% for Nordea Bank Abp as the systemic risk buffer is only applied on Group level. In addition to the above requirements Nordea has been identified as a financial conglomerate on its own. As of 31 December, the own funds requirement for the Nordea financial conglomerate was EUR 33.7bn and the capital adequacy ratio of the financial conglomerate was 116%. This own funds requirement includes the transitional Pillar 2 that will be replaced by the SREP outcome from Q1 2020.

Internal capital requirement (ICR)

For internal risk and capital assessment purposes, Nordea uses the ICR. In line with Article 73 of CRD IV, the ICR specifies the amount, type and distribution of internal capital that is considered adequate to cover the nature and level of all risks to which the Group or any of its subsidiaries is or might become exposed over a foreseeable future, including during periods of stress.

The ICR is one of the main inputs for the Internal Capital Adequacy Assessment Process ("ICAAP"), together with regulatory views on the required amount of capital as expressed under the regulatory perspective.

Nordea defines the ICR as the internal capital requirement for all material risks from an internal economic perspective, taking account of the regulatory, normative, through-the-cycle perspective, adequate to withstand periods of stress.

This ensures that Nordea's ICR is aligned with, but not restricted by, the regulatory perspective and it also ensures that data and processes are appropriately validated and governed.

Economic Capital (EC)

EC is a method for allocating the cost of holding capital as a result of risk taking and is a central component in the Value Creation Framework (VCF). The VCF supports the operational decision making process at Nordea to enhance performance management and ensure shareholder value creation.

EC is aligned with the Group's target CET1 level which is set by the capital policy to ensure a sustainable long-term capitalization for Nordea Group. In addition, the EC framework also includes the following items:

- Legal equity contribution of NLP (EC is thus calculated for the legal group whereas the regulatory minimum capital requirement covers only Nordea Bank Abp based on its consolidated situation)
- Certain capital deductions for which allocation keys have been agreed

Economic Capital (EC including Nordea Life and Pensions) was, at the end of 2019, EUR 25.7bn (EUR 26.6bn at the end of 2018).

Own funds

Own funds are 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 deducting the 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.

Further information

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

Capital requirements and Risk Exposure Amount (REA), Nordea Group

EURm	31 Dec 2019 Minimum Capital requirement	31 Dec 2019 REA	31 Dec 2018 Minimum Capital requirement	31 Dec 2018 REA
Credit risk	**9,389**	**117,367**	**9,678**	**120,969**
- of which counterparty credit risk	496	6,199	534	6,671
IRB	**8,295**	**103,694**	**8,611**	**107,635**
- sovereign	–	–	–	–
- corporate	5,398	67,479	5,749	71,868
- advanced	4,568	57,103	4,850	60,626
- foundation	830	10,376	899	11,242
- institutions	491	6,135	477	5,953
- retail	2,100	26,248	2,078	25,979
- secured by immovable property collateral	1,386	17,329	1,369	17,118
- other retail	714	8,919	709	8,861
- items representing securitisation positions	70	874	132	1,648
- other	236	2,958	175	2,187
Standardised	**1,094**	**13,673**	**1,067**	**13,334**
- central governments or central banks	79	980	48	600
- regional governments or local authorities	5	67	7	86
- public sector entities	–	–	0	2
- multilateral development banks	–	–	–	–
- international organisations	–	–	–	–
- institutions	13	163	20	248
- corporate	131	1,629	312	3,904
- retail	296	3,704	259	3,243
- secured by mortgages on immovable properties	117	1,459	79	984
- in default	9	117	28	344
- associated with particularly high risk	75	938	65	811
- covered bonds	3	38	–	–
- institutions and corporates with a short-term credit assessment	–	–	–	–
- collective investments undertakings (CIU)	25	312	–	–
- equity	281	3,515	198	2,472
- other items	60	751	51	640
Credit Value Adjustment Risk	**64**	**795**	**74**	**931**
Market risk	**395**	**4,934**	**485**	**6,064**
- trading book, Internal Approach	330	4,126	351	4,388
- trading book, Standardised Approach	65	808	86	1,070
- banking book, Standardised Approach	–	–	48	606
Settlement Risk	**0**	**4**	**–**	**–**
Operational risk	**1,256**	**15,698**	**1,319**	**16,487**
Standardised	1,256	15,698	1,319	16,487
Additional risk exposure amount related to Finnish RW floor due to Article 458 CRR	**60**	**750**	**53**	**657**
Additional risk exposure amount related to Swedish RW floor due to Article 458 CRR	**853**	**10,667**	**850**	**10,626**
Additional risk exposure amount, Article 3 CRR	**–**	**–**	**12**	**152**
Total	**12,017**	**150,215**	**12,471**	**155,886**

Capital requirements and Risk Exposure Amount (REA), Nordea Parent Company

	31 Dec 2019		31 Dec 2018	
EURm	Minimum Capital requirement	REA	Minimum Capital requirement	REA
Credit risk	**9,428**	**117,849**	**9,899**	**123,740**
- of which counterparty credit risk	502	6,275	539	6,741
IRB	**6,551**	**81,884**	**7,089**	**88,619**
- sovereign	–	–	–	–
- corporate	5,013	62,665	5,359	66,992
- advanced	4,597	57,460	4,875	60,935
- foundation	416	5,205	484	6,057
- institutions	495	6,190	493	6,164
- retail	865	10,811	1,104	13,803
- secured by immovable property collateral	243	3,035	449	5,617
- other retail	622	7,776	655	8,186
- items representing securitisation positions	178	2,218	133	1,660
- other	–	–	–	–
Standardised	**2,877**	**35,965**	**2,810**	**35,121**
- central governments or central banks	68	846	36	452
- regional governments or local authorities	5	62	6	76
- public sector entities	–	–	–	–
- multilateral development banks	–	–	–	–
- international organisations	–	–	–	–
- institutions	879	10,993	1,061	13,259
- corporate	397	4,963	366	4,567
- retail	11	135	4	45
- secured by mortgages on immovable properties	0	5	1	9
- in default	0	0	0	0
- associated with particularly high risk	75	938	63	793
- covered bonds	37	462	49	617
- institutions and corporates with a short-term credit assessment	–	–	–	–
- collective investments undertakings (CIU)	25	312	–	–
- equity	1,372	17,147	1,223	15,285
- other items	8	102	1	18
Credit Value Adjustment Risk	**64**	**790**	**73**	**922**
Market risk	**507**	**6,340**	**995**	**12,433**
- trading book, Internal Approach	330	4,126	351	4,387
- trading book, Standardised Approach	73	913	87	1,084
- banking book, Standardised Approach	104	1,301	557	6,962
Settlement Risk	**0**	**4**	**–**	**–**
Operational risk	**937**	**11,717**	**1,039**	**12,986**
Standardised	937	11,717	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	**9**	**108**	**10**	**123**
Additional risk exposure amount, Article 3 CRR	**–**	**–**	**5**	**62**
Total	**10,945**	**136,808**	**12,021**	**150,266**

Summary of items included in own funds

EURm	Nordea Group[1]		Nordea Parent Company	
Calculation of own funds	**31 Dec 2019**	**31 Dec 2018**	**31 Dec 2019**	**31 Dec 2018**
Equity in the consolidated situation	30,057	31,305	25,841	26,869
Proposed/actual dividend	−1,616	−2,788	–	–
Common Equity Tier 1 capital before regulatory adjustments	28,441	28,517	25,841	26,869
Deferred tax assets	−136		−136	
Intangible assets	−3,451	−3,885	−1,749	−2,331
IRB provisions shortfall (−)	–	−76	–	–
Deduction for investments in credit institutions (50%)	–	–	–	–
Pension assets in excess of related liabilities[2]	−130	−117	−134	−116
Other items, net	−303	−305	−266	−363
Total regulatory adjustments to Common Equity Tier 1 capital	−4,020	−4,383	−2,285	−2,810
Common Equity Tier 1 capital (net after deduction)	**24,421**	**24,134**	**23,556**	**24,059**
Additional Tier 1 capital before regulatory adjustments	**3,117**	**2,860**	**3,118**	**2,860**
Total regulatory adjustments to Additional Tier 1 capital	−20	−10	−20	−11
Additional Tier 1 capital	3,097	2,850	3,098	2,849
Tier 1 capital (net after deduction)	**27,518**	**26,984**	**26,654**	**26,908**
Tier 2 capital before regulatory adjustments	**4,559**	**4,960**	**4,559**	**4,960**
IRB provisions excess (+)	220	135	275	111
Deduction for investments in credit institutions (50%)	–	–	–	–
Deductions for investments in insurance companies	−1,000	−1,000	−1,000	−1,000
Pension assets in excess of related liabilities	–	–	–	–
Other items, net	−61	−51	−62	−51
Total regulatory adjustments to Tier 2 capital	**−841**	**−916**	**−787**	**−940**
Tier 2 capital	**3,718**	**4,044**	**3,772**	**4,020**
Own funds (net after deduction)[2]	**31,236**	**31,028**	**30,426**	**30,928**

1) Including profit of the period
2) Based on conditional FSA approval

Capital adequacy ratios, Nordea Group

Percentage	31 Dec 2019	31 Dec 2018
Common Equity Tier 1 (CET1) capital ratio, %	16.3	15.5
Tier capital ratio, %	18.3	17.3
Total capital ratio, %	**20.8**	**19.9**
Capital adequacy quotient (own funds/capital requirement)	2.6	2.5

Own Funds & Capital ratios (Financial conglomerate)[1]

	31 Dec 2019
Financial conglomerates Own funds, EURm	33,687
The Own funds requirement of the financial conglomerate, EURm	29,077
Capital adequacy of the financial conglomerate (Own funds surplus/deficit), EURm	4,610
Financial conglomerates capital adequacy ratio, %	115.9%

1) The financial conglomerate consists of banking and insurance operations

Capital adequacy ratios Nordea Parent Company

Percentage	31 Dec 2019	31 Dec 2018
Common Equity Tier 1 capital ratio, including profit	17.1	16.0
Tier 1 capital ratio, including profit	19.3	17.9
Total capital ratio, including profit	22.1	20.6
Common Equity Tier 1 capital ratio, excluding profit	17.2	16.0
Tier 1 capital ratio, excluding profit	19.5	17.9
Total capital ratio, excluding profit	**22.2**	**20.6**

Life & Pensions- Solvency II position[1]

EURm	31 Dec 2019	31 Dec 2018
Required solvency	1,673	1,833
Actual solvency capital	2,682	2,706
Solvency buffer	1,010	873
Solvency in % of req	160%	148%

1) Annual dividends are reflected in the solvency positions.

Life & Pensions- Solvency II sensitivity1

EURm	31 Dec 2019	31 Dec 2018
Solvency in % of requirement	160%	148%
Equities drop 20%	165%	149%
Interest rates down 50bp	160%	151%
Interest rates up 50bp	168%	149%

1) Annual dividends are reflected in the Solvency II sensitivities.

5 year overview

Income statement

EURm	2019	2018	2017	2016	2015
Net interest income	4,318	4,491	4,888	4,855	5,110
Net fee and commission income	3,011	2,993	3,369	3,238	3,230
Net result from items at fair value	1,024	1,088	1,328	1,715	1,645
Profit from associated undertakings and joint ventures accounted for under the equity method	50	124	23	112	39
Other operating income	232	476	83	135	263
Total operating income	**8,635**	**9,172**	**9,691**	**10,055**	**10,287**
General administrative expenses:					
- Staff costs	−3,017	−2,998	−3,212	−2,926	−3,263
- Other expenses	−1,639	−1,566	−1,844	−1,774	−1,632
Depreciation, amortisation and impairment charges of tangible and intangible assets	−1,330	−482	−268	−228	−209
Total operating expenses	**−5,986**	**−5,046**	**−5,324**	**−4,928**	**−5,104**
Profit before loan losses	**2,649**	**4,126**	**4,367**	**5,127**	**5,183**
Net loan losses	−536	−173	−369	−502	−479
Operating profit	**2,113**	**3,953**	**3,998**	**4,625**	**4,704**
Income tax expense	−571	−872	−950	−859	−1,042
Net profit for the year	**1,542**	**3,081**	**3,048**	**3,766**	**3,662**

Balance sheet

EURm	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	31 Dec 2015
Cash and balances with central banks	35,509	41,578	43,081	32,099	35,500
Loans to central banks and credit institutions	17,723	18,962	13,388	20,261	23,986
Loans to the public	322,740	308,304	310,158	317,689	340,920
Interest–bearing securities and pledged instruments	72,081	83,790	81,783	92,809	94,876
Assets in pooled schemes and unit–linked investment contracts	30,799	24,583	25,879	23,102	20,434
Derivatives	39,111	37,025	46,111	69,959	80,741
Other assets	36,885	37,166	39,026	50,843	50,411
Assets held for sale	–	–	22,186	8,897	–
Total assets	**554,848**	**551,408**	**581,612**	**615,659**	**646,868**
Deposits by credit institutions	32,304	42,419	39,983	38,136	44,209
Deposits and borrowings from the public	168,725	164,958	172,434	174,028	189,049
Deposits in pooled schemes and unit–linked investment contracts	31,859	25,653	26,333	23,580	21,088
Liabilities to policyholders	19,246	18,230	19,412	41,210	38,707
Debt securities in issue	193,726	190,422	179,114	191,750	201,937
Derivatives	42,047	39,547	42,713	68,636	79,505
Subordinated liabilities	9,819	9,155	8,987	10,459	9,200
Other liabilities	25,594	28,123	33,289	30,562	32,141
Liabilities held for sale	–	–	26,031	4,888	–
Equity	31,528	32,901	33,316	32,410	31,032
Total liabilities and equity	**554,848**	**551,408**	**581,612**	**615,659**	**646,868**

Ratios and key figures[1]

Ratio and key figures, Group

	2019	2018	2017	2016	2015
Basic earnings per share, EUR	0.38	0.76	0.75	0.93	0.91
Diluted earnings per share, EUR	0.38	0.76	0.75	0.93	0.91
Share price[2], EUR	7.24	7.30	10.09	10.60	10.15
Total shareholders' return, %	10.5	–19.5	3.6	16.3	8.2
Proposed/actual dividend per share, EUR	0.40	0.69	0.68	0.65	0.64
Equity per share[2], EUR	7.80	8.15	8.21	8.03	7.69
Potential shares outstanding[2], million	4,050	4,050	4,050	4,050	4,050
Weighted average number of diluted shares, million	4,035	4,037	4,039	4,037	4,031
Return on equity, %	5.0	9.7	9.5	12.3	12.2
Assets under management[2], EURbn	324.1	280.1	330.4	322.7	288.2
Cost/income ratio[3], %	57	57	54	50	47
Net loan loss ratio, amortised cost, bps[4]	22	7	12	15	14
Common Equity Tier 1 capital ratio excluding Basel I floor [2,5,7,8], %	16.3	15.5	19.5	18.4	16.5
Tier 1 capital ratio, excluding Basel I floor [2,5,6,8], %	18.3	17.3	22.3	20.7	18.5
Total capital ratio, excluding Basel I floor [2,5,6,8], %	20.8	19.9	25.2	24.7	21.6
Tier 1 capital [2,5,6,8], EURbn	27.5	27.0	28.0	27.6	26.5
Risk exposure amount, excluding Basel I floor [2,5,6], EURbn	150	156	126	133	143
Number of employees (full-time equivalents)[2]	29,000	28,990	30,399	31,596	29,815
Economic capital [2,5], EURbn	25.7	26.6	26.7	26.3	25.0
ROCAR [3], %	9.2	10.0	11.1	13.4	14.8

1) For more information regarding ratios and key figures defined as alternative performance measures, see www.nordea.com/en/investor-relations/reports-and-presentations/group-interim-reports/. All key ratios reflect Nordea´s continuing operations.
2) End of the year.
3) Excluding items affecting comparability.
4) In 2016 and 2017 the ratio is including Loans to the public reported as assets held for sale.
5) Changes to the applicable capital requirements regime (see chapter Capital Management for more information).
6) Including result for the period.
7) Including the profit for the period adjusted by accrued dividend.
8) The capital ratios for 2015 to 2018 have not been restated due to the changed recognition and presentation of resolution fees (see Note G1 for more information).

Ratios and key figures, Parent company

	2019	2018[1]
Return on equity, %	5.0	15.6
Return on assets, %	0.4	1.1
Cost/income ratio, %	72	45
Loan loss ratio, basis points	38	4
Common Equity Tier 1 capital ratio[2,3], %	17.1	16.0
Tier 1 capital ratio[2,3], %	19.3	17.9
Total capital ratio[2,3], %	22.1	20.6
Common Equity Tier 1 capital[2,3], EURm	23,556	24,059
Tier 1 capital[2,3], EURm	26,654	26,908
Risk exposure amount[2,3], EURm	136,808	150,266

1) Nordea Bank Abp's financial period started 21 september 2017 but with no business activities until 1 October 2018. Income statement figures used to calculate return on equity, return on assets and loan loss ratio have been annualised for 2018.
2) Including result of the year.
3) End of the year.

Business area results

Total Nordea Group and Business Areas

	Personal Banking		Business Banking		Large Corporates & Institutions		Asset & Wealth Management		Group Functions, other and eliminations		Nordea Group		Change	
EURm	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	%	Loc. curr. %
Net interest income	2,134	2,117	1,336	1,322	851	923	53	69	–56	60	4,318	4,491	–4	–2
Net fee and commission income	672	686	494	457	444	473	1,416	1,409	–15	–32	3,011	2,993	1	2
Net result from items at fair value	172	167	206	297	311	411	110	166	225	47	1,024	1,088	–6	–9
Equity method	0	0	2	9	0	0	33	13	15	102	50	124	–60	–60
Other operating income	2	6	19	22	1	0	14	23	196	425	232	476	–51	–51
Total operating income	**2,980**	**2,976**	**2,057**	**2,107**	**1,607**	**1,807**	**1,626**	**1,680**	**365**	**602**	**8,635**	**9,172**	**–6**	**–5**
Total operating expenses	**–1,845**	**–1,856**	**–1,103**	**–1,171**	**–927**	**–947**	**–726**	**–788**	**–1,385**	**–284**	**–5,986**	**–5,046**	**19**	**20**
Net loan losses	–133	–79	–138	–24	–250	–92	–2	–7	–13	29	–536	–173	210	213
Operating profit	**1,002**	**1,041**	**816**	**912**	**430**	**768**	**898**	**885**	**–1,033**	**347**	**2,113**	**3,953**	**–47**	**–46**
Cost/income ratio, %	62	62	54	56	58	52	45	47	–	–	69	55	–	–
ROCAR, %	9	10	9	11	4	8	32	29	–	–	9[1]	10[1]	–	–
Volumes, EURbn														
Lending to corporates[2]	1.1	1.0	75.7	73.0	72.7	69.2	–	–	2.6	4.0	152.1	147.2	3	–
Household mortgage lending[3]	133.2	125.0	6.5	6.7	0.0	0.0	6.2	5.6	–	–	145.9	137.3	6	–
Consumer lending[3]	21.4	20.5	1.5	1.7	–	–	1.8	1.6	–	–	24.7	23.8	4	–
Corporate deposits[2]	2.0	1.9	39.0	38.0	39.6	42.2	–	–	–3.2	–3.6	77.4	78.5	–1	–
Household deposits[3]	78.3	74.3	2.8	2.8	0.0	0.0	10.2	9.4	–	–	91.3	86.5	6	–

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 BB: Household lending and deposits of some corporate customers is supplied and reported in Business Banking.

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. From 31 December 2019 the CRR and CRD IV were also finally implemented in Norway.

In June 2019, the 'banking package' containing revisions to the BRRD, the CRD and the CRR was adopted. The amendments to the CRR, being a regulation, will be directly applicable in all EU countries once implemented whereas the amendments to the CRD and BRRD, being directives, need to be implemented into national legislation before being applicable. The revisions include a review of the Minimum Requirement for own funds and Eligible Liabilities (MREL), a review of the market risk requirements (Fundamental Review of the Trading Book, FRTB), the introduction of a binding Net Stable Funding Ratio (NSFR), the 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. The revised CRD (CRD V) and BRRD (BRRD II) are to be applied from 28 December 2020, while the majority of the changes in CRR II are to be applied from 28 June 2021. The 'banking package' is not yet implemented in Norway.

The new European Covered Bond Directive and Regulation have been finalised. The Directive entered into force on 8 January 2020, the national transposition period will last until 8 July 2021 and national measures must be applied by July 2022. The Regulation will apply from 8 July 2022, in parallel with the deadline for the national measures of the Directive.

From 26 April 2019, an amendment to CRR as regards minimum loss coverage for non-performing exposures (NPE) (defined as past due 90 days, stage 3 or unlikeness to pay) entered into force and applies to exposures that are originated from this date and turn non-performing. The amendment includes mandatory and calendar-based minimum provisioning rules. The coverage requirements for banks increase gradually up to 100%, after three years for unsecured NPEs, after nine years for NPEs secured by immovable property and after seven years for NPEs secured by other eligible credit protection. Insufficient loss coverage will have to be deducted from the CET1 capital.

In June 2019, the Finnish FSA decided to maintain the systemic risk buffer requirement of 3% CET1 capital in respect of Nordea.

In 2019 the countercyclical buffer rate increased in Sweden, Denmark and Norway. The buffer rate was increased from 2% to 2.5% in September for Sweden and in December for Norway. In Denmark the buffer was increased from 0% to 0.5% in March and further increased to 1.0% in September. It has also been decided to increase the Danish buffer rate further to 1.5% from 30 June 2020 and to 2.0% from 30 December 2020.

With effect from 1 January 2019, the BRRD, the Deposit Guarantee Scheme (DGS) as well as the new MREL were implemented in Norwegian regulation in accordance with EU rules. The DGS, however, maintains the current Norwegian guarantee of NOK 2 million per depositor.

To mitigate the effect of the Norwegian implementation of the CRR and CRD IV in December 2019, the Norwegian Ministry of Finance has announced its intention to decide on changes in banks' capital requirements by increasing the systemic risk buffer (SRB) from 3% to 4.5% with effect from 31 December 2020. The increase is suggested to be applicable to all banks' exposures in Norway that are currently subject to the advanced Internal Rating Based (IRB) approach. For all other banks the intention is for the SRB to enter into force on 31 December 2022. The increase is subject to notification procedures to EU bodies. Furthermore, a minimum 20% average risk weight for residential real estate exposures and a minimum 35% average risk weight for commercial real estate exposures are also suggested to be implemented in respect of banks that are subject to the IRB approach with effect from 31 December 2020.

On 28 January 2020, the Swedish FSA decided to impose average risk weight floors for commercial real estate in Sweden, applicable to banks with IRB permission. The floors are set at 35% for exposures to commercial property companies and 25% for residential property companies. The floors will be included within Pillar 2 where the add-on will be the difference between the actual average risk weight and the floor.

Finalisation of 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, market risk, operational risk, credit valuation adjustment (CVA) risk, leverage ratio and introduces a new output floor.

On credit risk, the package includes revisions to both the IRB approach, where restrictions to the use of IRB for certain exposures are implemented, as well as to the standardised approach. Also, for market risk the internal model approach and the standardised approach have been revised. For operational risk, the three existing approaches will be removed and replaced by 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-SIBs) of half the size of the G-SIB capital buffer requirement.

The output floor is to be set at 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 October 2019 the European Commission issued a consultation on the implementation of the final Basel III reforms in the EU. It is expected that the Commission will publish its proposal in mid-2020 after which negotiations in the Council and Parliament will begin.

Corporate Governance Statement 2019

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 purpose 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.

In 2019, Nordea has applied and complied with the Finnish Corporate Governance Code 2015, published by the Securities Market Association in October 2015 ("Code"). As of 1 January 2020, Nordea applies and complies with the new Finnish Corporate Governance Code 2020 approved by the Securities Market Association on 19 September 2019, and effective from 1 January 2020 ("New Code").

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

The Code and the New Code are available at https://cgfinland.fi/en/.

The main emphasis is on the Board noting its role 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.

This Corporate Governance Statement is available at www.nordea.com.

Corporate governance at Nordea

Nordea Bank Abp (the "Company") is the parent company of the Nordea Group. The Company is a Finnish public limited liability company with its shares listed on the Nasdaq stock exchanges in Helsinki, Stockholm and Copenhagen. Furthermore, Nordea ADRs are listed in the US. Corporate governance at Nordea follows generally adopted principles of corporate governance and relevant normative frameworks.

The external framework that regulates corporate governance includes EU- and national-level laws, including the Finnish Companies Act, the Finnish Act on Credit Institutions, the Finnish Accounting Act, EU legislation for the financial industry, rules and guidelines issued by relevant financial supervisory authorities, Nasdaq's rules for each relevant stock exchange, and the rules and principles of the relevant Corporate Governance Code. Nordea complies with all recommendations of the Code and the New Code[1] with the exception of the appointment procedure for electing employee representatives to the Board (Recommendation 5), as described further below.

Division of powers and responsibilities

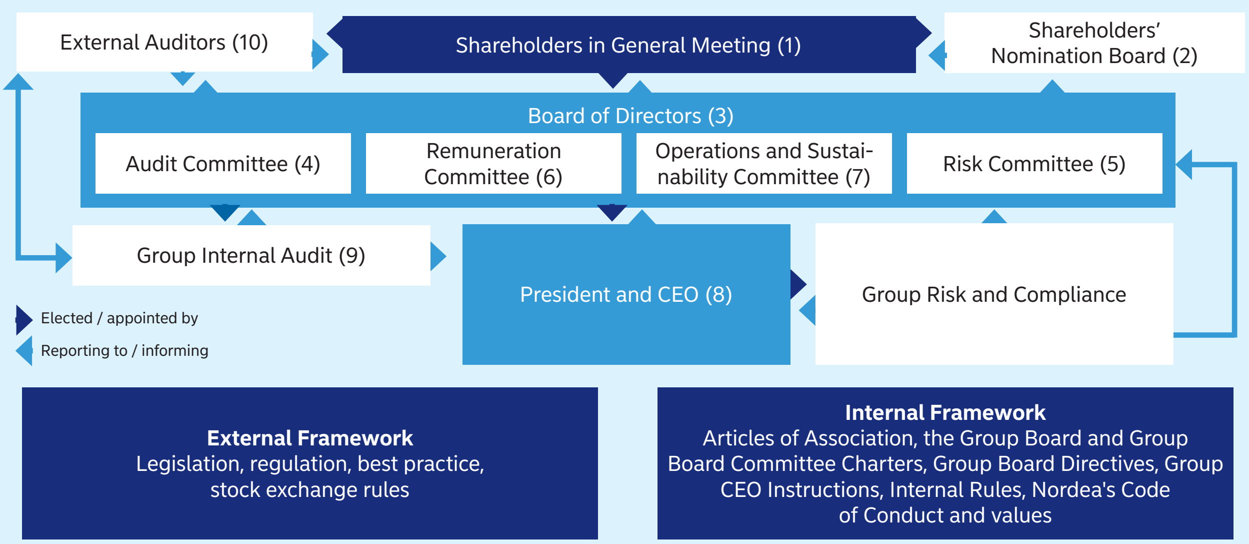
The management and control of Nordea is divided among the shareholders (at the General Meeting), the Board and the President and Group CEO, pursuant to the provisions of the external framework, the Articles of Association and the internal rules set forth by the Board.

General Meetings (1)

The General Meeting is the Company's highest decision-making body, at which shareholders participate in the supervision and control of the Company through their voting rights and right to speak. Applicable regulation and the Articles of Association of the Company determine the matters to be dealt with at a General Meeting. At the General Meeting, decisions are taken regarding matters such as the annual accounts, dividend, election of the members of the Board and auditors, as well as remuneration for the Board members and auditors. In accordance with applicable Finnish laws, the remuneration policy for governing bodies and, as of 2021, the remuneration report will be presented at the General Meeting.

1) In 2019, Nordea has applied and complied with the Code. As of 1 January 2020, Nordea applies and complies with the New Code.

Corporate Governance Structure



General Meetings are held in Helsinki. The 2019 Annual General Meeting ("AGM") was held at the Finlandia Hall on 28 March 2019. Information on the decisions of the 2019 AGM and the minutes are available at www.nordea.com.

The 2020 AGM will be held at Messukeskus Helsinki, Expo and Convention Centre on Wednesday 25 March 2020.

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 the full number of shares that he or she holds or represents. Nordea is not entitled to vote with its own shares at General Meetings. More information about the Nordea share is presented in the section "The Nordea share and ratings" on page 27 and in the "Financial Review 2019" on page 31.

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.

Shareholders' Nomination Board (2)

Pursuant to the Finnish Act on Credit Institutions, a credit institution shall have a nomination committee that consists of Board members or a Shareholders' Nomination Board that consists of members appointed by the shareholders. The Annual General Meeting held on 28 March 2019 decided to establish a permanent Shareholders' Nomination Board, and approved the charter of the Shareholders' Nomination Board, according to which the Shareholders' Nomination Board is to prepare the proposals to the General Meeting relating to the composition of the Board, the Chair of the Board and remuneration for the Board, and present the proposals at the General Meeting. 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 furthermore assist the Board in the assessment of the selection criteria and selection process of senior management.

The Shareholders' Nomination Board shall comprise the Chair of the Board (Torbjörn Magnusson) and four members appointed by the four largest shareholders in terms of voting rights on 31 August 2019, who wish to participate in the Shareholders' Nomination Board.

The composition of the Shareholders' Nomination Board was made public on 20 September 2019. Sampo plc had appointed Kari Stadigh, Nordea-fonden had appointed Lars Ingemann Nielsen, Alecta had appointed Mikael Wiberg and Cevian Capital AB had appointed Christer Gardell. Kari Stadigh had been appointed Chairman of the Shareholders' Nomination Board. On 31 August 2019, when determining the members of the Shareholders' Nomination Board, the members of the Shareholders' Nomination Board represented 28.4[2] per cent of outstanding shares in the Company. Prior to the 2020 AGM the Shareholders' Nomination Board constituted in the autumn 2019 held three meetings. Each member of the Shareholders' Nomination Board participated in all decision-making of the Shareholders' Nomination Board. Torbjörn Magnusson did not participate in preparations or decision-making regarding Board remuneration.

Kari Stadigh, Chairman of the Shareholders' Nomination Board

Master of Science (Eng.), BBA
Born 1955
Group CEO and President of Sampo Group until 31 December 2019

Lars Ingemann Nielsen

Master of Science (Mathematical Finance and Economics)
Born 1961
Executive Vice President and CFO, Nordea-fonden

Mikael Wiberg

CEFA Financial analyst
Born 1963
Portfolio Manager, Alecta

Christer Gardell

Master of Science (Economics), MBA
Born 1960
Managing Partner and co-founder, Cevian Capital AB

Torbjörn Magnusson

MSc and Lis Eng
Born 1963
Group CEO and President of Sampo Group since 1 January 2020
See Board of Directors on page 288–289 for more information.

The proposals of the Shareholders' Nomination Board are presented in the notice of the 2020 AGM and are also available at www.nordea.com.

Nordea Board of Directors (3)

Composition of the Board of Directors

According to the Articles of Association, the Board 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. According to the Code and the New Code, the fact that a Board member has served as a member for more than 10 consecutive years shall be considered when conducting the overall evaluation of independence. Further, applicable European regulatory requirements are taken into account in the evaluation.

The Company strives to promote diversity of the members of the Board with the aim of ensuring that the Board, as a whole and for the purpose of its work, possesses 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 and the New 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 and the New Code, both genders shall be represented on the Board.

The Board has furthermore adopted a Diversity Policy that establishes the principles of diversity on the Board. According to the Diversity Policy, all Board member nominations in the Company shall be based on merit with the prime consideration being to maintain and enhance the Board's overall

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

effectiveness. In order to fulfil this, a broad set of qualities and competencies is sought, and it is recognised that diversity – including age, gender, geographical provenance and educational and professional background – is an important factor to consider. Nordea's objective is to have a fair, equal and balanced representation of different genders and other diversifying factors on the Board collectively.

During the nomination work before the 2019 AGM, the Chair of the Board of the Company informed the Nomination Board of the competencies and skills needed for the Board as a whole, and for Board members individually. The Nomination Board considered a broad range of qualifications and knowledge to ensure sufficient expertise and independence, and also strived for equal gender distribution on the Board in accordance with the Suitability Policy and the Diversity Policy of the Company.

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 Nordea and the Nordea Group are carried out, exhibiting adequate diversity and breadth of qualities and competencies, and the gender distribution is well balanced.

The Board consists of 13 ordinary members and one deputy member. Of these Board members, ten (five men and five women) were elected by the AGM held on 28 March 2019, and four (three ordinary members and one deputy member) were appointed by the employees of the Nordea Group. The Board members elected by the AGM are Torbjörn Magnusson (Chair), Kari Jordan (Vice Chair), Pernille Erenbjerg, Nigel Hinshelwood, Petra van Hoeken, Robin Lawther, John Maltby, Sarah Russell, Birger Steen, and Maria Varsellona. Until the end of the 2019 AGM, Björn Wahlroos was the Chair, Lars G Nordström was the Vice Chair and Silvija Seres was a member of the Board.

As mentioned above, in addition to the members proposed by the Shareholders' Nomination Board and elected by the AGM, three ordinary members and one deputy member are appointed by the employees of Nordea Group as employee representatives to the Board. The term of office for the employee representatives is one year. The employee representatives until the end of the 2020 AGM are Dorrit Groth Brandt, Gerhard Olsson, Hans Christian Riise and Kari Ahola (deputy member). The appointment procedure for the employee representatives to the Board deviates from Recommendation 5 "Election of the Board of Directors" of the Code and the New Code. The reason for this deviation is that at 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 to Finland in 2018.

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

The composition of the Board is set out in the table on page 48 and further information regarding the Board members elected by the Annual General Meeting and the employee representatives is presented in the sections "Board of Directors" and "Employee representatives" on page 288–289.

Independence of the Board of Directors

Nordea complies with applicable requirements regarding independence of the Board according to applicable European regulatory requirements and Finnish laws and regulations as well as requirements according to the Code and the New Code. The Board considers all the members elected by the shareholders at the 2019 Annual General Meeting to be independent of the Company according to the Code and the New Code.

All Board members elected by the shareholders at the 2019 AGM, apart from Torbjörn Magnusson, are furthermore independent in relation to the Company's significant shareholders according to the Code and the New Code. Torbjörn Magnusson was during 2019, a member of the Group Executive Committee of Sampo plc and as of 1 January 2020, he is the Group CEO and President of Sampo Group. As Sampo plc owns more than 10% of all shares in the Company, Torbjörn Magnusson is not considered independent of the Company's significant shareholders.

According to the Code and the New 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 significant shareholders of the Company. Thus, the number of Board members independent in relation to the Company and independent in relation to the Company's significant shareholders, exceeds the minimum requirements.

No Board member elected by the shareholders at the 2019 Annual General Meeting is employed by or works in an operative capacity at the Company. All ordinary 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 and the New Code.

The independence of each Board member is also shown in the table on page 48.

The work of the Board of Directors

The Board elects the Vice Chair and appoints the members of the Board Committees. The Board has adopted written work procedures governing its work that also set 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 Chair's respective 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 has adopted instructions for the President and Group CEO specifying his responsibilities as well as other charters, policies and instructions for the operations of the Group. These mechanisms, 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 the 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 at Nordea is provided on page 48–49 under "Internal control framework".

The Board regularly meets the external auditor and regularly considers the need for such meetings without the presence of the CEO or any other member of the Group Leadership Team ("GLT")[3]. In addition, the auditor in charge regularly attends the meetings of the Board Audit Committee.

In 2019 the Board of the Company held 16 meetings, two of which were held as telephone meetings and five per capsulam. For more information see the table on page 48.

The Board regularly follows up on Nordea's strategy, business development as well as the financial position and performance of the financial market. Furthermore, the Board regularly updates 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. Significant organisational changes, appointment of certain senior management and transactions of significance are other matters dealt with by the Board. The work of the Board Committees is also regularly reported to the Board. In 2019 the Board also dealt with, among other things, digitalisation, issues related to internal control and compliance, anti-money laundering and other remediation and implementation programmes.

The Board Secretary is Jussi Koskinen, Chief Legal Officer.

Chair

The Chair of the Board is elected by the shareholders at the General Meeting. The Board meets according to its annual meeting schedule and as necessary. The Chair is to ensure that the Board's work is conducted efficiently and that the Board fulfils its duties. The Chair is to organise and lead the Board's work, maintain regular contact with the President and Group 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 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 Board work. The evaluation is based on methodology that includes questionnaires to evaluate the Board as a whole, the Chair and individual Board members. In 2019 the self-evaluation was carried out by an external consultant and included interviews with all Board members. The result of the self-evaluation process is further discussed by the Board and presented to the Shareholders' Nomination Board by the Chair of the Board.

In accordance with applicable European regulatory requirements, an internal suitability assessment of the members of the Board individually and of the Board as a whole is completed annually and in connection with the selection process for new Board members.

Board Committees

In accordance with the external framework and in order to increase the effectiveness of the Board work, the Board 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,[4] for instance by monitoring the Nordea Group's financial reporting process and system, and providing recommendations or proposals to ensure their reliability (including efficiency of the internal control and risk management systems), monitoring the effectiveness of Group Internal Audit (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, including the offering of services other than auditing services by the auditors, prepares a recommendation of appointment of the Company's auditor, as well as by taking care of the responsibilities of the audit committee pursuant to applicable legal requirements.

Furthermore, the BAC assists the Board in monitoring and assessing related party transactions. Further information is presented in the separate section "Principles for related party transactions".

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

The Board annually appoints the members and the Chair of the BAC. The BAC must have at least three committee members who are members of the Board. The Chair of the BAC may not be the Chair of the Board or of any other Board Committee. None of the members of the BAC may be employed within the Nordea Group or participates in the day-to-day management of the Company or a company in 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 significant shareholders and have sufficient expertise in accounting and/or auditing. The committee members must have sufficient expertise and experience required for the performance of the responsibilities of the BAC. For more information, see the table on page 48.

The Board Risk Committee (5)

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

The duties of the BRIC include reviewing and, where required, making recommendations on the Nordea Group's risk and compliance governance, and reviewing 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 makes recommendations regarding the Group's risk appetite and market and liquidity risks. Furthermore, the BRIC reviews resolutions made by a Group entity concerning credit or credit limit above certain amounts, as well as strategic credit policy matters and the development of the credit portfolio.

Members of the BRIC are Nigel Hinshelwood (Chair), Petra van Hoeken, John Maltby, Birger Steen and Maria Varsellona. The Chief Risk Officer, the Chief Compliance Officer, the Chief Audit Executive and the President and Group CEO, are regular

3) Group Executive Management (GEM) was renamed Group Leadership Team (GLT) with effect as of 17 December 2019.

4) The BAC has applied and complied with the duties in accordance with the Code during 2019 and applies and complies with the duties in accordance with the New Code as of 1 January 2020.

attendees at the 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 Note G2, "Risk and liquidity management", on page 95–123.

The Board annually appoints the Chair and members of the BRIC. The BRIC must have at least three committee members, who are members of the Board. The Chair of the BRIC may not be the Chair 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 Chair, 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 and complies with the Code and the New Code. For more information, see the table on page 48.

The Board Remuneration Committee (6)

The Board Remuneration Committee ("BRC") is responsible for preparing and presenting proposals to the Board on remuneration issues. When preparing the proposals, the long-term interests of shareholders, investors and other stakeholders in Nordea shall be considered.

At least annually, the BRC follows up on the application of Nordea's remuneration directive, including the use of variable pay adjustments, through an independent review by GIA and assesses Nordea's remuneration directive 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 the members of GLT and the heads of control functions. At the request of the Board, the BRC also prepares other issues of principle for the Board's consideration.

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

The Board annually appoints the Chair and members of the BRC. The BRC must have at least three committee members. The Chair 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 President and Group 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. For more information, see the table on page 48.

Further information regarding remuneration at Nordea is presented in the separate section "Remuneration", on page 56–59 and in Note G8, on page 131–136.

Board Operations and Sustainability Committee (7)

With effect as of 1 January 2019, a new Group Risk & Compliance function was established at Nordea, consolidating the earlier second line of defence functions, Group Compliance and Group Risk Management & Control into one organisational unit. To align the Board committee structure with the operational risk set-up, the Board decided on 28 March 2019 to allocate compliance-related matters, which belonged within the scope of the Board Operations and Compliance Committee ("BOCC"), to the Board Risk Committee in order to have one common Board committee for the second line of defence. To reflect the changes in the scope of activities, the BOCC was renamed the Board Operations Committee ("BOC"). In December 2019, the Board decided to change the name of BOC to Board Operations and Sustainability Committee ("BOSC") to better reflect its charter.

The BOSC assists, without prejudice to the tasks of the other Board Committees, the Board in fulfilling its oversight responsibilities concerning sustainability, operations/systems and operational resilience (including cyber resilience) as well as related frameworks and processes. The duties of the BOSC 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 BOSC are Birger Steen (Chair), Pernille Erenbjerg, John Maltby and Nigel Hinshelwood. To the extent possible, the Head of Group Operational Risk attends when the committee deals with operational risks related to data and IT. The Chief Audit Executive may also participate in meetings to the extent possible and deemed suitable. All have the right to participate in discussions but not in decisions. Furthermore, other senior executives also attend meetings when deemed relevant.

The Board annually appoints the Chair and members of the BOSC. The BOSC must have at least three committee members, who are members of the Board. The BOSC shall be composed of members of the Board who do not perform any executive function in the Nordea Group. Members of the BOSC shall have sufficient collective knowledge, expertise and experience in issues relating to the work of the committee, including sustainability and operations/systems. Nordea follows the legal requirements and complies with the Code and the New Code. For more information, see the table on page 48.

Meetings, attendance and independence

The table on page 48 shows the number of meetings held by the Board and its Committees as well as the attendance of the individual Board members. It also shows the independence of the individual Board members.

President and Group CEO, Deputy Managing Director and Group Leadership Team (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 President and Group CEO and the Board. The President and Group CEO works closely with the Chair of the Board in relation to the planning of Board meetings.

The Board of Directors appointed Frank Vang-Jensen as President and Group CEO of Nordea as of 5 September 2019.

Casper von Koskull was the President and Group CEO until 5 September 2019. Nordea announced on 30 June 2019 that Casper von Koskull had decided to retire from Nordea by the end of 2020.

The President and Group CEO is accountable to the Board for managing Nordea Group's operations and he is also responsible for developing and maintaining effective systems for internal control within the Group. Further information

Board members' attendance and independence

	Board of Directors	Board Audit Committee	Board Risk Committee	Board Remuneration Committee	Board Operations and Sustainability Committee[1]	Independence in relation to the Company[2]	Independence in relation to the significant shareholders[2]
Number of meetings (of which per capsulam)	16(5)	10(1)	10(2)	11(3)	8(0)		
Elected by shareholders at the AGM							
Torbjörn Magnusson (Chair as of 28 March 2019)	16	10	–	7	–	Yes	No
Kari Jordan (Vice Chair and Board member since 28 March 2019)	12	–	–	6	–	Yes	Yes
Nigel Hinshelwood	16	–	10	–	8	Yes	Yes
Maria Varsellona	13	–	7	–	2	Yes	Yes
Birger Steen	15	–	6	–	7	Yes	Yes
Sarah Russell	16	10	–	–	–	Yes	Yes
Robin Lawther	15	–	–	11	–	Yes	Yes
Pernille Erenbjerg	16	9	–	–	6	Yes	Yes
Petra van Hoeken (Board member as of 28 March 2019)	12	6	6	–	–	Yes	Yes
John Maltby (Board member as of 28 March 2019)	12	–	6	–	6	Yes	Yes
Björn Wahlroos (Chair until 28 March 2019)	3	–	–	4	–	Yes	No
Lars G. Nordström (Board member until 28 March 2019)	3	–	3	–	–	No	Yes
Silvija Seres (Board member until 28 March 2019)	2	–	2	–	–	Yes	Yes
Appointed by employees							
Kari Ahola (deputy member)	12	–	–	–	–	No	Yes
Dorrit Groth Brandt	16	–	–	–	–	No	Yes
Gerhard Olsson	16	–	–	11	–	No	Yes
Hans Christian Riise	16	–	–	–	–	No	Yes

1) On 28 March 2019, the Board decided to allocate compliance related matters, which belonged in the scope of the Board Operations and Compliance Committee, to the Board Risk Committee in order to have one common Board committee for the second line of defence. To reflect the changes in the scope of activities, the Board Operations and Compliance Committee was renamed the Board Operations Committee. In December 2019, the Board decided to change the name of the Board Operations Committee to the Board Operations and Sustainability Committee.

2) For additional information, see Independence of the Board of Directors on page 45.

regarding the control environment for risk exposures is presented in Note G2, "Risk and liquidity management", on page 95–123. The President and Group CEO works together with certain senior officers within the Group in the GLT. The GLT consisted of the President and Group CEO and eight members at the end of 2019. The GLT meets regularly and whenever necessary upon request by the President and Group CEO. These meetings are chaired by the President and Group CEO, who reaches decisions after consulting with the other members of GLT. Notes of meetings, verified by the President and Group CEO, are kept. Further information regarding the President and Group CEO and the GLT is presented in the section "Group Leadership Team", on page 290–291.

On 8 May 2019, Nordea announced that Julie Galbo, Head of Group Business Risk Management, was leaving Nordea at the end of May 2019 and that she had stepped down from the GLT.

In line with applicable regulations, the Company has a Deputy Managing Director, and as of 10 September 2019, Chief Legal Officer, Jussi Koskinen, has been Deputy Managing Director of Nordea for an interim period. As of 10 September 2019, Torsten Hagen Jørgensen, Deputy CEO and Group Chief Operating Officer, and Karen Tobiasen, Chief People Officer, stepped down from the GLT.

On 18 September 2019, Nordea announced that Christopher Rees, Group CFO and Head of Finance and Treasury, had decided to leave Nordea in 2020.

On 17 December 2019, Nordea announced organisational and management changes with the announcement of the appointments of Sara Mella as Head of Personal Banking, Christina Gadeberg as Head of Group People and Erik Ekman as Head of Group Business Support. Sara Mella and Christina Gadeberg were also appointed as members of the GLT. Erik Ekman continues as a member of the GLT. In connection with and with effect of the date of the organisational changes, Group Executive Management (GEM) was renamed Group Leadership Team (GLT).

Furthermore, Nordea has appointed Nina Arkilahti as Head of Business Banking and Ian Smith as Group CFO. They will both become members of the Group Leadership Team when they join Nordea in 2020.

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 that compliance risk stays within risk appetite.

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 a 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. The Risk Function oversees the implementation of the risk policies and controls the Risk Management Framework and shall among other things ensure that all risks to which Nordea is or could become exposed are identified, assessed, monitored, managed and reported. Group Compliance is responsible for creating a common internal control framework that ensures compliance with applicable laws, regulations, standards, supervisory requirements and related internal rules, as well as providing training, advice, monitoring and ensuring compliance matters are adequately communicated and adhered to by management. Group Compliance is responsible for identifying compliance risks and performing monitoring and control to ensure that the risks are managed by the relevant functions. Group Compliance activities shall be decided and conducted according to a risk-based approach. The responsibilities and mandates are described in more detail in the "Group Board Directive for the second line of defence risk function" and in the "Group Board Directive on Group Compliance".

GIA, which is the third line of defence, 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)

Group Internal Audit 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 President and Group CEO. The Board approves the appointment and dismissal of the CAE and decides, by proposal of the BRC, on salary and other employment terms and conditions for the CAE.

The purpose of GIA is to support the Board and GLT 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 the GLT, by assessing whether all significant risks are adequately controlled and by challenging the GLT 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 President and Group CEO and the Chair of the BAC, and should meet with the Chair of the BAC informally and formally throughout the year, including without the presence of executive management. GIA is authorised to conduct 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, GLT, 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 Authorised 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, was the auditor-in-charge during 2019.

Further information regarding the fees paid for audit services and non-audit services is presented in Note G9 on page 137.

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 Committee of Sponsoring Organizations of the Treadway Commission (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 GLT 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 improving 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 ("3LoD") model which provides foundation 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 daily risk management and for compliance with applicable rules. The 2nd LoD is Group Risk & Compliance, which consists of the risk function and Group Compliance, being independent control functions. The 3rd LoD consists of Group Internal Audit (GIA), which is an independent internal audit function.

Clear roles and responsibilities are crucial in the governance of Internal Control over Financial Reporting, where the risk owners in the business areas and Group Finance are responsible for the risk management activities. A risk management function supports the CFO in maintaining a group wide set of controls, defined at Nordea as Accounting Key Controls (AKC), in line with the risk framework, which covers the controlling of risks and the risk identification process, which to a large extent is based on the actual business and financial closing processes in place. An independent risk control function resides in the 2nd LoD and is responsible for identifying, controlling and reporting on financial reporting risk. 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 rests 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 (FRR) control work at Nordea focuses on risks and processes that could lead to material financial misstatements, i.e. misstatements which, if they occurred, would significantly and adversely affect Nordea. The scope of the AKC framework 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, entities, locations and/or processes risks of material financial misstatements exist and therefore need to be monitored within the AKC framework to ensure reasonable assurance of the reliability of Nordea's external financial reporting. The 2nd LoD control function for FRR reviews the risk assessment process and outcome, and provides additional input for the overall risk picture of FRR.

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 at 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 which 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

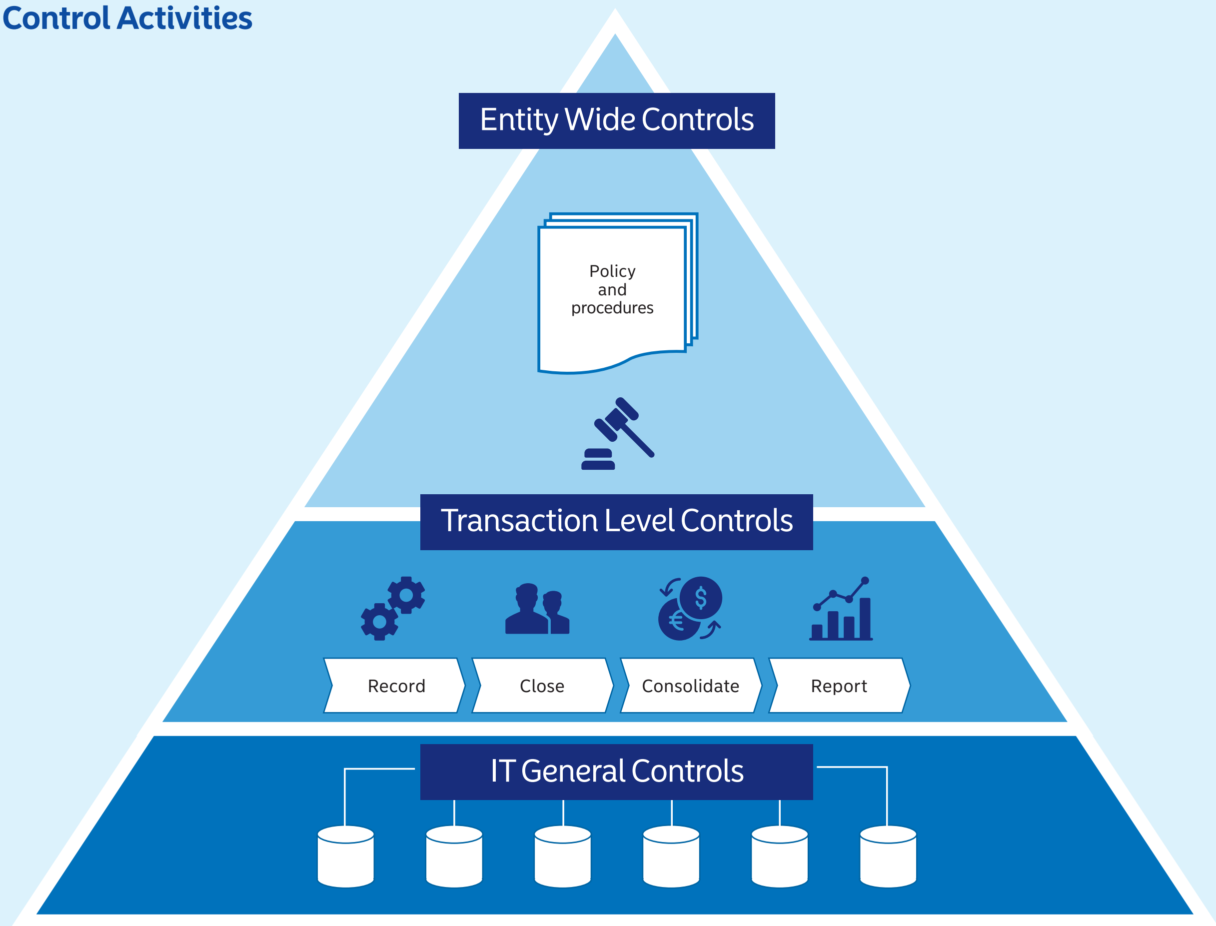
Group Finance (GF) is responsible for ensuring that the Group Accounting Manual and the Financial Control Principles are up to date and that changes are communicated to the responsible units. These governing documents are broken down into guidelines and standard operating procedures in the responsible units. Accounting specialists from GF 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.

Control Activities



Examples of contol activities in Nordea:

Entity Wide Controls: Highest level of internal controls. Integral in setting the "tone at the top" and the requirements of Nordea's control environment.

Transaction Level Controls: Procedures to ensure effectiveness of process level controls, either automated, semi-manual or manual, e.g. reconciliations, 4-eyes principle, follow up on error reports and analytical reviews.

IT General Controls: Controls and procedures with the objective to ensure completeness and accuracy in progressing of financial information, e.g. logical security, change management and batch routines. These controls also support the effective functioning of relevant application controls.

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.

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 include risks and controls related to financial reporting.

Group Finance has also established specific quarterly reporting regarding Internal Control over Financial Reporting to the Group CFO covering risk management and high-risk areas. The 2nd LoD control function for FRR reports specifically on financial reporting risk to the BAC on a quarterly basis.

The Board, the BAC, the BRIC, the BOSC and the 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 Sustainability Committee (7)" and "Group Internal Audit (9)" in the previous pages.

Insider administration

Insider administration is organised according to the applicable European Union and local laws and regulations. The Board has also approved groupwide rules to facilitate employees' compliance with the applicable rules and to ensure that inside information is identified as such and treated appropriately.

The Company has identified members of the Board and GLT as well as the Chief Audit Executive as persons discharging managerial responsibilities (as defined in the EU Market Abuse Regulation No 596/2014 (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 through stock exchange releases.

Persons discharging managerial responsibilities are prohibited from trading in the financial instruments of Nordea whenever such persons possess inside information regarding Nordea, as well as during a period of 30 calendar days before (and including) the date of the publication of an interim financial report, half-year report or a year-end report by Nordea.

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 groupwide 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 of 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 are 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.

The responsibilities of Nordea's insider administration include internal communications related to insider matters and trading restrictions, setting up and maintaining its insider registers, arranging related training as well as organising and overseeing compliance with the insider rules. Group Compliance bears overall responsibility for monitoring compliance with the groupwide rules on prohibition of insider trading, trading restrictions for persons discharging managerial responsibilities and personal account dealing.

Principles for related party transactions

Applicable laws and regulations set requirements for the monitoring, assessment, and decision-making concerning related party transactions as well as for the disclosure of executed related party transactions.

Generally, the Company's transactions with its related parties are 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, certain loans and other commitments to the key management, all related party transactions are 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 and to comply with the statutory decision-making requirements.

The Company has defined its related parties in accordance with the applicable laws and regulations and keeps an up-to-date record of its related parties. Relevant internal stakeholders, such as client responsible units and other relevant business units and group functions, are informed of the list of related parties and thereto related restrictions, in order to monitor transactions with such parties.

Nordea is also bound by applicable close circle rules and has processes in place for identifying the persons belonging to the close circle of Nordea and ensuring that credits and comparable financing granted to such persons, as well as any investments into an entity belonging to the close circle, are done in accordance with applicable laws and rules.

Pursuant to the Company's conflict of interest policy, Nordea's employees, management and members of the Board may not handle matters on behalf of Nordea in cases where he/she or a closely associated person or company may have an interest that conflicts with the interests of Nordea or its customers. Nordea's business areas and group functions are obliged to identify, prevent and manage actual and potential conflicts of interests.

The Board has the ultimate responsibility for ensuring proper processes for the identification, reporting, and supervision of related party transactions as well as the proper decision making related thereto. The BAC shall assist the Board in respect of monitoring and assessing how related party transactions meet the requirements of ordinary activities and arm's-length terms.

Related party transactions that are not part of the Company's ordinary course of business or are made in deviation from customary commercial terms require a decision of the Board to carry out the related party transaction, unless required otherwise based on applicable laws and regulations. In respect of such related party transactions the Board must ensure that: (i) the relevant transactions have been appropriately identified, reported, and controlled (ii) the preparation and decision making have carefully considered the conflict of interest policy; and (iii) the preparation of related party transactions contain adequate reports, statements, and/or assessments. Furthermore, Nordea publicly discloses its related party transactions, in accordance with applicable laws and regulations.

Further information regarding related party transactions is presented in Note G1 on page 93 and Note G45 on page 178.

Non-Financial Statement

This report constitutes Nordea's non-financial statement for the fiscal year 2019. The report covers the parent company Nordea Bank Abp and its subsidiaries.

Nordea is present in 20 countries, including our four Nordic home markets – Denmark, Finland, Norway and Sweden. Through our four business areas – Personal Banking, Business Banking, Large Corporates & Institutions and Asset & 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 embedding sustainability throughout the bank, into our products and processes in our core areas of investments, financing and advice, and in our internal operations.

Our Code of Conduct describes high-level ethical principles that guide our business. It is a central steering document together with our principles on environmental, social and governance (ESG) issues within investments, financing and advisory services in Nordea's Sustainability Policy. Both the Code of Conduct and the Sustainability Policy are approved by the Board of Directors. All our employees are required to complete annual code of conduct training as part of their Licence to Work. In 2019 98.5% of all employees (excluding those on long-term leave) completed their Licence to Work.

Sustainability governance

At board level, the Board Operations and Sustainability Committee assists the Board in fulfilling its oversight responsibilities concerning sustainability, operations/systems and operational resilience, including cyber resilience, as well as related frameworks and processes. Our governance structure encompasses a monitoring function chaired by a GLT member – the Business Ethics and Values Committee – that reviews relevant Group Internal Rules as well as participation in and exit from commitments to sustainability and/or approves external position statements and sector guidelines. This governance structure allows integration of climate-related risks and opportunities and other sustainability issues in decision-making and business processes. Each business area and group function is represented in the Sustainability Committee. The committee prepares sustainability issues related to policies, guidelines and strategy which the business areas and group functions are then responsible for implementing in the business.

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.

In 2019, we continued our efforts initiated in 2018 to embed sustainability risk assessment into Nordea´s regular risk management. This includes refining the definitions of ESG risk within Nordea´s Risk Taxonomy which forms the basis of risk management activities as well as defining clear ESG risk-controlling activities. Several Industry Credit Policies were developed in 2019 with dedicated sections on ESG risks and mitigation, as part of the credit risk framework. The Board also approved an ESG Risk Appetite Statement during the year.

At Nordea, we take several measures to identify, manage and mitigate climate risks. In 2019, climate risk was added to Nordea´s Risk Taxonomy as a sub-risk category to ESG risk. Climate risk is mainly managed through policies/strategies, frameworks, processes and through focus area deep dives and scenario analysis.

At present, we focus our climate-related work on carbon-intensive industries as well as energy-consuming sectors. In 2019 we published sector guidelines for the fossil fuels, real estate and forestry industries and plan to develop sector guidelines for other relevant industries in 2020.

In the coming years, we will continue to enhance our climate risk management efforts, such as further embedding climate considerations into credit processes, developing further scenarios to assess the vulnerability of Nordea´s loan portfolio to both transition and physical risk and assessing how investments and products can be developed to align with the Paris Agreement.

Material sustainability issues

In 2018 we conducted a sustainability materiality analysis and the outcome was discussed and validated with internal and external stakeholders. The analysis was revisited in 2019. It was decided to still be valid until an impact analysis in accordance with the Principles for Responsible Banking, taking both the Sustainable Development Goals and the Paris Agreement into consideration, will replace it in 2020.

In the materiality analysis, we identified climate as the lead area for our efforts, followed by a focus on human rights, a responsible supply chain, being an inclusive employer with satisfied employees and community engagement. Furthermore, we identified areas that are essential to trust in the banking industry that must be managed well to ensure going concern (i.e. business ethics, governance, digitalisation and living our purpose and values) and that constitute our foundation.

Sustainability targets

In 2019 we set targets for 2019 based on the materiality analysis we conducted in 2018. Almost all targets were fulfilled during the year, but we have experienced some challenges in developing a strategy for how to work towards the Paris Agreement regarding both investments and lending. Our targets for 2020 are a continuation of the targets for 2019 focusing on aligning both investments and financing with the Paris Agreement, but with an even clearer focus on granularity and measurability. The targets were approved by GLT in February 2020.

Climate action

Nordea's Position Statement on Climate Change sets out the scope and principles of Nordea's climate change work. As a large financial institution, stakeholders expect Nordea to act on our exposure to companies and sectors being affected by physical risks and/or transition risks from existing and upcoming regulations. Lending to more carbon-intensive industries, such as paper, forestry and mining, oil, gas and offshore and maritime (shipping) accounts for 9% of Nordea's total corporate loans[1]. Furthermore, approximately half of our lending portfolio is in real estate assets, an industry associated with high energy consumption and physical risks. In the investment portfolio, our exposure to three of the more carbon-intensive industries – utilities, energy and materials – is in the 2.7%-3.3% range for equities. The exposure for corporate bonds is 3.1% for utilities, 2.2% for energy and 1.8% for materials.

Our materiality analysis shows that our greatest sustainability impact is indirect, and neither can we ignore that our internal operations too potentially have a sustainability impact. For Nordea, business travel is our greatest direct neg-

1) With reference to total corporate loans in note G2, Risk and liquidity management on page 104–106.

ative climate impact, with a share of 63% of our total carbon emissions in 2019. We set a target to reduce air travel for internal meetings with 7% in 2019. We managed to achieve a 7.15% reduction during the year. In 2020 we will continue to reduce air travel for internal meetings and aim for a 30% reduction compared to 2019. Another contributor to our carbon emissions is our energy consumption. 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 2019 were 39,406 tonnes CO_2e[2].

Human rights

Human rights-related risks are a salient and at times material factor affecting companies and we work systematically to embed human rights throughout our value chain, covering suppliers, our own operations, customers and investee companies, and to strengthen our due diligence processes. Nordea follows the UN Universal Declaration of Human Rights and the UN Guiding Principles on Business and Human Rights. Human rights are included in our Code of Conduct, Sustainability Policy, Responsible Investment Policy, Supplier Code of Conduct and in our Sector Guideline for the Defence Industry.

For our large corporate customers, we perform ESG evaluations in which human rights are one parameter. If we identify adverse human rights violations, this could affect the risk score in credit memorandums. Furthermore, 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. As per September 2019, we have 11 companies on our exclusion list due to violation of human rights-related norms, including norm violation of indigenous peoples' rights.

In 2019 we conducted an independent human rights assessment of Nordea. The assessment covered our internal operations and value chain and included our governance and policy commitments, human risk and impact management, and remedies and grievance mechanisms. The assessment also included country risk profiles of all the countries in which Nordea is established. The assessment identified the need to further develop our due diligence processes for all parts of our value chain and also the need for alignment of our policies and statements covering human rights. We already work to embed human rights into the organisation and strengthen our due diligence processes, for instance in relation to our suppliers, where human rights will be a focus area in 2020. The assessment thus confirms that we are focusing on the right aspects.

Responsible supply chain

In 2019 Nordea spent EUR 2.529bn on external suppliers. We have 1,535 contracted suppliers, primarily in the Nordics and in the areas of IT, HR, premises and real estate, cards, market data, travel, marketing and representation, printing, ATM and cash handling, telecom, and debt collection.

We apply a risk-based approach to our supply chain, focusing our efforts where they have the greatest impact. All potential suppliers are pre-screened before contracting on a number of parameters such as country risk, sector risk and reputational risk, as well as for compliance with sanctions. Based on the pre-screening, all high-risk suppliers are assessed using a sustainability questionnaire, which then determines whether additional engagement is required. This engagement can result in mitigating actions, which will be subject to follow-up, or even disqualification. In 2019 we matured our approach towards how we engage with suppliers when we have identified potential risks, or when a supplier objects to signing the Nordea Supplier Code of Conduct. In addition to the engagements, we conducted three in-depth sustainability reviews in 2019, focusing on our merchandise suppliers as well as our IT service suppliers in India. The outcome of the reviews was that none of the suppliers were in breach of the Nordea Supplier Code of Conduct. However, all suppliers received recommended actions for improvements.

Community engagement

Nordea's community engagement strategy focuses on building financial skills and accelerating entrepreneurship. Many of the community engagement activities are based on volunteering and our volunteering policy encourages all employees to spend two days per year doing voluntary work. In 2019 more than 5,400 employees spent almost 22,000 hours on volunteering.

Our people

Our business is a people business. In 2019 we focused on reinforcing the relationship between engaged people and satisfied customers. We recognise that engagement enables performance and drives the business momentum needed to achieve our strategic vision. Our quarterly People Pulse survey helps us improve the engagement and well-being of our employees.

In October 2019 we presented Nordea's new strategic direction which includes an optimisation of our operational efficiency that will lead to fewer people. Through constructive discussions and collaboration with our unions, we will ensure the right strategic approach for engaging our people during times of change while respecting labour market conditions. We are committed to treating our people with respect and care and we aim to help those affected to develop skills to find new job opportunities.

At Nordea, we have a balanced gender representation across Nordea, consisting in 2019 of 49% women and 51% men. Regrettably, we have not been able to achieve the same result across all levels and business functions. Therefore, in 2020 we are developing gender equality targets and will create measurement processes that will allow us to track progress in achieving a balanced gender distribution per level and function. The gender composition of management did not change markedly in 2019: 40% of all our leaders were women and 60% were men.

At Nordea we wish to provide a workplace that is free from discrimination, and we have zero tolerance of any form of harassment, victimisation or similar violations in the workplace. By introducing guidelines and policies, we expect our employees to be responsible for treating others with dignity and respect and to report all incidents of harassment immediately so that they can be quickly and fairly resolved. In 2019, 2% of the respondents to our People Pulse survey stated that they had been subjected to some sort of harassment or other maltreatment. In 2019 we handled 28 harassment cases reported through RYC. This is a 15% decrease in reported cases compared to 2018.

Raise Your Concern

Nordea's whistleblowing function Raise Your Concern ensures that all Nordea's stakeholders, including customers, partners, affected communities as well as our own employees, have the right to always feel safe to speak up if they have concerns about suspected misconduct such as breaches of human rights, or irregularities such as fraudulent, inappropriate, dishonest, illegal or negligent activity or behaviour in our operations, products or services. This includes any action that constitutes a violation of laws or regulations, or of Nordea's internal policies, instructions or guidelines. In 2017 this framework was strengthened by implementing an electronic reporting channel called WhistleB that allows for anonymous two-way communication.

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, business travel, postal service, paper and water. 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 99% of the total number of employees.

Conflict of interest policy

As a global financial services provider, Nordea Bank Abp and its subsidiaries ("Nordea") regularly face potential or actual conflict of interest situations. Managing conflicts of interest is relevant at both the individual and institutional level in Nordea's organisation. Nordea is committed to promoting market integrity and fair treatment of customers. All employees are required to act fairly, honestly and professionally, and in accordance with the best interests of Nordea's customers. In order to act upon these commitments and ensure appropriate governance of Nordea, it is essential to have effective controls in place regarding conflicts of interest. The purpose of the Group Board Directive on Conflicts of Interest ("Directive") is to outline Nordea's approach to managing conflict of interest and to enable developing and maintaining of an effective control environment for so doing.

The Directive applies to all employees and people working on behalf of Nordea, Senior Management, Group Board members and the Chief Executive Officer of Nordea. The Directive also applies to Nordea's subsidiaries.

It is required to identify both actual and potential conflicts of interest and decide upon effective measures to prevent or manage risks in respect of Nordea or its customers. The Directive divides conflicts of interest into individual and institutional conflicts of interest in order to have proportionate procedures for managing the different types of situations depending on the nature and potential impact on Nordea or its customers. Conflicts of interest arising with regards to an employee's private interest or their past or present personal or professional relationships are defined as individual conflicts of interest. Conflicts of interest that do not arise from private interest, but in connection with Nordea's organisation, group structure, governance, different activities, roles, products, services or any other circumstances are defined as institutional conflicts of interest. In connection with each identified conflict of interest, the potential customer impact is assessed to ensure fair treatment of customers.

All potential or actual conflicts of interest must be identified and assessed. Appropriate preventive or mitigating measures must be implemented in the form of effective organisational and administrative measures. Identified conflicts of interest are documented in a register. When Nordea provides investment services or engages in distributing insurance-based investment products or in foreign exchange market services, situations might be encountered in which available organisational or administrative measures are insufficient to ensure avoiding risk of detriment to Nordea's customers. In this situation, Nordea shall disclose to the relevant customers the general nature and sources of the conflict of interest and the steps Nordea has taken to mitigate the risks.

All identified Individual conflicts of interest or changed circumstances must be reported to the manager of the individual employee involved. All conflicts of interest or changed circumstances regarding an institutional conflict of interest must be reported to the manager responsible for the area that the conflict of interest potentially impacts. Senior management will receive recurring, at least annual, reporting on institutional conflicts of interest.

The Group Board approves the Directive and is responsible for overseeing its implementation. To ensure objective and impartial decision making, Group Board members are also subject to the requirements in the Directive. The CEO and Group Leadership Team members are accountable for implementing the Directive in Nordea while also being subject to the requirements of the Directive.

Remuneration

Nordea has a clear remuneration policy, instructions and processes, supporting sound remuneration structures throughout the organisation.

Aim of Nordea's Remuneration Policy

Nordea's Remuneration Policy (internally referred to as the Group Board Directive on Remuneration) will:

- 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 shareholders by way of including goals directly linked to the performance of Nordea and by awarding parts of variable remuneration in financial instruments; and
- Ensure that remuneration at Nordea is aligned with sound and effective risk management, the 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 having remuneration that is consistent with and promotes sound and effective risk management, and that does not encourage excessive risk-taking or counteract Nordea's long-term interests.

The link between performance, risk and variable remuneration in Nordea's remuneration components is assessed annually to ensure business relevance, to ensure that all risks are addressed appropriately, and to ensure compliance with applicable international and local regulations. This includes non-financial risks related to operational risks, compliance risks, reputational risks and specific remuneration-related risks. Most remuneration-related risks concern variable remuneration 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 in variable remuneration plans and the potential size of potential awards, and by disclosing relevant information.

Decision-making process for the Remuneration Policy

Nordea's 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 ("Identified Staff") are defined.

In addition to Nordea's internal Remuneration Policy, Nordea's shareholders will be asked for an advisory vote on our remuneration policy for governing bodies at the 2020 AGM. This will be provided to our shareholders in advance of the AGM taking place on 25 March 2020 in accordance with applicable regulation.

The Board of Directors decides on 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).

The BRC is responsible for preparing and presenting proposals to the Board of Directors on remuneration issues, including proposals about Nordea's Remuneration Policy and supplementary instructions. These preparations include assessment of the Remuneration Policy and the remuneration system. Appropriate Control Functions participate in this process and provide input within their area of expertise to ensure that the Remuneration Policy is up to date and compliant. Furthermore, in collaboration with the Board Risk Committee (BRIC), the BRC performs assessments to ensure that Nordea's remuneration systems properly account for all types of risks, that liquidity and capital levels are consistent and that remuneration systems promote sound and effective risk management.

More information about the composition of the BRC and its responsibilities is provided in a separate section of the "Corporate Governance Statement", page 46–47.

Alignment with business strategy

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. Hence, the main performance goals in variable remuneration for the Nordea Group are 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 targets, Nordea applies an aligned structure with clear expectations for our people. Individual performance is assessed on not only 'what' is delivered but also 'how' it is delivered. A key aspect is performance in relation to 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 sound governance, all individual remuneration decisions are subject to separate processes and approved in line with the grandparent principle (four-eyes approval by the manager's manager).

Supporting sound risk management

Nordea performs an ongoing 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 defence, the four-eyes principle, quality and efficiency of internal communication and an independent assessment process.

The following principles are further examples of how sound risk management is supported

- 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;

- The effect on long-term results is considered when determining goals and targets for variable remuneration;
- No employee at Nordea can earn variable remuneration exceeding 200% of annual fixed remuneration. The maximum ratio between the fixed and the variable remuneration for Identified Staff was 200% in 2019 in accordance with the 2019 AGM's decision. In practice, however, a ratio between the fixed and the variable remuneration above 100% of annual fixed remuneration only applies to a limited number of employees due to the outcome from Nordea's variable remuneration plans being capped at certain levels;
- 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;
- Payments related to early termination of employment should reflect performance achieved over time and should be designed to not reward failure or misconduct; and
- Employees engaged in control functions are compensated independently of the performance of the business unit(s) they control and predominantly through fixed remuneration.

Principles for deferral of variable remuneration awards and awards in financial instruments

Nordea ensures that a substantial part of variable remuneration, as a minimum for Identified Staff and certain other categories of 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.

For Identified Staff and certain other categories of staff, 50% of variable remuneration awards (both deferred and non-deferred amounts) is awarded in financial instruments (as a main rule in Nordea shares) and subject to a 12 month retention period. Variable remuneration awards for a limited number of staff is subject to a six month retention period. Dividends are excluded from any shares or other financial instruments during a deferral period.

Risk adjustments, malus and claw-back provisions

General provisions for malus and claw-back at Nordea are set out in Nordea's Remuneration Policy. The Consequence Management Committee ("CMC"), comprising the heads of Control Functions and the Chief Financial Officer, 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 can be proposed by the CMC to individually or collectively adjust or claw back variable remuneration awards due to risk and compliance related performance.

Payment of variable remuneration awards under Nordea's main variable remuneration plans is based on an assessment of the results of the Nordea Group, the concerned Nordea entity, the relevant business unit and the individual employee. Reductions, partly or down to zero, can occur if an employee eligible for variable remuneration has for example 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 Remuneration Policy and supplementary instructions within Nordea through an independent review by Group Internal Audit. This audit is conducted at least annually.

Remuneration for the Board of Directors

By proposal of the Nomination Board, the AGM annually decides on remuneration for the Board of Directors. In 2019 remuneration was offered in cash to the Board members. Board members are not part of any variable or incentive programme. Remuneration for Board work is not paid to Board members who are employees of the Nordea Group. Further information is provided in Note G8 on page 131.

Remuneration for the CEO and the members of the Group Leadership Team (GLT)

By proposal of the BRC, the Board of Directors decides on remuneration for the CEO and members of the GLT. This also applies to the Group Chief Audit Executive and the Chief Compliance Officer to be approved by the Board of Directors, even though they are not members of GLT. This includes a decision on fixed and variable remuneration as well as pension and other employment terms and conditions.

Nordea maintains competitive and market-aligned remuneration levels and other employment conditions to recruit and retain the CEO and members of the GLT with the competence and capacity to deliver on the strategy and targets thus enabling Nordea to deliver on its strategy.

Remuneration for the CEO and members of the GLT in 2019 was decided by the Board of Directors in accordance with Nordea's internal policies and procedures, which are based on the applicable regulations on remuneration systems and other relevant regulations and guidelines.

Salaries and other remuneration in line with market levels constitute the overriding principle for remuneration for the CEO and the members of the GLT at Nordea. Remuneration for the CEO and the members of the GLT will 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, benefits and variable remuneration.

Variable remuneration for members of the GLT was offered as participation in the Executive Incentive Programme ("GLT EIP 2019"), which included predetermined performance goals and targets at Group, business area/group function and individual level. The effect on long-term results was considered when determining the targets. The outcome from GLT EIP 2019 has been based on the Board of Director's assessment of performance of the predetermined targets.

The outcome from GLT EIP 2019 will be paid over a five-year period in cash and in Nordea shares, and will be subject to forfeiture clauses. No dividends are paid during the deferral period. Nordea shares will be subject to 12 months' retention. GLT EIP 2019 had a one-year performance period and the outcome was capped at an amount equal to each GLT member's annual fixed base salary. The CEO and the members of the GLT have been offered participation in similar programmes since 2013.

Performance goals at Group level included financial goals measuring return, income and cost. BA/GF goals (where relevant) included BA/GF-specific financial goals as well as non-financial goals relating to customer satisfaction and employee engagement. At individual level, performance was measured in relation to 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 individually for the CEO, reflecting his overall responsibility for the Nordea Group, as well as for members heading a business area or a group function. The overall ambition for 2019 was to increase business momentum and drive structural cost efficiency. Any awards were determined on the basis of achievement in relation to the agreed goals and targets following appropriate risk adjustments.

Benefits are given to facilitate the CEO and GLT members' performance. The levels of these benefits are determined by what is considered fair in relation to general market practice. The CEO and the members of the GLT are offered pension benefits in accordance with market practice in their country of permanent residence. Fixed salary during the period of notice and severance pay will not exceed 24 months of fixed salary in total.

Nordea's remuneration structures

Nordea's remuneration structure comprises fixed remuneration and variable remuneration.

Fixed remuneration components

Fixed base salary should remunerate for role and position and is affected by job complexity, responsibility, performance and local market conditions.

Allowance is a predetermined fixed remuneration component tied to the employee's role and position. Fixed base salary is, however, the cornerstone of all fixed remuneration. Allowances are not linked to performance and do not incentivise risk taking.

Pension and insurance aims at ensuring an appropriate standard of living for employees after retirement, as well as personal insurance during employment. Pension and insurance provisions are in accordance with local laws, regulations and market practice, and are either collectively agreed schemes or company-determined schemes, or a combination thereof. Nordea aims to have defined contribution pension schemes.

Benefits at Nordea are awarded as a part of the total reward offering that is either individually agreed or based on local laws, market practice, collective bargaining agreements and company-determined practice.

Nordea's variable remuneration programmes for others than CEO and the GLT

In 2019, the following other variable remuneration programmes were offered to Nordea employees:

Leaders of Transformation Variable Programme (LTV) was offered to a selected and limited group of top management members to reward strong performance and working towards common goals. The programme was 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 business area/group function/ division and at individual level. Individual LTV awards will not exceed annual fixed salary.

All awards from 2019 LTV are allocated partly in cash and partly in financial instruments with subsequent retention. Parts of the awards for participants in LTV are subject to a three-to-five year pro-rata deferral period with forfeiture conditions applying during the deferral period.

Executive Incentive Programme (EIP) was offered to recruit, motivate and retain selected people leaders and key employees outside of the GLT 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, business area/group function/division goals and individual goals and where relevant employing entity goals. Individual EIP awards will not exceed annual fixed salary.

All awards from 2019 EIP are allocated partly in cash and partly in financial instruments with subsequent retention. Parts of the awards for participants in EIP are subject to a three-to-five year pro-rata deferral period with forfeiture conditions applying during the deferral period.

Variable Salary Part (VSP) was 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, business area/group function/ division goals and individual goals. VSP maximum opportunity should normally not exceed a maximum outcome of 25% of the annual fixed salary, except for a few selected managers and specialists within specific areas of Nordea. Awards from VSP will not exceed annual fixed salary.

Awards from VSP are paid in cash. For Identified Staff, VSP awards are partly delivered in financial instruments with subsequent retention. Parts of the awards for Identified Staff in VSP are subject to a three-year pro-rata deferral period with forfeiture conditions applying during the deferral period.

Bonus schemes were offered only to select groups of employees in specific business areas or units as approved by the Board of Directors, e.g. in Large Corporates & Institutions (formerly Nordea Wholesale Banking), Nordea Asset Management, in Nordea Funds and within Group Treasury. The aim is to ensure strong performance and maintain cost flexibility for Nordea. Bonus schemes are pool based and thus 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. Individual awards are determined based on detailed performance assessments covering a range of financial and non-financial goals.

2019 bonus awards from bonus schemes are paid in cash. For Identified Staff, awards are partly delivered in financial instruments with subsequent retention. Parts of the awards for Identified Staff in a bonus scheme are subject to a three-to-five year pro-rata deferral period with forfeiture conditions applying during the deferral period.

Recognition schemes are offered to employees to recognise extraordinary performance. Individual performance is assessed based on a predetermined set of goals. Identified Staff and employees eligible for other formal annual variable remuneration plans, excluding Profit Sharing Plan, are not eligible for Recognition Scheme awards.

Profit Sharing Plan (PSP) is offered groupwide to all Nordea employees but not to Identified Staff and employees who are eligible for any of Nordea's other formal annual 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 in relation to predetermined financial goals as well as goals relating to customer satisfaction. The Profit Sharing Plan is capped financially, and the outcome is not linked to the value of Nordea's share price.

Guaranteed variable remuneration (sign-on) can be offered in exceptional cases only, limited to the first year of employment when hiring new staff. Sign-on can only be paid if Nordea and the employing company have a sound and strong capital.

Compensation for contracts in previous employments (buy-outs) can be offered only in exceptional cases, in the context of hiring new staff, limited to the first year of employment and if Nordea and the employing company have a sound and strong capital base.

Retention bonus can be offered only in exceptional cases if Nordea has a legitimate interest to retain employees for a predetermined period of time or until a certain event occurs and if Nordea and the employing company have a sound and strong capital base.

Other qualitative and quantitative information

The actual cost of variable remuneration for executive officers (excluding social cost):
For GLT EIP 2019 is EUR 2.2m to be paid over a five-year period. The estimated maximum cost for EIP for GLT members in 2020 is EUR 6.5m and the estimated cost assuming 50% fulfilment of the performance goals is EUR 3.25m.

Cost of variable remuneration for nonexecutive officers (excluding social cost):
The actual cost for EIP, LTV, VSP and Bonus 2019 is EUR 141.8m, which is paid partly now in cash, and partly over a three-to-five year period as outlined in the sections above.

In 2019, a total of EUR 13.1m was provided under Nordea's Profit Sharing Plan (EUR 56.9m in 2018). 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 69.8m (EUR 76.9m in 2018).

Other disclosures

Nordea has provided qualitative and quantitative disclosures according to Regulation (EU) no 575/2013 of the European Parliament and of the Council of 26 June 2013 (the CRR Regulations), the consolidated and enhanced framework for disclosure requirements issued by BIS in March 2017 and the EBA guideline for sound remuneration practices.

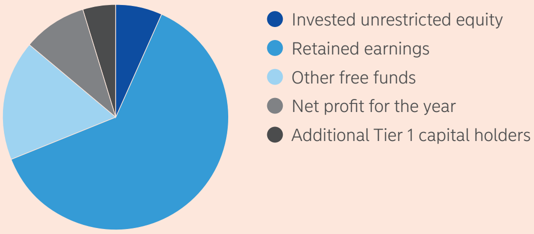
The disclosures are included in this Annual Report 2019, in the G8 remuneration note (page 131–136). Additional and more detailed disclosures, including amounts deferred and details about the deferrals, will be published on nordea.com one week before the ordinary Annual General Meeting on 25 March 2020.

Please also refer to Nordea's Remuneration Statement for 2019. 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 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:

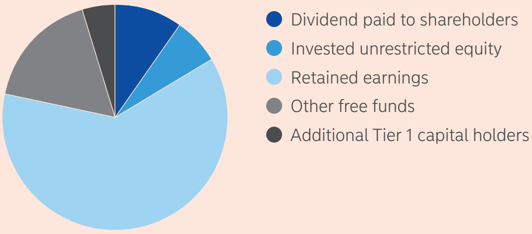
EUR	
Invested unrestricted equity	1,079,925,521.03
Retained earnings	16,728,889,978.99
Other free funds	2,762,284,827.88
Net profit for the year	1,437,716,399.46
Additional Tier 1 capital holders	748,215,645.71
Total	**22,757,032,373.07**



The Board of Directors proposes that these earnings be distributed as follows:

EUR	
Dividend paid to shareholders	1,615,656,843.60[1]
Invested unrestricted equity	1,079,925,521.03
Retained earnings	16,550,949,534.85
Other free funds	2,762,284,827.88
Additional Tier 1 capital holders	748,215,645.71
Total	**22,757,032,373.07**

1) The total amount of the dividend payment and the amount carried forward as distributable retained earnings after the dividend pay-out, will be adjusted based on the amount of treasury shares held by Nordea Bank Abp at the record date for the dividend payment.



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.

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.

Net loan loss ratio, amortised cost
Net loan losses (annualised) divided by closing balance of loans carrying amount 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.

Financial statements, Nordea Group

Contents

Income statement

EURm	Note	2019	2018
Operating income			
Interest income calculated using the effective interest rate method		6,399	5,978
Other interest income		1,350	1,447
Negative yield on financial assets		–309	–172
Interest expense		–3,334	–2,902
Negative yield on financial liabilities		212	140
Net interest income	**G4**	**4,318**	**4,491**
Fee and commission income		3,931	3,846
Fee and commission expense		–920	–853
Net fee and commission income	**G5**	**3,011**	**2,993**
Net result from items at fair value	G6	1,024	1,088
Profit from associated undertakings and joint ventures accounted for under the equity method	G20	50	124
Other operating income	G7	232	476
Total operating income		**8,635**	**9,172**
Operating expenses			
General administrative expenses:			
Staff costs	G8	–3,017	–2,998
Other expenses	G9	–1,639	–1,566
Depreciation, amortisation and impairment charges of tangible and intangible assets	G10	–1,330	–482
Total operating expenses		**–5,986**	**–5,046**
Profit before loan losses		**2,649**	**4,126**
Net loan losses	G11	–536	–173
Operating profit		**2,113**	**3,953**
Income tax expense	G12	–571	–872
Net profit for the year		**1,542**	**3,081**
Attributable to:			
Shareholders of Nordea Bank Abp		1,519	3,070
Additional Tier 1 capital holders		26	7
Non–controlling interests		–3	4
Total		**1,542**	**3,081**
Basic earnings per share, EUR	G13	0.38	0.76
Diluted earnings per share, EUR	G13	0.38	0.76

Statement of comprehensive income

EURm	Note	2019	2018
Net profit for the year		**1,542**	**3,081**
Items that may be reclassified subsequently to the income statement			
Currency translation differences during the year		18	–240
Tax on currency translation differences during the year		1	–2
Hedging of net investments in foreign operations:	G19		
Valuation gains/losses during the year		–62	67
Tax on valuation gains/losses during the year		16	–19
Fair value through other comprehensive income[1]:	G40		
Valuation gains/losses during the year		21	–48
Tax on valuation gains/losses during the year		–4	11
Transferred to the income statement during the year		–37	–10
Tax on transfers to the income statement during the year		6	2
Cash flow hedges:	G19		
Valuation gains/losses during the year		152	720
Tax on valuation gains/losses during the year		–31	–159
Transferred to the income statement during the year		–170	–676
Tax on transfers to the income statement during the year		35	149
Other comprehensive income from companies accounted for under the equity method during the year	G20	1	–
Tax on other comprehensive income from companies accounted for under the equity method during the year		0	–
Items that may not be reclassified subsequently to the income statement			
Changes in own credit risk related to liabilities classified as fair value option:	G40		
Valuation gains/losses during the year		–15	20
Tax on valuation gains/losses during the year		2	–4
Defined benefit plans:	G34		
Remeasurement of defined benefit plans during the year		–152	–173
Tax on remeasurement of defined benefit plans during the year		34	36
Other comprehensive income, net of tax		**–185**	**–326**
Total comprehensive income		**1,357**	**2,755**
Attributable to:			
Shareholders of Nordea Bank Abp		1,334	2,744
Additional Tier 1 capital holders		26	7
Non-controlling interests		–3	4
Total		**1,357**	**2,755**

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 2019	31 Dec 2018
Assets	G40		
Cash and balances with central banks		35,509	41,578
Loans to central banks	G14	9,207	7,642
Loans to credit institutions	G14	8,516	11,320
Loans to the public	G14	322,740	308,304
Interest-bearing securities	G15	64,930	76,222
Financial instruments pledged as collateral	G16	7,151	7,568
Shares	G17	14,184	12,452
Assets in pooled schemes and unit-linked investment contracts	G18	30,799	24,583
Derivatives	G19	39,111	37,025
Fair value changes of the hedged items in portfolio hedge of interest rate risk		217	169
Investments in associated undertakings and joint ventures	G20	572	1,601
Intangible assets	G21	3,695	4,035
Properties and equipment	G22	2,002	546
Investment properties	G24	1,585	1,607
Deferred tax assets	G12	487	164
Current tax assets		362	284
Retirement benefit assets	G34	173	246
Other assets	G25	12,543	14,749
Prepaid expenses and accrued income	G26	1,065	1,313
Total assets		**554,848**	**551,408**
Liabilities	G40		
Deposits by credit institutions	G27	32,304	42,419
Deposits and borrowings from the public	G28	168,725	164,958
Deposits in pooled schemes and unit-linked investment contracts	G18	31,859	25,653
Liabilities to policyholders	G29	19,246	18,230
Debt securities in issue	G30	193,726	190,422
Derivatives	G19	42,047	39,547
Fair value changes of the hedged items in portfolio hedge of interest rate risk		2,018	1,273
Current tax liabilities		742	414
Other liabilities	G31	19,868	23,315
Accrued expenses and prepaid income	G32	1,476	1,696
Deferred tax liabilities	G12	481	706
Provisions	G33	570	321
Retirement benefit liabilities	G34	439	398
Subordinated liabilities	G35	9,819	9,155
Total liabilities		**523,320**	**518,507**
Equity			
Additional Tier 1 capital holders		748	750
Non-controlling interests		40	6
Share capital		4,050	4,050
Invested unrestricted equity		1,080	1,080
Other reserves		–2,062	–1,876
Retained earnings		27,672	28,891
Total equity		**31,528**	**32,901**
Total liabilities and equity		**554,848**	**551,408**
Off balance sheet commitments			
Assets pledged as security for own liabilities	G36	183,995	171,899
Other assets pledged	G37	3,919	4,788
Contingent liabilities	G38	17,792	17,819
Commitments	G39	77,063	74,479

Statement of changes in equity

2019

		Attributable to shareholders of Nordea Bank Abp											
				Other reserves:									
EURm	Note	Share capital[1]	Invested unrestricted equity	Translation of foreign operations[4]	Cash flow hedges[5]	Fair value through other com-prehensive income	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 1 Jan 2019		**4,050**	**1,080**	**–1,914**	**–12**	**59**	**–17**	**8**	**28,891**	**32,145**	**750**	**6**	**32,901**
Net profit for the year		–	–	–	–	–	–	–	1 ,519	1,519	26	–3	1,542
Items that may be reclassified subsequently to the income statement													
Currency translation differences during the year		–	–	18	–	–	–	–	–	18	–	–	18
Tax on currency translation differences during the year		–	–	1	–	–	–	–	–	1	–	–	1
Hedging of net investments in foreign operations:	G19												
Valuation gains/losses during the year		–	–	–62	–	–	–	–	–	–62	–	–	–62
Tax on valuation gains/losses during the year		–	–	16	–	–	–	–	–	16	–	–	16
Fair value through other comprehensive income:	G40												
Valuation gains/losses during the year		–	–	–	–	21	–	–	–	21	–	–	21
Tax on valuation gains/losses during the year		–	–	–	–	–4	–	–	–	–4	–	–	–4
Transferred to the income statement during the year		–	–	–	–	–37	–	–	–	–37	–	–	–37
Tax on transfers to the income statement during the year		–	–	–	–	6	–	–	–	6	–	–	6
Cash flow hedges:	G19												
Valuation gains/losses during the year		–	–	–	152	–	–	–	–	152	–	–	152
Tax on valuation gains/losses during the year		–	–	–	–31	–	–	–	–	–31	–	–	–31
Transferred to the income statement during the year[3]		–	–	–	–170	–	–	–	–	–170	–	–	–170
Tax on transfers to the income statement during the year[3]		–	–	–	35	–	–	–	–	35	–	–	35

Statement of changes in equity, cont.

2019

EURm	Note	Share capital[1]	Invested unrestricted equity	Translation of foreign operations[4]	Cash flow hedges[5]	Fair value through other comprehensive income	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:	G40												
Valuation gains/losses during the year		–	–	–	–	–	–	–15	–	–15	–	–	–15
Tax on valuation gains/losses during the year		–	–	–	–	–	–	2	–	2	–	–	2
Defined benefit plans:	G34												
Remeasurement of defined benefit plans during the year		–	–	–	–	–	–152	–	–	–152	–	–	–152
Tax on remeasurement of defined benefit plans during the year		–	–	–	–	–	34	–	–	34	–	–	34
Other comprehensive income from companies accounted for under the equity method during the year	G20	–	–	–	–	–	–	–	1	1	–	–	1
Tax on other comprehensive income from companies accounted for under the equity method during the year		–	–	–	–	–	–	–	0	0	–	–	0
Other comprehensive income, net of tax		**–**	**–**	**–27**	**–14**	**–14**	**–118**	**–13**	**1**	**–185**	**–**	**–**	**–185**
Total comprehensive income		**–**	**–**	**–27**	**–14**	**–14**	**–118**	**–13**	**1,520**	**1,334**	**26**	**–3**	**1,357**
Paid interest on additional Tier 1 capital		–	–	–	–	–	–	–	–	–	–26	–	–26
Change in additional Tier 1 capital holders		–	–	–	–	–	–	–	–	–	–2	–	–2
Share-based payments	G8	–	–	–	–	–	–	–	20	20	–	–	20
Dividend for 2018		–	–	–	–	–	–	–	–2,788	–2,788	–	–	–2,788
Divestment of own shares[2]		–	–	–	–	–	–	–	29	29	–	–	29
Change in non-controlling interests		–	–	–	–	–	–	–	–	–	–	37	37
Balance at 31 Dec 2019		**4,050**	**1,080**	**–1,941**	**–26**	**45**	**–135**	**–5**	**27,672**	**30,740**	**748**	**40**	**31,528**

1) Total shares registered were 4,050 million. The number of own shares were 10.8 million which represents 0.3% of the total shares in Nordea. Each share represents one voting right.
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 total holding of own shares related to LTIP was 9.2 million.
3) The transfer is due to the hedged item affecting the income statement.
4) Relates to foreign exchange risk. Out of the balance per 31 December 2019, EUR 522m relates to hedging relationships for which hedge accounting is applied and EUR -m relates to hedging relationships for which hedge accounting is no longer applied.
5) For more detailed information see Note G19.

Statement of changes in equity, cont.

2018

		Attributable to shareholders of Nordea Bank Abp											
				Other reserves:									
EURm	Note	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:	G19												
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:	G40												
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:	G19												
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, cont.

2018

EURm	Note	Share capital[1]	Share premium reserve/ Invested unrestricted equity	Translation of foreign operations[6]	Cash flow hedges[7]	Fair value through other comprehensive 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:	G40												
Valuation gains/losses during the year		–	–	–	–	–	–	20	–	20	–	–	20
Tax on valuation gains/losses during the year		–	–	–	–	–	–	–4	–	–4	–	–	–4
Defined benefit plans:	G34												
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**	**–**	**–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. The number of own shares were 15.2 million which represents 0.4% of the total shares in Nordea. Each share represents one voting right.
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 total holding of own shares related to LTIP was 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 the hedged item affecting the income statement.
5) Due to the implementation of IFRS 9 the Available for sale (AFS) category no longer exists 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. Out of the balance per 31 December 2018, EUR 568m relates to hedging relationships 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 G19.

Cash flow statement

EURm	Note	2019	2018
Operating activities			
Operating profit		2,113	3,953
Adjustment for items not included in cash flow		5,024	1,238
Income taxes paid	G12	–816	–1,024
Cash flow from operating activities before changes in operating assets and liabilities		**6,321**	**4,167**
Changes in operating assets			
Change in loans to central banks	G14	413	–2,052
Change in loans to credit institutions	G14	1,951	–1,463
Change in loans to the public	G14	–11,079	–2,884
Change in interest-bearing securities	G15	10,485	–90
Change in financial assets pledged as collateral	G16	402	237
Change in shares	G17	–1,379	4,984
Change in derivatives, net	G19	1,281	4,687
Change in investment properties	G24	–36	–218
Change in other assets	G25	–3,921	–1,672
Changes in operating liabilities			
Change in deposits by credit institutions	G27	–10,339	–622
Change in deposits and borrowings from the public	G28	2,050	–5,461
Change in liabilities to policyholders	G29	5,229	–1,531
Change in debt securities in issue	G30	869	12,856
Change in other liabilities	G31	–4,779	–8,307
Cash flow from operating activities		**–2,532**	**2,631**
Investing activities			
Acquisition of business operations	G48	–447	–
Sale of business operations		–25	646
Acquisition of associated undertakings and joint ventures	G20	–26	–81
Sale of associated undertakings	G20	879	90
Acquisition of property and equipment	G22	–70	–32
Sale of property and equipment	G22	15	14
Acquisition of intangible assets	G21	–517	–608
Cash flow from investing activities		**–191**	**29**
Financing activities			
Issued subordinated liabilities	G35	1,401	641
Amortised subordinated liabilities	G35	–890	–669
Paid interest on additional Tier 1 capital		–26	–7
Divestment/repurchase of own shares incl. change in trading portfolio		29	–6
Dividend paid		–2,788	–2,747
Cash flow from financing activities		**–2,274**	**–2,788**
Cash flow for the year		**–4,997**	**–128**
Cash and cash equivalents at beginning of year		46,009	46,213
Translation difference		152	–76
Cash and cash equivalents at end of year		41,164	46,009
Change		**–4,997**	**–128**

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'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	2019	2018
Depreciation	558	307
Impairment charges	772	175
Loan losses	583	217
Unrealised gains/losses	212	239
Capital gains/losses (net)	–69	–401
Change in accruals and provisions	–26	994
Translation differences	198	–94
Change in bonus potential to policyholders, Life	203	–447
Change in technical reserves, Life	1,794	–20
Change in fair value on the hedge items, assets/liabilities (net)	705	–144
Other	94	412
Total	**5,024**	**1,238**

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 in the following amounts:

EURm	2019	2018
Interest payments received	7,395	7,412
Interest expenses paid	–3,166	–3,138

Investing activities

Investing activities include acquisitions and disposals of non-current assets, such as 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 2019	31 Dec 2018
Cash and balances with central banks	35,509	41,578
Loans to central banks, payable on demand	4,826	2,759
Loans to credit institutions, payable on demand	829	1,672
Total	**41,164**	**46,009**

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 include instruments that Nordea has the right to resell immediately

Reconciliation of liabilities arising from financing activities

The opening balance of subordinated liabilities was EUR 9,155m (EUR 8,987m). During the period cash flows related to bonds were EUR 511m (EUR –28m) and the effects of FX changes and other were EUR 153m (EUR 196m), ending up in a closing balance of EUR 9,819m (EUR 9,155m).

G1. Accounting policies

Content for Note G1

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 Decree of the Ministry of Finance on the financial statements and consolidated statements of credit institutions and investment firms have also been applied.

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

On 20 February 2020 the Board of Directors approved the financial statements, subject to final adoption by the Annual General Meeting on 25 March 2020.

The accounting policies, the basis for calculations and presentations are unchanged in comparison with the Annual Report 2018, except for the changed accounting policies and presentation described below in the section "Changed accounting policies and presentation".

2. Changed accounting policies and presentation

The new accounting requirements implemented during 2019 and their impact on Nordea's financial statements are described below.

IFRS 16 "Leases"

The new standard IFRS 16 "Leases" changes the accounting requirements for lessees. All leases (except for short-term and small ticket leases) are accounted for on the balance sheet of the lessee as a right to use the asset and a corresponding liability, and the lease payments are recognised as amortisation on the lease liability and interest expense. The accounting requirements for lessors are mostly unchanged. Additional disclosures are also required. IFRS 16 was implemented by Nordea as from 1 January 2019. Nordea has applied the modified retrospective approach, which means that IFRS 16 has been applied from 1 January 2019 with no restatement of comparative figures. The right of use asset was recognised as the amount of the lease liability adjusted for any prepaid expensed and accrued lease payments.

The main impact on Nordea's financial statements comes from the accounting of property leases. Such leasing contracts are under IFRS 16 accounted for on the balance sheet to a larger extent than under the earlier requirements. The right of use asset, presented as "Properties and equipment" on the balance sheet, amounted to EUR 1,521m at transition on 1 January 2019. The increase of total assets was EUR 1,163m considering also a reclassification of already existing prepaid lease expenses. There was no impact on equity at transition. The impact on the CET1 ratio was negative by 12 basis points following an increase in REA. At transition, the standard was implemented based on a single discount rate applied on a portfolio of leases with similar characteristics. The future cash flows have been discounted using the incremental borrowing rate, and the weighted average incremental borrowing rate applied to the lease liabilities at transition was approximately 1%. The assessment of onerous leases according to IAS 37 has been applied as an alternative to performing an impairment review of the right of use asset. Initial direct costs have been excluded from the right of use asset and the right to use hindsight when determining the lease term has been 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 31 Dec 2018	1,217
Increase in lease term	157
Discounting effect using the average incremental borrowing rate	–93
Deduction for leases reclassified to short-term leases under IFRS 16	–5
Other changes	–111
Lease liability 1 January 2019	**1,165**

G1. Accounting policies, cont.

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 Right of use 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**

Impact on the income statement and balance sheet 2019

	Full year 2019		
EURm	Old policy	Change	New policy
Interest expense[1]	–3,110	–12	–3,122
Other expenses	–1,834	195	–1,639
Depreciation, amortisation and impairment charges of tangible and intangible assets	–1,139	–191	–1,330
Income tax expense	–573	2	–571
Impact on net profit for the period		**–6**	

	31 Dec 2019		
EURm	Old policy	Change	New policy
Properties and equipment	496	1,506	2,002
Prepaid expenses and accrued income	1,370	–305	1,065
Other liabilities	18,643	1,225	19,868
Provisions	586	–16	570
Current tax liabilities	744	–2	742
Retained earnings	27,678	–6	27,672

1) Including negative yield on financial liabilities in the Annual Report 2019.

Amendments to IAS 39 and IFRS 7 "Interest rate benchmark reform"

In September 2019, IASB published amendments to IAS 39, IFRS 9 and IFRS 7 as a consequence of the coming reform of benchmark interest rates. The amendments give some relief in relation to hedge accounting. Under the amendments, the hedge accounting requirements should be evaluated assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early application is permitted, and Nordea has exercised this option. The amendments have resulted in that the hedge relationships in Nordea pass the effectiveness test and that hedge accounting can continue as before during the relief period.

Presentation of fair value adjustments

As from 1 January 2019 Nordea presents all other valuation adjustments than DVA (Debit Valuation Adjustment) as an adjustment to derivatives with positive fair value and DVA as an adjustment to derivatives with negative fair value on the balance sheet. Earlier all valuation adjustments were presented as an adjustment to derivatives with negative fair value on the balance sheet. The impact on 2019 was a decrease of derivatives with positive fair value and derivatives with negative fair value by EUR 223m. There was no impact on the income statement or equity. Comparative figures have not been restated.

Changed recognition and presentation of resolution fees

As from 1 January 2019 Nordea recognises resolution fees at the beginning of the year, when the legal obligation to pay arises, and presents the expense as "Other expenses". The earlier policy was to amortise these fees over the year and present the expense as "Interest expense". The change mainly reflects the change in the structure of the resolution fees following the re-domiciliation to Finland.

Comparative figures have been restated accordingly and the impact, together with the impact on 2019, can be found in the below table.

Resolution fee

	Full year 2019		
EURm	Old policy	Change	New policy
Interest expense[1]	–3,333	211	–3,122
Other expenses	–1,428	–211	–1,639
Income tax expense	–571	–	–571
Impact on net profit for the period		–	
Impact on EPS/DEPS, EUR		**–**	

	Full year 2018		
EURm	Old,policy	Change	New,policy
Interest expense[1]	–2,929	167	–2,762
Other expenses	–1,399	–167	–1,566
Income tax expense	–872	–	–872
Impact on net profit for the period		**–**	
Impact on EPS/DEPS, EUR		**–**	

1) Including negative yield on financial liabilities in the Annual Report 2019.

Presentation of "Net interest income"

To increase the transparency, a more granular presentation of net interest income has been included in the income statement. The negative yield on assets and liabilities has been separated from "Interest income calculated using the effective interest rate method", "Other interest income" and "Interest expense", respectively, and disclosed on separate lines. The comparative figures for 2018 have been restated.

Other amended requirements

The following new and amended standards and interpretations were implemented by Nordea on 1 January 2019 but have not had any significant impact on the financial statements of Nordea:

- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendments, Curtailment or Settlement

G1. Accounting policies, cont.

- Amendments to IAS 28: Long-term Interest in Associates and Joint Ventures
- Annual Improvements to IFRS Standards 2015–2017 Cycle

Changes in the Finnish Accounting Act, the Finnish Credit Institutions Act, the Financial Supervision Authority's Regulations and Guidelines and the Decree of the Ministry of Finance on the financial statements and consolidated statements of credit institutions and investment firms 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 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, the 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 recognised in the income statement at the time when the contract is signed and approved.

IFRS 17 is effective for the 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 the 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:

- 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. The 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 classification of financial assets
- the derecognition of financial assets
- the impairment testing of:
  - goodwill and other intangible assets and
  - loans to the public/credit institutions
- the amortisation period for capitalised software
- 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 assessment of expected lease terms and classification of leases
- the classification of additional tier 1 instruments
- assessing control for consolidation purposes
- the valuation of deferred tax assets
- claims in civil lawsuits and possible fines

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 G41 "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 the fair value of financial instruments that lack quoted prices or

G1. Accounting policies, cont.

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, levels 2 and 3 in the fair value hierarchy, was EUR 185,148m (EUR 178,960m) and EUR 151,751m (EUR 136,412m), 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 G41 "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.

Classification of financial assets

Nordea classifies financial assets based on Nordea's business model for managing the assets. When determining the business model for the bonds within the liquidity buffer Nordea makes critical judgements. The bonds within the liquidity buffer is split in two portfolios. For the first portfolio Nordea has determined that the business model is to both keep the bonds and collect contractual cash flows and to sell financial assets. For the second portfolio, Nordea has determined that the business model is to manage the bonds with the objective of realising cash flows through sale. The bonds within the first portfolio are measured at fair value through other comprehensive income (FVOCI) and the bonds within the second portfolio are measured at fair value through profit and loss (FVPL). Interest-bearing securities and Financial instruments pledged as collateral in the liquidity buffer measured at FVOCI (the first portfolio) amount to EUR 29,779m (EUR 33,564m) and interest-bearing securities measured at FVPL (the second portfolio) amount to EUR 34,725m (EUR 39,708m).

Derecognition of financial assets

Loans and other financial assets 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 are substantially different from the old loan. Nordea applies judgements to determine if the terms and conditions of the new loan are substantially different from the old loan. Nordea considers the terms and conditions to be substantially different 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 or if the modified cash flows are SPPI, but the original cash flows were not SPPI and vice versa. The carrying amount of loans, interest-bearing securities and financial instruments pledged as collateral on the asset side of the balance sheet amounts to EUR 412,544m (EUR 411,056m).

Impairment testing of goodwill and other intangible assets

Nordea's accounting policy for goodwill is described in section 16 "Intangible assets", and Note G21 "Intangible assets" lists the cash-generating units (CGUs) to which goodwill has been allocated. Also internally developed software for which amortisation has not yet started is included in the impairment test and allocated to the CGUs. Nordea's total goodwill amounted to EUR 1,969m (EUR 1,816m) at the end of the year. Software for which amortisation has not yet started amounted to EUR 768m (EUR 1,300m) 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. The risk premium is based on external information of overall risk premiums in the relevant countries.

For information on the sensitivity to changes in relevant parameters, see Note G21 "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 342,646m (EUR 329,306m) at the end of the year. For more information, see Note G14 "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 models used to calculate provisions are based on macroeconomic 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.

The amortisation period for capitalised software

Internally developed software is capitalised and amortised over the useful life of the software. As the IT landscape develops rapidly, management exercises judgment to estimate the useful life of the software, which affects the yearly amortisation charge.

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 with cash flow hedge accounting is the choice of method used for effectiveness testing.

Where Nordea applies cash flow hedge accounting the

G1. Accounting policies, cont.

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 the currency risk and the interest component as a fair value hedge of the 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 24 "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 G34 "Retirement benefit obligations" together with a description of the sensitivity to changes in assumptions. The defined benefit obligation was EUR 3,790m (EUR 3,494m) 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 15,928m (EUR 15,001m) at the end of the year. The carrying amount's sensitivity to different assumptions is disclosed in Note G29 "Liabilities to policyholders".

Valuation of investment properties

Nordea's accounting policy for investment properties is 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 amount of investment properties was EUR 1,585m (EUR 1,607m) at the end of the year. See Note G24 "Investment properties" for more information on amounts and parameters used in these models.

Assessment of expected lease terms and classification of leases

Nordea's accounting policy for leases are described in section 15 "Leasing".

Critical judgement has to be exercised as a lessee when estimating the expected lease term by considering all facts and circumstances that create an economic incentive to exercise an extension or termination option. The expected lease term for contracts with no end date is estimated in the same way. Backstop rules on the average expected lifetime for different types of real estate contracts are used as a guidance when making the estimate for banking branches. A more detailed analysis is performed for larger contracts as head offices. The head office contracts are estimated to be more long term in nature than the branches where the environment is changing at a more rapid pace. The expected lease term of head office contracts is currently generally close to 25 years. The backstop rule of banking branches is currently limiting the expected lease term of contracts with no end date, or contracts with extension options, to 5 years. It is possible to deviate from the backstop rule if the circumstances show that it is likely that Nordea will stay for a longer/shorter period.

For a lessor, 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 carrying amount of the right of use asset was EUR 1,506m at the end of the year.

More information on lease contracts can be found in Note G23 "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. 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 is also the investment manager and thus has influence over the return produced by the structured entity.

G1. Accounting policies, cont.

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 G12 "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 487m (EUR 164m) at the end of the year.

Claims in civil lawsuits and possible fines

Within framework of the normal business operations, Nordea faces a number of claims in civil lawsuits and disputes, most of which involve relatively limited amounts, as well as possible fines due to e.g. weak anti-money laundering processes and procedures in the past. Presently, none of the current disputes are considered likely to have any significant adverse effect on Nordea or its financial position. As previously stated, Nordea expects to be fined in Denmark for weak AML processes and procedures in the past and has made a provision for ongoing AML-related matters. Nordea cannot exclude the possibility of fines, which could impact the bank's financial performance. In addition, some of these proceedings could lead to litigation. See also Note G2 "Risk and Liquidity management", Note G33 "Provisions" and Note G38 "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% of the voting rights. For entities where voting rights do not decide control, see section "Structured entities" below.

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

As at the acquisition date 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 exceed 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, the income statement and the 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% 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 IFRS 9. 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 undertakings or joint ventures are not eliminated.

Note G20 "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 ongoing 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 influ-

G1. Accounting policies, cont.

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

Typically, Nordea will receive service and commission fees in connection with the creation of the structured entity, or because it acts as an investment manager, a 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 decides 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 G46 "Interests in structured entities".

Currency translation of foreign entities/branches

The consolidated financial statements are presented in euro (EUR). 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 the 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 recognised 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 30 "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 the 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, interest on the net funding of operations in Markets is recognised on this line.

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

The yield on financial assets is presented on three rows in the income statement, Interest income calculated using the effective interest rate method, Other interest income and Negative yield on financial assets. On the row Interest income calculated using the effective interest method, Nordea presents interest income from financial assets measured at amortised cost or at fair value through other comprehensive income. This line item also includes the effect from hedge accounting relating to these assets. All other interest income is presented as on the income statement row "Other interest income", except the negative yield on financial assets that is presented on a separate row. The negative yield on financial liabilities is also disclosed separately in the income statement.

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 on 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 upfront 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

G1. Accounting policies, cont.

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 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 interest on the net funding of 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 buybacks of issued own debt.

"Net result from items at fair value" also includes 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 item "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

Profit from companies accounted for under the equity method is defined as the post-acquisition change in Nordea's share of net assets in associated undertakings and joint ventures. Nordea's share of items accounted for in other comprehensive income in associated undertakings and joint ventures is accounted for in other comprehensive income in Nordea. Profit from companies accounted for under the equity method is, as stated in section 5 "Principles of consolidation", reported in the income statement post-taxes. Consequently, the tax expense related to this profit 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.

Also, impairment on investments in associated undertakings and joint ventures is classified as "Profit from companies accounted for under the equity method" in the income statement. The policies covering impairment of financial assets classified into the category Amortised cost are disclosed in section 13 "Financial instruments" and section 14 "Loans to the public/credit institutions".

If observable indicators (loss events) indicate that an associated undertaking or a 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.

Other operating income and other expenses

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).

Resolution fees are presented as other expenses in the income statement.

G1. Accounting policies, cont.

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, are reported under "Net result from items at fair value".

7. Income recognition life insurance

Premiums received, and repayments to policyholders, related to the savings part of 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 policyholders' part of a positive or negative cost result (profit sharing) is included in the note line "Change in technical provisions, Life insurance" within Note G6 "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 G6 "Net result from items at fair value". The policyholders' 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 between the relevant lines in Note G6 "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 G6 "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.
- The 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 G6 "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 from (and an asset or a liability is recognised as "Other assets" or "Other liabilities" on the balance sheet between trade date and settlement date) the balance sheet on the trade date. Other financial instruments are recognised on the balance sheet on the 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 expires or are transferred to another party. The rights to the cash flows normally expire or are transferred when the counterparty has performed by e.g. repaying a loan to Nordea, i.e. on settlement date.

Loans and other financial assets 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 are 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. The terms and conditions are also considered to be significantly different for financial assets where the modified cash flows are SPPI, but the original cash flows were not SPPI and vice versa.

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 counterparty 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

G1. Accounting policies, cont.

sheet when the liability is extinguished. Normally this occurs when Nordea performs, for example when Nordea repays a deposit to the counterparty, i.e. on settlement date. Financial liabilities under trade date accounting are generally derecognised and a liability is recognised 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 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 Note G2 "Risk and Liquidity management" (the Market risk section) and Note G19 "Derivatives and hedge accounting".

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%.

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 Note G2 "Risk and Liquidity management" (the Market risk section) and Note G19 "Derivatives and hedge accounting". 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.

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, hedge accounting is discontinued. For fair value hedges, the hedging instrument is measured at fair value through profit and loss 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

G1. Accounting policies, cont.

Cash flow hedge accounting

In accordance with Nordea's risk management policies set out in Note G2 "Risk and Liquidity management" (the Market risk section) and Note G19 "Derivatives and hedge accounting", 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, 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 derivatives 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, hedge accounting is discontinued. 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 is no longer expected to occur.

If the expected transaction is no longer 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 Note G2 "Risk and Liquidity management" and Note G19 "Derivatives and Hedge accounting", Nordea hedges its foreign currency translation risk. Translation risk is defined as the risk of loss from investments in foreign operations which have a functional currency different from that of the Group reporting currency (EUR). The hedging instruments used by Nordea are FX forwards where only the spot component is designated in the hedging relationship.

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 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

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 ongoing basis. The absolute level for liquidity and volume required for a market to be considered active varies 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)
- 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.

G1. Accounting policies, cont.

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 G41 "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 G41 "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 are 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 assets 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 asset 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 financial instruments" in Note G40 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, 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

G1. Accounting policies, cont.

the effective interest rate method see 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 items "Interest income" and "Interest expense" in the income statement.

This category consists of mainly all loans and deposits, except for reverse repurchase/repurchase agreements and securities borrowing/lending agreements in Markets and 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 policyholders. The deposits are invested in different types of financial asset on behalf of customers 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 & Pensions 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 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 of these issued structured bonds is recognised in profit and loss except for the changes in credit risk that are 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 assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are initially 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 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 host, 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 structured bonds issued by Markets, Nordea applies

G1. Accounting policies, cont.

the fair value option, and the entire combined instrument, the 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 borrowings 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 cases where the counterparty 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 counterparties 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 counterparties 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 cases where the counterparty 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 triggers 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 default, bankruptcy and insolvency of Nordea and the counterparties, and if the intent is to settle the items net or realise the asset and settle the liability simultaneously.

Exchange-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 reverse 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 deposits related to repurchase and reverse 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 G40 "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 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 comprehen-

G1. Accounting policies, cont.

sive 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 Note G2 "Risk and Liquidity management". 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 collateral 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 stages 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 on 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 that 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.

- Retail customers with an initial 12-month PD below 1%: Exposures with a relative increase in lifetime PD above 100% and an absolute increase in 12-month PD above 45 bps are transferred to stage 2.
- Retail customers with an initial 12-month PD above or equal to 1%:
  Exposures with a relative increase in lifetime PD above 100% or an absolute increase in 12-month PD above 300 bps are transferred to stage 2.
- Non-Retail customers with an initial 12-month PD below 0.5%:
  Exposures with a relative increase in lifetime PD above 150% and an absolute increase in 12-month PD above 20 bps are transferred to stage 2.
- Non-Retail customers with an initial 12-month PD above or equal to 0.5%:
  Exposures with a relative increase in lifetime PD above 150% or an absolute increase in 12-month PD above 400 bps are transferred to stage 2.

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 that 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 macroeconomic 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. The model is based on data collected before the reporting date, requiring Nordea to identify events that should affect the provisions after the data is sourced to the model calculation. Management evaluates these events and adjusts the provisions if deemed necessary.

Write-offs

A write-off is a derecognition 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 is 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.

G1. Accounting policies, cont.

- 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 has granted concessions to the obligor due to their 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 acquires 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 recognised in the income statement under the line "Net result from items at fair value".

Any change in value, after the initial recognition of the asset taken over, is presented in the income statement in line with the Group's presentation policies for the appropriate asset. The item "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 based on 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

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) assets and the obligation to pay lease payments is recognised as a lease liability. The ROU assets 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. 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 righ 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 Land and buildings and Equipment. Equipment mainly comprises vehicles and IT hardware. Nordea applies the practical expedient for short-term contracts (with a contract term of 12 months or less) both for Land and buildings and for Equipment. The practical expedient for low value assets is applied on Equipment. 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 mainly divided into banking branches and headoffices. The premises contracts are actively managed with focus on the effective use of the premises and the changes in the business environment. The lease payments generally include fixed payments and especially in premises contracts also variable payments that depend on an index.

G1. Accounting policies, cont.

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. These contracts generally have renewal options.

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 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 are 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 also includes acquired software licences 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 5 years, and in some circumstances for strategic infrastructure up to a maximum of 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 maximum 10 years.

Impairment
Goodwill and IT development not yet taken into use are 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 generate 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 cashgenerating unit in its current condition and discounted at a rate based on the long-term risk-free interest rate plus a risk premium. If the recoverable amount is less than the carrying amount, an impairment loss is recognised. See Note G21 "Intangible assets" for more information on the impairment testing.

17. Properties and equipment

Properties and equipment include 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 comprises 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 are 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

G1. Accounting policies, cont.

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 policyholders 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 also 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 IFRS 9 "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 liabili-

G1. Accounting policies, cont.

ties 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 borne 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.

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, unless 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.

Tax positions are regularly reviewed to identify situations where it is not probable that the relevant tax authorities will accept the treatment used in the tax filings. Uncertain tax positions are considered independently or as a group, depending on which approach better predicts the resolution of the uncertainty. If Nordea concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty is reflected when determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. This is done by using either the most likely amount or the expected value, depending on which method better predicts the outcome of the uncertainty. Uncertain tax treatment can affect both current tax and deferred tax.

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. Provisions

Provisions (which are presented as a liability) are recognised when Nordea has a present obligation (legal or constructive) as a result of a past event if it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Provisions relating to Employee benefits are further described in section 24 and provisions relating to Financial guarantees contract and credit commitments are described in section 26.

23. Earnings per share

Basic earnings per share are 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 are 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 and contracts on Nordea shares that can be settled in Nordea shares, i.e. derivatives such as options and warrants and their equivalents. Such contracts affect diluted earnings per share when and only when the average price of ordinary shares during the period exceeds the exercise price of the options or warrants (i.e. they are in the money).

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.

24. 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 27 "Share-based payment".

More information can be found in Note G8 "Staff costs".

G1. Accounting policies, cont.

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 G34 "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 are 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 G8 "Staff costs".

25. 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.

Nordea determines payments on financial instrument classified as equity (i.e. Additional Tier 1 instruments) as distributions of profits and for that reason such payments are accounted for as dividends.

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

G1. Accounting policies, cont.

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 recognised as a deduction 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, i.e. derivatives such as options and warrants and their equivalents, are either presented as financial assets or financial liabilities.

26. 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 IFRS 9. 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, net of any provisions. Financial guarantees are disclosed in the item "Contingent liabilities" and irrevocable credit commitments in the item "Commitments".

27. Share-based payment

Equity-settled programmes

Nordea has issued programmes where 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 is the original fair value per right times the best estimate 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 G8 "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 G8 "Staff costs".

28. Related party transactions

Nordea defines related parties as:

- Shareholders with significant influence
- 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 as well as certain other commitments to key management, see Note G8 "Staff costs" and Note G38 "Contingent liabilities".

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.

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 G20 "Investments in associated undertakings and joint ventures".

Key management personnel

Key management personnel includes the following positions:

- Board of Directors
- Chief Executive Officer (CEO)
- Group Leadership Team (GLT)

For information about compensation, pensions and other transactions with key management personnel, see Note G8 "Staff costs".

Other related parties

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

G1. Accounting policies, cont.

29. 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 IFRS 9, while non-financial assets are held at the lower of carrying amount and fair value. Comparative figures are not restated.

30. Exchange rates

	Jan–Dec 2019	Jan–Dec 2018
EUR 1 = SEK		
Income statement (average)	10.5848	10.2608
Balance sheet (at end of year)	10.4563	10.2330
EUR 1 = DKK		
Income statement (average)	7.4661	7.4533
Balance sheet (at end of year)	7.4717	7.4672
EUR 1 = NOK		
Income statement (average)	9.8499	9.6033
Balance sheet (at end of year)	9.8463	9.9470
EUR 1 = RUB		
Income statement (average)	72.4524	74.0484
Balance sheet (at end of year)	69.7096	79.3826

G2. Risk and Liquidity management

Maintaining risk awareness in the organisation is engrained in Nordea's 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.

Internal Control Framework

The Internal Control Framework covers the whole Group and it sets out the Group Board's and senior executive management's responsibilities towards internal control, all Group Functions and Business Areas including outsourced activities and distribution channels. Under the Internal Control Framework, all Business Areas, Group Functions and units are responsible for managing the risks they incur in conducting their activities and to have controls in place that aim to ensure compliance with internal and external requirements. As part of the Internal Control Framework, Nordea has established Group Control Functions with appropriate and sufficient authority, independence and access to the Group Board to fulfil their mission, as well as the Risk Management Framework.

The Internal Control Framework ensures 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 (both internal and external) and compliance with applicable laws, regulations, standards, supervisory requirements and the Group internal rules.

The internal control process is carried out by the governing bodies, risk management functions, management and other staff at Nordea. The internal control process is based on five main components: control environment, risk assessment, control activities, information and communication as well as monitoring. The internal control process is created to ensure 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.

Governing bodies for risk, liquidity and capital management

The Group Board, the Board Risk Committee (BRIC), the President of Nordea Bank Abp and Nordea Group Chief Executive Officer (CEO) in Group Leadership Team (GLT), the Asset and Liability Committee (ALCO) and the Risk Committee (RC) are the key decision-making bodies for risk, liquidity and capital management in Nordea. In addition, the CEO Credit Committee, the Executive Credit Committee and Business Area Credit Committees are the key bodies for Credit decision-making.

Board of Directors and Board Risk Committee

The Group Board has following overarching risk management responsibilities.

- It decides on the Group risk strategy and the Risk Appetite Framework, including the Risk Appetite Statements, with at least annual reviews and additional updates when needed.
- It decides on and oversees an adequate and effective Risk Management Framework and regularly evaluates whether the Group has effective and appropriate controls to manage the risks.

The Group Board decides on the Group Board Directive on Capital including dividend policy, which ensures adequate capital levels within the Group, on an ongoing and forward-looking basis consistent with Nordea's business model, risk appetite and regulatory requirements and expectations.

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

President and Chief Executive Officer

The Group CEO is responsible to the Group Board for the overall management of the Group's operations and risks. Responsibilities include ensuring that the risk strategy and risk management decided by the Group Board is implemented, the necessary practical measures are taken and risks are monitored and limited. The Group CEO is working together with heads of Business Areas and certain heads of Group Functions within GLT for the purposes of supporting the Group CEO's decision-making.

Group-wide committees have been established in order to promote coordination within the Group, thus ensuring commitment to and ownership of Group-wide prioritizations, decisions and implementation. The composition and the areas of responsibility of each committee are established in the Group Board Directives or Group CEO Instructions for the respective committees.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) is subordinated to the Group CEO in GLT and chaired by the Chief Financial Officer (CFO). ALCO decides on changes to the financial operations and the risk profile of the balance sheet, including asset and liability management (ALM), balance sheet management and liquidity management. ALCO also decides on certain issuances and capital injections for all wholly-owned legal entities within the Group. ALCO has established sub-committees for its work and decision-making within specific risk areas.

Risk Committee

Risk Committee (RC) is sub-ordinated to the Group CEO in GLT and chaired by the Chief Risk Officer (CRO). It has been established in order to manage the overall Risk Management Framework and prepares or provides guidance regarding proposals to the Group CEO in GLT and/or the relevant Board of Directors (BoD) on issues of major importance concerning Nordea's Risk Management Framework. Given the BoD decided Risk Appetite Framework, RC decides on the allocation of cascaded risks limits to risk-taking units and on actions relating to the management of all risks. The first line of defence (1st LoD) is responsible for ensuring that limits are further cascaded and operationally implemented. RC has established sub-committees for its work and decision-making within specific risk areas.

Credit decision-making bodies

The governing bodies for Credit Risk and/or the Credit Risk Management Framework are the Group Board and BRIC. The Group Board and the local BoD delegate credit decision-making according to the Powers to Act as described in the Group Board Directive for Risk:

- CEO Credit Committee is chaired by the Group CEO and its members include the members of the Executive Credit Committee.
- Executive Credit Committee is chaired by the Head of Group Credit Management, and BRIC appoints the members of the Executive Credit Committee.
- The Executive Credit Committee establishes credit committees for each Business Area as required by organisational and customer segmentation.

BRIC reviews decisions of the CEO Credit Committee and the Executive Credit Committee, as well as other strategic credit policy matters and development of the credit portfolio. BRIC confirms Industry Group Strategies approved by the RC.

All credit limits within the Nordea Group are based on

G2. Risk and Liquidity management, cont.

credit decisions or authorizations made by an ultimate Decision-Making Authority with the right to decide upon that limit. Credit decisions include, inter alia, pricing, risk mitigation and any terms and conditions related to the limit or expected utilization. Credit decisions also serve to delegate decision making within the approved limit to lower decision makers, unless otherwise explicitly decided.

Subsidiary governance

At subsidiary level, the local BoD is responsible for approving risk appetite limits and capital actions. The proposals for such items are the joint responsibilities of relevant subsidiary management and Group Functions.

The subsidiary BoD has oversight responsibilities concerning the management and control of risk, risk management frameworks as well as the processes associated with the subsidiary's operations. In addition, there are risk management functions responsible for the risk management framework and processes within the subsidiary.

The subsidiary CEO is part of the decision-making process at the subsidiary level and is responsible for the daily operations.

Governance of Risk Management and Compliance

Group Risk and Compliance (GRC) represents Nordea's independent second line of defence (2nd LoD) function. GRC oversees the implementation of the financial and the non-financial risk policies and according to a risk-based approach, monitors and controls the Risk Management Framework including the Compliance Risk Framework and oversees that risks that Nordea is or could be exposed to, are identified, assessed, monitored, managed and reported on. GRC is organised in divisions with individual risk type responsibility.

Risk and Capital Management Processes

The Risk Management Framework ensures consistent processes for identifying, assessing and measuring, responding to and mitigating, controlling and monitoring and reporting risks to enable informed decisions on risk-taking. The Risk Management Framework encompasses all risks to which Nordea is or could be exposed, including off-balance sheet risks and risks in a stressed situation. Detailed risk information, covering all risks as well as capital adequacy, is regularly reported to the RC, GLT, BRIC and the Group Board. In addition to this Nordea's compliance with regulatory requirements is reported to the GLT and the Group Board. The Group Board and the CEO in each legal entity regularly receive local risk reporting.

The Risk Identification and Materiality Assessment Process starts with identifying potential risks to which Nordea is or could be exposed. Risks are then assessed for relevance, classified, and included in the Common Risk Taxonomy.

All risks within the Nordea Common Risk Taxonomy need to be classified as material or not material for risk management and capital purposes. Material risks are those assessed as having a material impact on Nordea's current and future financial position, its customers and stakeholders. These risks will typically, though not always, refer to a higher-level risk within the Risk Taxonomy which captures a number of underlying risks in which losses arise from a common source.

Risk appetite

The Risk Appetite Framework (RAF) supports effective risk management and a sound risk culture by enabling informed decisions on risk-taking, with the objective of ensuring that risk-taking activities are conducted within the organisation's risk appetite and that emerging risks are identified and addressed in a timely way.

Risk capacity is the maximum level of risk Nordea is deemed able to assume given its capital (own funds), its risk management and control capabilities and its regulatory constraints. Risk appetite is the aggregate level and types of risk Nordea is willing to assume within its risk capacity, in line with its business model, to achieve its strategic objectives. The Risk Appetite Statements (RAS) are the articulation of the Group Board approved risk appetite and comprises the qualitative statements and quantitative Limits and Triggers by main risk type, which are deemed appropriate to be able to operate with a prudent risk profile.

Credit concentration metrics cover e.g. sectors and geographic regions of size or importance. Stress test metrics are applied to credit, market and liquidity risk metrics to ensure a forward-looking approach to risk management. Operational risk metrics cover both residual risk levels and requirements for mitigating actions as well as limits for incidents and losses.

Risk appetite processes

The RAF contains all processes and controls to establish, monitor and communicate Nordea's risk appetite:

- Risk capacity setting based on capital position: On an annual basis, the Group's overall risk capacity is aligned with the financial and capital planning process, based on Nordea's risk strategy. Risk capacity is set in line with Nordea's capital position, including an appropriate shock absorbing capacity.
- Risk appetite allocation by risk type: Risk appetite includes Risk Appetite Limits for the main risk types that Nordea is or could be exposed to in line with the Risk Taxonomy. 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.
- Risk limit setting: Measurable risk limits are established and set at an appropriate level to manage risk-taking effectively. Risk Appetite Limits are set by the Group Board. These inform the risk limits which are established and approved at lower decision-making levels at Nordea, including RC and sub-RC levels, and also other levels as appropriate. Subsidiary risk limits must be set by the appropriate governing body in alignment with local regulatory requirements and consistent with the Group Risk Limits.
- Controlling and monitoring risk exposures against risk limits: Regular controlling and monitoring of risk exposures compared to risk limits is carried out to ensure that risk-taking activity remains within risk appetite.
- Risk appetite limit breach management process: GRC oversees that any Risk Appetite Limit breaches are appropriately escalated to RC and BRIC. GRC reports monthly on any breaches of the risk appetite to the Group Board and other relevant governing bodies including a follow-up on the status of actions to be taken, until the relevant risk exposure is within appetite. The reporting includes a consistent status indicator to communicate the current risk exposure compared to Risk Appetite Limit for all risk types covered by the RAS.

Embedding risk appetite in business processes

The end-to-end risk appetite process cycle is aligned with other strategic processes, including the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Ade-

G2. Risk and Liquidity management, cont.

quacy Assessment Process (ILAAP) and the Recovery and Resolution Plan.

Moreover, the risk appetite is embedded in business processes and communicated across the organisation in order to meet Nordea's objectives of maintaining a sound risk culture. This includes but is not limited to ensuring a strong link between the assessed risk appetite and the business plans and budgets, the capital and liquidity position, the systemic risk profile, the recoverability and resolvability assessments as well as the incentive structures and remuneration framework.

Disclosure requirements of the CRR – Capital and Risk Management Report 2019

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2019, 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.

Credit Risk management

Credits granted within the Group shall conform to the common principles established for the Group. Nordea strives 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 Management in 1st LoD is responsible for the credit process framework and operational credit risk guidelines and SOPs. Group Credit Risk Control in 2nd LoD is responsible for the credit risk framework, consisting of policies and instructions for the Group. Group Credit Risk Control is also responsible for controlling and monitoring the quality of the credit portfolio and the credit process.

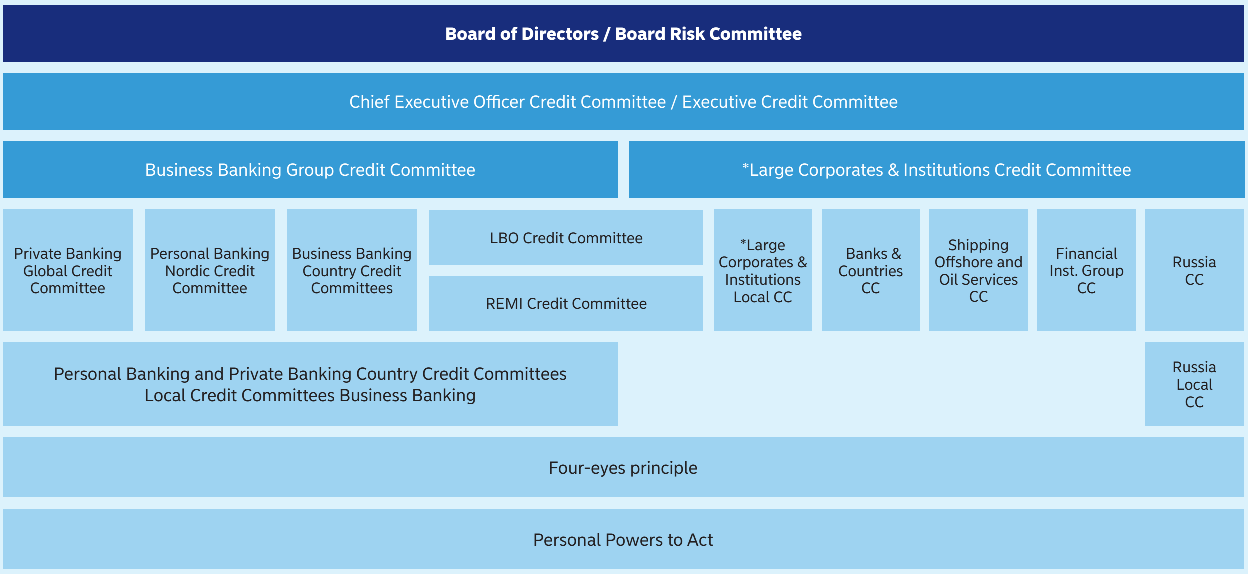
The basis of credit risk management in Nordea is limits to customers and customer groups that are aggregated and assigned to units responsible for their continuous monitoring and development. An additional dimension of concentration risk limits, based on industries, segments, products or geographies, 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 together with the exposure of the customer decides at what level the credit decision will be made. Responsibility for a credit risk lies with the 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 aim to predict their probability of default and 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

Credit Committee Structure



*Reflects organisational name change as of 1 January 2020.

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.

G2. Risk and Liquidity management, cont.

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 credit policies are established for those industries that have a significant weight in the portfolio and are either highly cyclical or volatile or require special industry competencies.

Credit decisions are reached 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 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 an 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 reviews. In addition to continuous monitoring, an action plan is established outlining 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, floating charges and leasing objects. Collateral coverage should generally be higher for exposures of financially weaker customers than for those who are financially strong. Independent from the strength of collateral position, the repayment capacity is the starting point in credit assessment and assigning credit limits. 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

Maximum exposure to credit risk

		31 Dec 2019		31 Dec 2018	
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	G14	11,627	6,110	15,287	3,689
Loans to the public	G14	247,395	77,514	236,497	73,833
Interest-bearing securities	G15, G16	33,269	38,813	36,951	46,841
Derivatives	G19	–	39,111	–	37,025
Off balance sheet items	G38, G39	91,776	200	89,495	175
Total		**384,067**	**161,748**	**378,230**	**161,563**

Allowances for credit risk

EURm	Note	31 Dec 2019	31 Dec 2018
Loans to central banks and credit institutions	G14	14	15
Loans to the public	G14	2,169	2,025
Interest-bearing securities measured at fair value through other comprehensive income or amortised cost	G15	1	2
Off balance sheet items	G33	144	121
Total		**2,328**	**2,163**

G2. Risk and Liquidity management, cont.

sale situation. A maximum collateral ratio is set for each collateral type.

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.

Collateral distribution

Distribution of collateral has remained stable between 2019 and 2018, with the majority of the collateral stemming from residential and commercial real estate. The shares of financial collateral, receivables, and other physical collaterals have slightly decreased during 2019, while the share of commercial real estate has increased by 2% in 2019.

Collateral distribution

	31 Dec 2019	31 Dec 2018
Financial Collateral	0.8%	1.1%
Receivables	0.7%	0.9%
Residential Real Estate	73.2%	72.9%
Commercial Real Estate	18.7%	18.3%
Other Physical Collateral	6.6%	6.8%
Total	**100.0%**	**100.0%**

Assets taken over for protection of claims

The table below presents assets taken over distributed by asset type. Lands and buildings make up 87% of the total assets taken over end of December 2019. During 2019 the Assets have been brought down by 57%. The level of assets taken over is at a low level and has been so for several years.

Assets taken over for protection of claims[1]

EURm	31 Dec 2019	31 Dec 2018
Current assets, carrying amount:		
Land and buildings	8	19
Shares and other participations	0	0
Other assets	1	2
Total	**9**	**21**

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.

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, IRB retail mortgage exposures are distributed by LTV buckets based on the LTV ratio.

Loan-to-value

	31 Dec 2019		31 Dec 2018	
Retail mortgage exposure	EURbn	%	EURbn	%
<50%	113.6	81	110.9	81
50–70%	20.3	14	19.6	14
70–80%	4.5	3	4.3	3
80–90%	1.2	1	1.2	1
>90%	0.9	1	0.6	1
Total	**140.5**	**100**	**136.6**	**100**

Individual and collective assessment of impairment

Requirements for impairment are set forth in IFRS 9, and are based on an expected loss model.

Impairment testing (individual and collective) applies to three forward looking and weighted scenarios. Assets tested 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.

Throughout the process of identifying and mitigating credit 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.

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

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, 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 the 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 stages 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.

G2. Risk and Liquidity management, cont.

Forbearance

Forbearance is eased 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 eased 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, approved according to Powers to Act and followed by impairment testing. Forborne exposures can be performing or non-performing. Individual loan loss provisions are recognised if necessary.

Forbearance

EURm	31 Dec 2019	31 Dec 2018
Forborne loans	2,992	3,561
- of which defaulted	1,984	2,267
Allowances for individually assessed impaired and forborne loans	679	714
- of which defaulted	664	693

Key ratios	31 Dec 2019	31 Dec 2018
Forbearance ratio[1]	0.9%	1.1%
Forbearance coverage ratio[2]	23%	20%
- of which defaulted	33%	31%

1) Forborne loans/Loans before allowances.
2) Individual allowances/Forborne loans.

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. To understand the sensitivities to these triggers, Nordea has calculated model-based provisions under two different scenarios:

	Scenario 1	Scenario 2
Retail portfolios		
Relative threshold	50%	150%
Absolute 12-month threshold	35 bp	55 bp
Absolute lifetime threshold	250 bp	350 bp
Notching[1]	1 less	1 more
Non-Retail portfolios		
Relative threshold	100%	200%
Absolute 12-month threshold	15 bp	25 bp
Absolute lifetime threshold	350 bp	450 bp
Notching[1]	1 less	1 more

1) For exposures with initial recognition before the transition to IFRS 9 (1 Jan 2018), stage classification is decided based on changes in rating grades. The trigger in scenario 1 is set at one notch less than in the model actually used and in scenario 2 the trigger is set at one notch more than in the model used.

The provisions would have increased by EUR 38m in scenario 1 and decreased by EUR 44m in scenario 2. For more information on the rating scale and average PDs, see table "Rating/scoring information on loans measured at amortised cost" below.

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 exposures from stage 1 to stage 2 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 141m (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.

Sensitivities

	2019		2018	
EURm	Recognised provisions	Provisions if one notch downgrade	Recognised provisions	Provisions if one notch downgrade
Personal Banking	412	566	339	472
Business Banking	1,038	1,184	998	1,145
Large Corporates & Institutions	868	945	752	838
Other	10	20	74	84
Group	**2,328**	**2,715**	**2,163**	**2,539**

G2. Risk and Liquidity management, cont.

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 Advisory & Analytics 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 2019, 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.

G2. Risk and Liquidity management, cont.

Scenarios and provisions

Denmark		2020	2021	2022	Un-weighted ECL, EURm	Probability weight	Model based provisions, EURm	Adjustment model based provisions, EURm	Individual provisions, EURm	Total provisions, EURm
Favourable scenario	GDP growth, %	2.1	2.1	2.1	237	20%				
	Unemployment, %	3.5	3.2	3.0						
	Change in household consumption, %	1.7	1.5	1.8						
	Change in house prices, %	2.3	3.8	3.4						
Base scenario	GDP growth, %	1.4	1.7	2.0	239	60%	240	123	454	817
	Unemployment, %	3.8	3.8	3.7						
	Change in household consumption, %	1.4	1.6	1.9						
	Change in house prices, %	2.0	2.6	3.0						
Adverse scenario	GDP growth, %	0.9	0.9	1.4	245	20%				
	Unemployment, %	3.9	4.1	4.3						
	Change in household consumption, %	1.1	1.3	1.4						
	Change in house prices, %	1.8	2.1	1.8						
Finland										
Favourable scenario	GDP growth, %	1.5	1.7	1.3	182	20%				
	Unemployment, %	6.4	6.3	6.4						
	Change in household consumption, %	1.9	1.2	1.0						
	Change in house prices, %	1.1	1.3	1.5						
Base scenario	GDP growth, %	1.1	1.1	0.9	185	60%	185	26	262	473
	Unemployment, %	6.6	6.7	6.8						
	Change in household consumption, %	1.4	1.0	1.0						
	Change in house prices, %	0.9	1.1	1.1						
Adverse scenario	GDP growth, %	0.8	0.5	0.4	187	20%				
	Unemployment, %	6.6	6.7	7.0						
	Change in household consumption, %	1.1	0.9	1.1						
	Change in house prices, %	1.0	0.8	0.3						

G2. Risk and Liquidity management, cont.

Scenarios and provisions, cont.

Norway		2020	2021	2022	Un-weighted ECL, EURm	Probability weight	Model based provisions, EURm	Adjustment model based provisions, EURm	Individual provisions, EURm	Total provisions, EURm
Favourable scenario	GDP growth, %	2.2	2.3	2.0	94	20%				
	Unemployment, %	3.3	3.0	2.7						
	Change in household consumption, %	2.6	1.8	1.8						
	Change in house prices, %	3.6	4.3	4.0						
Base scenario	GDP growth, %	2.0	1.8	1.7	97	60%	98	86	322	506
	Unemployment, %	3.4	3.4	3.3						
	Change in household consumption, %	2.3	2.0	1.8						
	Change in house prices, %	3.5	3.8	3.8						
Adverse scenario	GDP growth, %	1.3	1.0	1.3	104	20%				
	Unemployment, %	3.7	4.1	4.7						
	Change in household consumption, %	1.5	1.6	2.0						
	Change in house prices, %	2.3	0.0	1.7						
Sweden										
Favourable scenario	GDP growth, %	1.7	2.7	2.6	96	20%				
	Unemployment, %	6.7	6.3	5.7						
	Change in household consumption, %	1.8	2.6	2.1						
	Change in house prices, %	1.1	2.6	3.3						
Base scenario	GDP growth, %	1.4	1.9	2.3	97	60%	97	12	171	280
	Unemployment, %	6.9	6.7	6.3						
	Change in household consumption, %	1.4	2.0	2.2						
	Change in house prices, %	1.1	2.4	2.9						
Adverse scenario	GDP growth, %	1.1	1.3	1.7	98	20%				
	Unemployment, %	6.9	7.0	7.1						
	Change in household consumption, %	1.0	1.6	2.9						
	Change in house prices, %	1.0	1.8	2.9						
Non-Nordic							15	2	235	252
Total							**635**	**249**	**1,444**	**2,328**

G2. Risk and Liquidity management, cont.

Loans measured at amortised cost and fair value to the public[1]

31 Dec 2019, EURm	Denmark	Finland	Norway	Sweden	Russia	Outside Nordic	Total	Of which lending at fair value
Financial institutions	2,992	2,055	1,996	7,731	14	644	15,428	2,418
Crops etc	3,410	171	21	90	0	7	3,698	2,738
Animal husbandry	2,358	111	9	79	0	0	2,558	1,916
Fishing and aquaculture	41	8	1,220	1	0	0	1,271	10
Paper, forest and mining	279	867	147	824	16	69	2,202	199
Oil, gas and offshore	451	74	848	246	0	320	1,940	1
Consumer staples (food and health care)	1,714	741	521	662	0	84	3,723	650
Media, leisure and telecom	1,235	893	550	1,387	2	0	4,068	961
Consumer durables	203	309	95	731	0	159	1,497	68
Retail trade	929	971	490	1,066	0	18	3,473	557
Land transportation and IT	883	1,308	681	929	19	100	3,920	417
Materials	266	459	236	680	231	5	1,877	58
Capital goods	617	1,583	151	648	128	135	3,262	89
Commercial & prof. services	3,462	1,137	3,184	3,342	0	274	11,400	1,236
Construction	1,312	1,173	3,051	976	0	60	6,572	851
Wholesale trade	1,753	1,130	474	1,533	7	52	4,950	225
Maritime (shipping)	396	246	4,864	106	0	2,113	7,726	121
Utilities and public services	1,224	1,868	1,036	3,560	84	56	7,829	3,054
Real estate commercial properties	6,893	4,211	7,524	7,018	3	707	26,356	5,815
Real estate residential properties	3,634	3,862	1,529	8,491	0	0	17,517	2,554
Other industries	1,165	0	100	94	0	0	1,358	1,051
Total Corporate	**35,219**	**23,179**	**28,728**	**40,194**	**501**	**4,804**	**132,625**	**24,986**
Housing loans	33,395	29,939	33,499	44,956	0	0	141,789	33,395
Collateralised lending	7,838	5,385	2,582	2,419	0	0	18,225	244
Non-Collateralised lending	1,087	3,168	578	2,317	0	0	7,151	0
Household	**42,321**	**38,492**	**36,659**	**49,692**	**0**	**0**	**167,164**	**33,639**
Public sector	**1,131**	**1,331**	**28**	**1,572**	**0**	**0**	**4,062**	**0**
Reversed repurchase agreements	**0**	**18,889**	**0**	**0**	**0**	**0**	**18,889**	**18,889**
Lending to the public by country	**78,671**	**81,891**	**65,415**	**91,458**	**501**	**4,804**	**322,740**	**77,514**
Excl. reversed repurchase agreements	**78,671**	**63,002**	**65,415**	**91,458**	**501**	**4,804**	**303,851**	**58,625**

1) Based on domicile of Nordea company granting the loans.

G2. Risk and Liquidity management, cont.

Loans measured at amortised cost and fair value to the public[1]

31 Dec 2018, EURm	Denmark	Finland	Norway	Sweden	Russia	Outside Nordic	Total	Of which lending at fair value
Financial institutions	2,982	1,903	1,682	7,570	0	134	14,271	3,147
Crops etc	3,666	153	17	76	0	8	3,920	2,902
Animal husbandry	2,706	109	11	79	0	3	2,908	2,094
Fishing and aquaculture	32	8	1,130	7	0	0	1,176	9
Paper, forest and mining	297	961	175	930	36	85	2,484	227
Oil, gas and offshore	583	82	486	437	7	359	1,953	203
Consumer staples (food and health care)	1,310	723	465	673	1	62	3,234	655
Media, leisure and telecom	1,200	908	508	1,130	2	1	3,748	990
Consumer durables	205	353	79	671	4	162	1,473	77
Retail trade	1,092	988	394	955	0	35	3,465	587
Land transportation and IT	900	1,161	654	961	9	115	3,800	427
Materials	253	576	254	749	393	8	2,232	57
Capital goods	542	1,137	91	757	183	73	2,783	87
Commercial & prof. services	3,550	1,245	2,264	2,925	1	278	10,263	1,241
Construction	1,278	1,035	2,418	996	0	74	5,801	817
Wholesale trade	2,169	1,094	543	1,826	10	35	5,676	223
Maritime (shipping)	298	328	4,895	132	0	2,583	8,236	85
Utilities and public services	3,466	2,155	913	2,752	213	144	9,643	3,632
Real estate commercial properties	6,480	4,247	7,260	6,886	18	852	25,743	5,424
Real estate residential properties	3,371	3,716	1,810	8,524	0	0	17,420	2,367
Other industries	160	0	327	0	0	0	488	488
Total Corporate	**36,539**	**22,880**	**26,377**	**39,036**	**876**	**5,009**	**130,717**	**25,738**
Housing loans	31,354	29,268	27,894	43,581	0	130	132,227	31,354
Collateralised lending	8,012	5,356	1,685	2,294	0	55	17,402	30
Non-Collateralised lending	1,147	3,218	117	2,919	0	0	7,400	0
Household	**40,512**	**37,841**	**29,697**	**48,794**	**0**	**185**	**157,029**	**31,384**
Public sector	**1,514**	**843**	**44**	**1,447**	**0**	**0**	**3,848**	**0**
Reverse repurchase agreements	**0**	**16,711**	**0**	**0**	**0**	**0**	**16,711**	**16,711**
Lending to the public by country	**78,566**	**78,274**	**56,117**	**89,277**	**876**	**5,194**	**308,304**	**73,833**
Excl. reverse repurchase agreements	**78,566**	**61,564**	**56,117**	**89,277**	**876**	**5,194**	**291,594**	**57,122**

1) Based on domicile of Nordea company granting the loans.

Loans to the public measured at amortised cost, geographical breakdown[1]

	Gross			Allowances			
EURm, 31 Dec 2019	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Net
Denmark	22,243	1,427	804	51	175	488	23,759
Finland	56,852	4,710	1,309	20	66	344	62,441
Norway	57,530	2,769	1,142	36	45	527	60,834
Sweden	79,460	1,426	429	16	35	187	81,077
Russia	1,005	1	44	1	0	40	1,009
US	1,835	14	4	2	1	0	1,850
Other	13,190	323	878	25	20	91	14,256
Total	**232,115**	**10,670**	**4,610**	**150**	**342**	**1,677**	**245,226**

1) Based on domicile of the customers.

G2. Risk and Liquidity management, cont.

Loans to the public measured at amortised cost, geographical breakdown[1]

	Gross			Allowances			
EURm, 31 Dec 2018	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Net
Denmark	23,454	1,622	1,171	33	116	641	25,457
Finland	54,318	5,810	1,258	25	95	338	60,928
Norway	48,184	3,481	911	18	24	263	52,271
Sweden	76,274	2,141	247	12	18	60	78,572
Russia	1,356	38	56	18	0	39	1,394
US	1,547	84	6	1	1	0	1,634
Other	12,093	1,513	931	33	34	255	14,215
Total	**217,225**	**14,690**	**4,581**	**141**	**289**	**1,596**	**234,471**

1) Based on domicile of the customer.

Loans to the public measured at amortised cost, broken down by sector and industry

	Gross				Allowances				
EURm, 31 Dec 2019	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Net
Financial institutions	12,668	302	127	13,097	9	20	58	87	13,010
Crops etc	862	85	54	1,001	2	10	30	41	960
Animal husbandry	499	69	193	760	2	10	108	119	642
Fishing and aquaculture	1,201	24	37	1,263	0	1	0	1	1,261
Paper, forest and mining	1,875	107	44	2,027	1	3	20	23	2,003
Oil, gas and offshore	1,474	17	747	2,238	1	0	298	299	1,939
Consumer staples (food and health care)	2,916	144	33	3,094	2	5	13	20	3,073
Media, leisure and telecom	2,925	170	54	3,149	2	6	33	42	3,107
Consumer durables	1,276	135	47	1,458	1	6	22	29	1,429
Retail trade	2,677	221	88	2,985	4	17	49	69	2,917
Land transportation and IT	3,167	303	74	3,544	2	9	29	40	3,504
Materials	1,704	78	117	1,899	4	5	71	80	1,819
Capital goods	2,896	251	110	3,256	1	9	73	84	3,173
Commercial & prof. services	9,646	355	273	10,274	8	15	86	109	10,164
Construction	5,294	399	119	5,812	5	12	74	91	5,721
Wholesale trade	4,261	429	94	4,784	4	20	36	59	4,725
Maritime (shipping)	7,000	175	706	7,881	24	22	230	276	7,605
Utilities and public services	4,701	60	34	4,795	2	1	16	19	4,775
REMI	34,457	932	224	35,614	15	14	81	110	35,504
Other	291	23	7	322	7	7	0	14	308
Total Corporate	**101,789**	**4,280**	**3,183**	**109,251**	**95**	**191**	**1,327**	**1,612**	**107,639**
Housing loans	103,768	4,047	630	108,446	10	13	29	52	108,393
Collateralised lending	16,569	1,221	444	18,233	26	48	186	260	17,973
Non-Collateralised lending	5,952	1,095	354	7,401	19	89	134	242	7,159
Household	**126,289**	**6,363**	**1,427**	**134,079**	**55**	**149**	**350**	**554**	**133,525**
Public sector	**4,038**	**27**	**0**	**4,065**	**0**	**2**	**0**	**2**	**4,062**
Lending to the public by country	**232,115**	**10,670**	**4,610**	**247,395**	**150**	**342**	**1,677**	**2,169**	**245,226**
Excl. reverse repurchase agreements	**232,115**	**10,670**	**4,610**	**247,395**	**150**	**342**	**1,677**	**2,169**	**245,226**

G2. Risk and Liquidity management, cont.

Loans to the public measured at amortised cost, broken down by sector and industry

	Gross				Allowances				
EURm, 31 Dec 2018	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Net
Financial institutions	10,402	464	285	11,151	19	9	0	27	11,124
Crops etc	878	94	93	1,065	1	6	40	48	1,018
Animal husbandry	580	133	248	962	1	7	139	147	814
Fishing and aquaculture	1,142	23	3	1,168	0	0	0	0	1,167
Paper, forest and mining	2,115	150	49	2,314	8	4	45	57	2,269
Oil, gas and offshore	1,296	73	555	1,924	8	1	165	174	1,757
Consumer staples (food and health care)	2,407	147	57	2,612	1	4	28	33	2,578
Media, leisure and telecom	2,611	140	41	2,792	2	5	26	33	2,761
Consumer durables	1,288	94	37	1,419	1	3	19	22	1,398
Retail trade	2,503	333	142	2,978	3	13	84	100	2,881
Land transportation and IT	2,921	419	70	3,410	6	8	23	37	3,371
Materials	1,789	376	60	2,225	5	19	25	49	2,170
Capital goods	2,377	280	123	2,780	1	4	79	84	2,691
Commercial & prof. services	8,344	461	307	9,112	6	12	71	90	9,021
Construction	4,416	525	128	5,069	3	11	72	86	4,983
Wholesale trade	4,984	386	168	5,538	3	9	74	86	5,448
Maritime (shipping)	6,654	1,008	677	8,338	16	18	154	188	8,150
Utilities and public services	5,808	192	18	6,018	6	2	0	8	6,006
REMI	34,238	1,014	234	35,487	11	10	94	115	35,372
Other	0	148	67	215	3	6	206	216	0
Total Corporate	**97,004**	**6,254**	**3,298**	**106,696**	**103**	**151**	**1,344**	**1,598**	**104,978**
Housing loans	94,787	5,540	649	100,976	10	43	50	103	100,873
Collateralised lending	15,812	1,375	375	17,562	16	38	136	190	17,372
Non-Collateralised lending	6,079	1,196	258	7,533	11	56	65	133	7,400
Household	**116,678**	**8,110**	**1,282**	**126,071**	**37**	**137**	**252**	**425**	**125,645**
Public sector	**3,729**	**119**	**0**	**3,849**	**0**	**1**	**0**	**1**	**3,848**
Lending to the public by country	**217,411**	**14,484**	**4,581**	**236,615**	**141**	**289**	**1,596**	**2,025**	**234,471**
Excl. reverse repurchase agreements	**217,411**	**14,484**	**4,581**	**236,615**	**141**	**289**	**1,596**	**2,025**	**234,471**

G2. Risk and Liquidity management, cont.

Impaired loans (Stage 3) by country and industry

31 Dec 2019, EURm	Denmark	Finland	Norway	Sweden	Russia	Outside Nordic	Total amortised cost loans	Defaulted fair value loans
Financial institutions	92	16	5	14	0	0	127	9
Crops etc	52	2	0	0	0	0	54	79
Animal husbandry	178	13	1	1	0	0	193	214
Fishing and aquaculture	0	0	37	0	0	0	37	0
Paper, forest and mining	17	21	6	0	0	0	44	6
Oil, gas and offshore	0	0	307	79	0	360	747	0
Consumer staples (food and health care)	4	20	5	4	0	0	33	2
Media, leisure and telecom	4	35	3	11	0	0	54	0
Consumer durables	37	6	0	4	0	0	47	0
Retail trade	38	25	6	19	0	0	88	6
Land transportation and IT	8	25	33	4	0	3	74	1
Materials	2	67	6	42	0	0	117	6
Capital goods	20	74	1	15	0	0	110	2
Commercial & prof. services	29	23	62	79	0	80	273	2
Construction	21	66	23	10	0	0	119	3
Wholesale trade	44	28	18	5	0	0	94	1
Maritime (shipping)	49	6	406	0	0	245	706	0
Utilities and public services	1	2	28	2	0	0	34	0
REMI	60	103	58	2	0	0	224	86
Other industries	3	0	4	0	0	0	7	0
Total Corporate	**662**	**532**	**1,010**	**291**	**0**	**688**	**3,183**	**418**
Housing loans	0	440	134	56	0	0	630	304
Collateralised lending	188	182	67	7	0	0	444	0
Non-Collateralised lending	49	178	71	56	0	0	354	0
Household	**237**	**799**	**272**	**119**	**0**	**0**	**1,427**	**304**
Public sector	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Reverse repurchase agreements	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Lending to the public by country	**899**	**1,331**	**1,282**	**410**	**0**	**688**	**4,610**	**722**
Excl. reverse repurchase agreements	**899**	**1,331**	**1,282**	**410**	**0**	**688**	**4,610**	**722**

G2. Risk and Liquidity management, cont.

Impaired loans (Stage 3) by country and industry

31 Dec 2018, EURm	Denmark	Finland	Norway	Sweden	Russia	Outside Nordic	Total amortised cost loans	Defaulted fair value loans
Financial institutions	195	8	64	19	0	0	285	0
Crops etc	91	1	0	0	0	0	93	75
Animal husbandry	241	6	1	0	0	0	248	54
Fishing and aquaculture	0	0	2	0	0	0	3	0
Paper, forest and mining	21	25	2	1	0	0	49	5
Oil, gas and offshore	0	0	183	0	0	372	555	167
Consumer staples (food and health care)	6	46	2	4	0	0	57	17
Media, leisure and telecom	7	22	5	7	0	0	41	25
Consumer durables	23	10	0	3	0	0	37	2
Retail trade	93	24	8	17	0	0	142	15
Land transportation and IT	12	25	31	2	0	0	70	11
Materials	3	45	5	0	4	2	60	2
Capital goods	16	95	1	9	2	0	123	3
Commercial & prof. services	88	24	58	55	0	82	307	32
Construction	39	50	28	11	0	0	128	21
Wholesale trade	72	31	14	50	0	1	168	6
Maritime (shipping)	51	7	348	1	0	270	677	2
Utilities and public services	7	3	4	2	2	0	18	6
REMI	82	84	66	2	0	0	234	200
Other industries	2	0	0	0	0	0	2	0
Total Corporate	**1,048**	**508**	**822**	**184**	**9**	**728**	**3,298**	**645**
Housing loans	0	438	127	53	0	32	649	330
Collateralised lending	148	178	32	4	0	12	375	0
Non-Collateralised lending	34	162	8	54	0	0	258	0
Household	**182**	**778**	**167**	**111**	**0**	**44**	**1,282**	**330**
Public sector	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Reverse repurchase agreements	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Lending to the public by country	**1,230**	**1,286**	**989**	**295**	**9**	**771**	**4,581**	**975**
Excl. reverse repurchase agreements	**1,230**	**1,286**	**989**	**295**	**9**	**771**	**4,581**	**975**

G2. Risk and Liquidity management, cont.

Loans measured at amortised cost

31 Dec 2019, EURm	Net loan losses[1]	Loan loss ratio, bps	Impaired loans Stage 3	Impairment ratio bps	Allowances total[1]	Provision-ing ratio,%	Allowances Stage 3[1]	Allowances Stage 1 and 2[1]	Loans measured at amor-tised cost
Financial institutions	27	21	127	97	104	83	81	24	13,010
Crops etc	16	171	54	550	30	56	23	7	960
Animal husbandry	23	359	193	2,454	144	75	126	18	642
Fishing and aquaculture	0	1	37	295	1	4	0	1	1,261
Paper, forest and mining	–3	–15	44	219	26	59	21	5	2,003
Oil, gas and offshore	129	664	747	3,335	301	40	300	2	1,939
Consumer staples (food and health care)	–3	–10	33	107	23	70	14	9	3,073
Media, leisure and telecom	18	57	54	171	45	83	34	11	3,107
Consumer durables	13	92	47	320	31	67	23	9	1,429
Retail trade	6	21	88	294	78	88	53	25	2,917
Land transportation and IT	16	46	74	208	43	58	29	14	3,504
Materials	–7	–38	117	615	81	70	72	9	1,819
Capital goods	6	18	110	337	86	78	72	14	3,173
Commercial & prof. services	35	34	273	266	119	44	90	29	10,164
Construction	13	23	119	205	97	81	75	21	5,721
Wholesale trade	4	9	94	197	66	70	38	28	4,725
Maritime (shipping)	62	81	706	895	284	40	233	50	7,605
Utilities and public services	7	14	34	72	1	4	1	0	4,775
REMI	7	2	224	63	117	52	82	34	35,504
Other	8	269	7	216	35	477	0	35	308
Total Corporate	**377**	**35**	**3,183**	**291**	**1,713**	**54**	**1,368**	**346**	**107,639**
Housing loans	–29	–3	630	58	36	6	9	26	108,393
Collateralised lending	48	27	444	243	294	66	216	78	17,973
Non-Collateralised lending	138	192	354	475	281	80	134	147	7,159
Household	**157**	**12**	**1,427**	**106**	**612**	**43**	**360**	**252**	**133,525**
Public sector	**1**	**3**	**0**	**0**	**3**	**–**	**0**	**3**	**4,062**
Reverse repurchase agreements	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Lending to the public by country	**536**	**22**	**4,610**	**186**	**2,328**	**50**	**1,728**	**600**	**245,226**
Excl. reverse repurchase agreements	**536**	**22**	**4,610**	**186**	**2,328**	**50**	**1,728**	**600**	**245,226**

1) Including provisions for off-balance sheet exposures.

G2. Risk and Liquidity management, cont.

Loans measured at amortised cost

31 Dec 2018, EURm	Net loan losses[1]	Loan loss ratio, bps	Impaired loans Stage 3	Impairment ratio bps	Allowances total[1]	Provision-ing ratio, %	Allowances Stage 3[1]	Allowances Stage 1 and 2[1]	Loans measured at amor-tised cost
Financial institutions	43	39	285	252	172	60	139	32	11,124
Crops etc	15	147	93	885	34	37	33	1	1,018
Animal husbandry	30	369	248	2,544	162	65	153	9	814
Fishing and aquaculture	0	3	3	25	1	22	0	0	1,167
Paper, forest and mining	8	36	49	212	58	118	45	13	2,269
Oil, gas and offshore	37	209	555	2,872	176	32	167	9	1,757
Consumer staples (food and health care)	–15	–56	57	220	35	61	29	6	2,578
Media, leisure and telecom	1	2	41	147	34	83	26	8	2,761
Consumer durables	–14	–103	37	259	23	63	19	4	1,398
Retail trade	48	166	142	474	108	76	89	19	2,881
Land transportation and IT	0	–1	70	206	37	52	20	16	3,371
Materials	9	42	60	271	51	86	28	24	2,170
Capital goods	–8	–31	123	443	84	68	78	6	2,691
Commercial & prof. services	37	42	307	336	124	40	101	23	9,021
Construction	–12	–23	128	252	102	80	85	17	4,983
Wholesale trade	2	3	168	304	96	57	76	20	5,448
Maritime (shipping)	–36	–45	677	809	218	32	172	46	8,150
Utilities and public services	–13	–22	18	30	3	15	0	3	6,006
REMI	–16	–4	234	66	123	52	100	23	35,372
Other	–42		2	296	62		40	22	0
Total Corporate	**74**	**7**	**3,298**	**309**	**1,702**	**52**	**1,400**	**302**	**104,978**
Housing loans	28	3	649	64	109	17	54	56	100,873
Collateralised lending	–3	–2	375	213	225	60	168	57	17,372
Non-Collateralised lending	77	104	258	342	125	49	40	86	7,400
Household	**102**	**8**	**1,282**	**102**	**460**	**36**	**262**	**198**	**125,645**
Public sector	**–3**	**–7**	**0**	**0**	**1**	**0**	**0**	**1**	**3,848**
Reverse repurchase agreements	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**
Lending to the public by country	**173**	**7**	**4,581**	**194**	**2,163**	**47**	**1,661**	**502**	**234,471**
Excl. reverse repurchase agreements	**173**	**7**	**4,581**	**194**	**2,163**	**47**	**1,661**	**502**	**234,471**

1) Including provisions for off-balance sheet exposures.

G2. Risk and Liquidity management, cont.

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 509bn (EUR 505bn last year). Total credit exposure according to the CRR definition was at year end after Credit Conversion Factor EUR 462bn (EUR 468bn).

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 increased by 4.7% to EUR 323bn during 2019 (EUR 308bn in 2018). The corporate portfolio increased approximately 1.5%, the household portfolio increased by 7.8% mostly related to Norway, where the acquisition of Gjensidige Bank had a significant impact. The overall credit quality is solid with strongly rated customers. Of the lending to the public portfolio, corporate customers accounted for 46.9% (47.8%), household customers for 51.8% (50.9%) and the public sector for 1.3% (1.3%). Loans to central banks and credit institutions, mainly in the form of inter-bank deposits, decreased to EUR 18bn at the end of 2019 (EUR 19bn).

Impaired loans and ratios

	2019	2018
Gross impaired loans, Group, EURm	4,610	4,581
- of which servicing	2,311	2,097
- of which non-servicing	2,298	2,484
Impairment rate, (stage 3) net, basis points	**113**	**118**
Allowances in relation to loans, stage 1 and 2, basis points	**20**	**18**
Total allowance ratio (stage 1, 2 and 3), basis points	**84**	**81**
Allowances in relation to impaired loans (stage 3), %	**37**	**35**

Net loan losses and loan loss ratios

	2019	2018
Net loan losses, EURm	536	173
Net loan loss ratio, amortised cost, Group, basis points	22	7
- of which Stage 3	18	9
- of which Stage 1 & 2	4	–1
Net loan loss ratio, including fair value mortgage loans, Group, basis points	18	7
Net loan loss ratio, including fair value mortgage loans, Personal Banking, basis points	8	5
Net loan loss ratio, including fair value mortgage loans, Business Banking, basis points	17	7
Net loan loss ratio, including fair value mortgage loans, Large Corporates & Institutions, basis points	51	19

Loans to corporate customers

Loans to corporate customers at the end of 2019 amounted to EUR 152bn (EUR 147bn). The sector that increased the most in 2019 was Commercial & Prof. Services while Utilities and Public Services decreased the most. The contribution of the three largest industries (Real Estate, Financial Institutions and Industrial Commercial & Prof. Services) is approximately 47% of total corporate lending. Real Estate (commercial & residential) remains the largest industry in Nordea's lending portfolio, at EUR 43.9bn (EUR 43.2bn). The Real Estate (commercial & residential) portfolio predominantly consists of relatively large and financially strong companies, with 92% (91%) of the lending in rating grades 4– and higher. Loans to Maritime decreased to EUR 7.7bn (EUR 8.2bn) during the year. The Russian lending portfolio continued to decrease significantly during 2019 and now amounts to 0.5bn (EUR 0.9bn).

The distribution of loans to corporate customers by size of loans, seen in the table below, shows a high degree of diversification where approximately 65% (68%) of the corporate volume represents loans up to EUR 50m per customer.

Loans to corporate customers, by size of loans

	31 Dec 2019		31 Dec 2018	
Size in EURm	Loans EURbn	%	Loans EURbn	%
0–10	62.6	41	62.6	42
10–50	36.1	24	35.0	24
50–100	20.7	14	19.4	13
100–250	19.8	13	17.4	12
250–500	4.1	3	5.4	4
500–	8.2	5	7.6	5
Total	**151.5**	**100**	**147.4**	**100**

Loans to household customers

In 2019 lending to household customers increased by 6.5% to EUR 167bn (EUR 157bn). The increase was primarily driven by the acquisition of Gjensidige Bank in Norway, which had lending to the public of EUR 5.2bn at the time of acquisition. Mortgage lending increased to EUR 142bn (EUR 132bn) and consumer lending remained at EUR 25bn (EUR 25bn). The proportion of mortgage lending of total household lending increased to 85% (84%).

Geographical distribution

Lending to the public distributed by borrower domicile shows that the customers residing in the Nordic countries account for 98% (98%). 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. At the end of 2019, lending in Russia was EUR 0.5bn (EUR 0.9bn).

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 was roughly unchanged in the corporate portfolio, while it improved slightly in the scoring portfolio in 2019. 19% of the number of corporate customers migrated upwards (21%) while 33% was down-rated (28%). Exposure-wise, 16% (20%) of the corporate customer exposure migrated upwards while 20% (23%) was down-rated. 87% (85%) of the corporate exposure was rated 4– or higher, with an average rating for the portfolio of 4+.

G2. Risk and Liquidity management, cont.

Rating/scoring information for loans measured at amortised cost

EURm Rating/scoring grade	Average PD (%)	Gross carrying amount, 31 Dec 2019 Stage 1	Stage 2	Stage 3[1]	Total	Allowances
7	0.00	8,922	23	–	8,945	2
6 / A	0.03	92,278	227	7	92,512	8
5 / B	0.13	56,651	883	46	57,580	29
4 / C	1.97	57,349	2,191	20	59,560	82
3 / D	18.42	13,593	3,198	58	16,849	124
2 / E	19.72	3,159	2,086	27	5,272	121
1 / F	22.89	1,152	1,439	73	2,664	97
Standardised / Unrated	2.06	9,333	1,484	184	11,001	51
0 (default)	100.00	278	167	4,195	4,640	1,669
Total		**242,715**	**11,698**	**4,610**	**259,023**	**2,183**

EURm Rating/scoring grade	Average PD (%)	Gross carrying amount, 31 Dec 2018 Stage 1	Stage 2	Stage 3[1]	Total	Allowances
7	0.01	9,958	116	0	10,074	2
6 / A	0.05	86,849	659	5	87,513	9
5 / B	0.19	54,017	1,696	6	55,719	51
4 / C	0.80	55,279	2,789	15	58,083	69
3 / D	5.46	12,318	4,581	40	16,939	100
2 / E	14.64	2,968	2,640	90	5,698	108
1 / F	34.96	1,058	1,531	72	2,661	92
Standardised / Unrated	0.24	10,029	319	95	10,443	56
0 (default)	100.00	211	186	4,258	4,655	1,553
Total		**232,687**	**14,517**	**4,581**	**251,785**	**2,040**

1) The stage classification and calculated provision for each exposure are based on the situation as per end of October 2019, while the exposure amount and rating grades are based on the situation as per end of December 2019. 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.

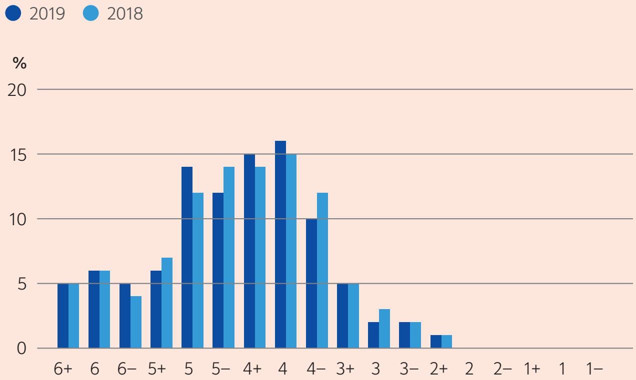
Rating/scoring information for off balance sheet items

EURm Rating/scoring grade	Nominal amount 31 Dec 2019 Stage 1	Stage 2	Stage 3	Total	Provisions
7	4,542	–	–	4,542	2
6 / A	21,905	11	–	21,916	4
5 / B	28,970	23	1	28,994	10
4 / C	24,357	1,625	3	25,985	20
3 / D	4,479	1,723	6	6,208	33
2 / E	384	496	5	885	16
1 / F	45	250	2	297	10
Standardised / Unrated	2,001	464	4	2,469	5
0 (default)	–	–	679	679	44
Total	**86,683**	**4,592**	**700**	**91,975**	**144**

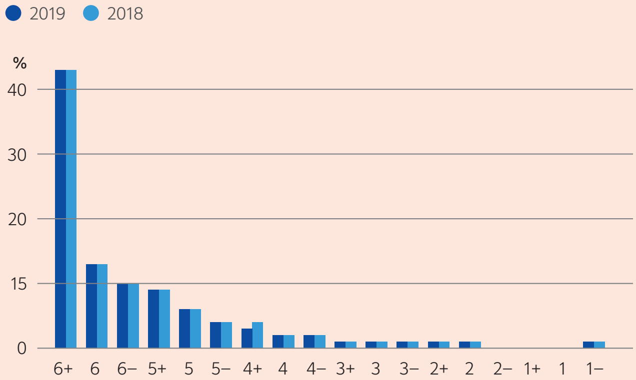
EURm Rating/scoring grade	Nominal amount 31 Dec 2018 Stage 1	Stage 2	Stage 3	Total	Provisions
7	4,503	–	–	4,503	0
6 / A	22,981	22	0	23,003	2
5 / B	29,365	160	0	29,525	14
4 / C	21,598	766	1	22,365	13
3 / D	3,481	1,861	7	5,349	19
2 / E	376	569	5	950	9
1 / F	72	234	2	308	7
Standardised / Unrated	2,343	452	3	2,798	2
0 (default)	–	0	694	694	55
Total	**84,719**	**4,064**	**712**	**89,495**	**121**

G2. Risk and Liquidity management, cont.

Rating distribution IRB Corporate customers



Risk grade distribution IRB Retail customers



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. 0.47% during the full year 2019.

Loan classes
The loan portfolio consists of two classes; loans measured at amortised cost of EUR 247bn and loans measured at fair value of EUR 78bn. 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 increased slightly to EUR 4,610m (EUR 4,581m), corresponding to 178 basis points of total loans. 50% of impaired loans gross are servicing and 50% are non-servicing. Impaired loans net, after allowances for Stage 3 loans amount to EUR 2,924m, corresponding to 113 basis points of total loans. Allowances for Stage 3 loans amount to EUR 1,686m. Allowances for Stages 1&2 loans amount to EUR 497m. The ratio of allowances in relation to impaired loans is 37% and the allowance ratio for loans in Stages 1&2 is 20 basis points. The increase in impaired loans was mainly related to the Oil, Gas and Offshore industry and the Household sector. The portfolios with the largest impaired loan amounts were Household, Oil, Gas & Offshore and Commercial & Prof. Services.

Past due loans
Past due loans, 6 days or more, for corporate customers make up EUR 978m, and past due loans to household sum up to EUR 2,229m in 2019.

The table below shows loans past due 6 days or more, 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 2019 EUR 978m, down from EUR 1,235m one year ago, and past due loans for household customers increased to EUR 2,229m (EUR 1,636m).

	31 Dec 2019		31 Dec 2018	
EURm	Corporate customers	Household customers	Corporate customers	Household customers
6–30 days	405	1,054	701	657
31–60 days	127	273	89	233
61–90 days	84	144	35	111
>90 days	362	758	410	635
Total	**978**	**2,229**	**1,235**	**1,636**
Past due (incl. impaired) loans divided by loans to the public after allowances, %	0.63	1.33	0.82	1.04

Net loan losses
Net loan losses increased to EUR 536m (from EUR 173m in 2018), corresponding to an annual net loan loss ratio including fair value mortgage loans of 18bps (up 11bps from 2018). The change in the level of net loan losses compared to 2018 primarily related to net loan losses of EUR 282m made in Q3 2019 after dialogue with the ECB on Asset Quality Review findings, reflecting weaker outlook for certain sectors, and to IFRS9 model updates.

Excluding these items affecting comparability, net loan losses for 2019 were EUR 253m, and 8 bps on total loan exposure, including fair value mortgages. Net loan losses increased in Personal Banking to EUR 122m (EUR 79m) and Business Banking to EUR 91m (EUR 24m) compared to last year while net loan losses decreased in Large Corporates & Institutions to EUR 40m (EUR 92m).

Of the net loan losses, EUR 157m relates to corporate customers (EUR 82m), and EUR 377m (EUR 102m) to household customers. Within the corporate portfolio the main net loan losses were in the industries Oil, Gas & Offshore and Maritime.

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 7.1bn of which 29% was towards financial institutions. For information about financial instruments subject to master netting agreement, see Note G42.

G2. Risk and Liquidity management, cont.

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 2019	**15,258**	**30**	**0**	**15,288**	**217,160**	**14,691**	**4,646**	**236,497**	**232,418**	**14,721**	**4,646**	**251,785**
Origination and acquisition	2,088	0	–	2,088	59,495	1,000	422	60,917	61,583	1,000	422	63,005
Transfers between stage 1 and stage 2, (net)	–7	7	–	0	982	–982	–	0	975	–975	0	0
Transfers between stage 2 and stage 3, (net)	–	–	–	0	–	–213	213	0	0	–213	213	0
Transfers between stage 1 and stage 3, (net)	–	–	–	0	–357	–	357	0	–357	0	357	0
Repayments and disposals	–3,272	–16	–	–3,288	–52,422	–2,774	–613	–55,809	–55,694	–2,790	–613	–59,097
Write-offs	–	–	–	0	–	–	–437	–437	0	0	–437	–437
Other changes	–2,489	58	–	–2,431	8,150	–1,042	–4	7,104	5,661	–984	–4	4,673
Translation differences	–29	0	–	–29	–893	–9	25	–877	–922	–9	25	–906
Closing balance at 31 Dec 2019	**11,549**	**79**	**0**	**11,628**	**232,115**	**10,671**	**4,609**	**247,395**	**243,664**	**10,750**	**4,609**	**259,023**

	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**

G2. Risk and Liquidity management, cont.

Movements in 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 1 Jan 2019	**–5**	**–8**	**–3**	**–16**	**–141**	**–287**	**–1,596**	**–2,024**	**–146**	**–295**	**–1,599**	**–2,040**
Origination and acquisition	–1	0	–	–1	–31	–9	–1	–41	–32	–9	–1	–42
Transfers from stage 1 to stage 2	0	0	–	0	6	–73	–	–67	6	–73	0	–67
Transfers from stage 1 to stage 3	–	–	–	0	1	–	–57	–56	1	0	–57	–56
Transfers from stage 2 to stage 1	0	0	–	0	–15	57	–	42	–15	57	0	42
Transfers from stage 2 to stage 3	–	–	–	0	–	13	–159	–146	0	13	–159	–146
Transfers from stage 3 to stage 1	–	–	–	0	–10	–	14	4	–10	0	14	4
Transfers from stage 3 to stage 2	–	–	–	0	–	–19	24	5	0	–19	24	5
Changes in credit risk without stage transfer	1	0	–5	–4	23	–12	–214	–203	24	–10	–221	–207
Repayments and disposals	1	6	–	7	23	32	52	107	24	37	53	114
Write-off through decrease in allowance account	–	–	–	0	–	–	312	312	0	0	312	312
Changes due to update in the institution's methodology for estimation (net)	–	–	–	0	0	–40	–13	–53	0	–40	–13	–53
Other changes	–	–	–	0	–5	–5	–28	–38	–5	–5	–28	–38
Translation differences	0	0	–2	–2	0	1	–10	–9	0	0	–11	–11
Closing balance at 31 Dec 2019	**–4**	**–2**	**–10**	**–16**	**–149**	**–342**	**–1,676**	**–2,167**	**–153**	**–344**	**–1,686**	**–2,183**

	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	**–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**

The tables shows the changes in exposure/allowances for each stage during the year. If an exposure moves into stage 2 from stage 1, there will be a reversal for stage 1 and an increase for stage 2.

G2. Risk and Liquidity management, cont.

Movements in provisions for off balance sheet items

EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2019	**18**	**41**	**62**	**121**
Origination and acquisition	5	2	0	7
Transfers from stage 1 to stage 2	0	21	–	21
Transfers from stage 1 to stage 3	0	–	2	2
Transfers from stage 2 to stage 1	2	–9	–	–7
Transfers from stage 2 to stage 3	–	0	3	3
Transfers from stage 3 to stage 1	0	–	–1	–1
Transfers from stage 3 to stage 2	–	0	–4	–4
Changes in credit risk without stage transfer	12	18	–21	9
Repayments and disposals	–4	–3	0	–7
Write-off through decrease in allowance account	–	–	–	0
Translation differences	0	0	0	0
Closing balance at 31 Dec 2019	**33**	**70**	**41**	**144**

EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2018	**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
Closing balance at 31 Dec 2018	**18**	**41**	**62**	**121**

G2. Risk and Liquidity management, cont.

Market risk

Market risk is the risk of loss in Nordea's positions in either the trading book or non-trading book as a result of changes in market rates and parameters that affect the market values or net interest income flows. Market risk exists irrespective of the accounting treatment of the positions.

The market risk appetite for the Group is expressed through risk appetite statements issued by the Board of Directors. 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 measure the market risk appetite and calibrate 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 Large Corporates & Institutions.

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, commodity 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.

Measurement of market risk

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

VaR is based on historical scenarios and is the primary market risk measurement metric, complemented by stress testing. Nordea calculates VaR using historical simulation. The current portfolio is revalued based on historical daily changes in market prices, rates and other market risk factors observed during the last 500 business days and translated to changes in the current market risk factors. Nordea uses absolute, relative and mixed translation methods for different risk categories. The revaluation of the current portfolio is performed for each position using either a linear approximation method or a full revaluation method, depending on the nature of the position.

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 Measure model and the Comprehensive Risk Measure model to capture the default and migration risks.

The Value-at-Risk, Stressed Value-at-Risk, Equity Event Risk, Incremental Risk Measure and the Comprehensive Risk Measure models were all approved by the bank's previous regulator, 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.

The Standardised Approach is applied to risk exposure which is not covered by the IMA. It is used for calculating market risk exposures for commodity related products, specific risk for mortgage and government bonds, commercial papers, credit/rate hybrids and credit spread options, as well as for equity risk related to structured equity and Tier 1 and Tier 2 bonds.

Nordea Bank Abp is the only legal entity for which this model is in use. After the relocation to Finland in October 2018, Nordea is operating under a temporary tolerance decision from the ECB, allowing the bank to continue to use its IMA approved by the Swedish FSA. The ECB's temporary tolerance is conditioned on Nordea applying to the ECB for a new permanent IMA approval, which the bank is currently preparing for.

IRRBB is measured, monitored and managed using three key risk metrics:

- Economic Value (EV),
- Fair Value (FV), and
- Structural Interest Income Risk (SIIR).

The three different risk metrics are used to assess differing aspects of the manifestation of interest rate risk. These are described in more detail below.

Economic value (EV) of Equity stress tests consider the

G2. Risk and Liquidity management, cont.

change in the economic value of banking book assets, liabilities and interest-bearing derivative exposures resulting from interest rate movements, independently of accounting classification and ignoring credit spreads and commercial margins. The model assumes a run-off balance sheet and includes behavioural modelling for non-maturing deposits and prepayments. Changes in the Economic Value of Equity of the banking book are measured using the 6 standardised scenarios defined by the Basel Committee on Banking Supervision (BCBS) plus a range of internal parallel shocks. The exposure limit under EV is measured against the worst outcome out of the six Basel scenarios measured. The EV Basel scenarios are estimated daily for management information purposes, but fully calculated and monitored monthly against the risk appetite limits. The fair value risk stress measure considers the potential revaluation risk relating to positions held under fair value accounting classifications. Fair value sensitivities in the banking book are monitored against five severe but plausible market stress scenarios. The scenarios are calibrated to reflect severe events designed to test specific exposures that are or may be held under the approved mandate. The risk is measured daily, and a risk appetite limit is set against the worst outcome of the five scenarios. The FV scenarios are applied to both the banking book and trading book portfolios, and the Board risk appetite limit considers the combined impact across both. The FV stress metric is monitored daily.

The earnings risk 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, implied forward rates and behavioural modelling for the non-maturing deposits and prepayments. Similarly to EV, SIIR is measured using the six standardised scenarios defined by the Basel Committee on Banking Supervision (BCBS) for management information, plus a range of internal parallel shocks. The SIIR risk appetite limit is set against a +/– 50bps parallel shock. The SIIR earnings metric is monitored monthly.

The measurement of IRRBB is dependent on key assumptions applied in the models. The most material assumptions relate to the modelling of embedded behavioural options in both assets and liabilities. The behavioural option held by Nordea's lending customers to execute early loan prepayments is estimated using prepayment models. On the liability side, Nordea has an option to change deposit rates, and customers have an option to withdraw non-maturing deposits (NMD) at any given day. Both embedded options are modelled using NMD models. Both assumptions are calculated based on historical average by core asset and liability class features. Assets and liabilities are grouped according to key metrics including product type, geography and customer segment. Assumptions are based on historically observed values. Regular back-testing and model monitoring are performed for both prepayment models and NMD models to ensure that the models remain accurate.

The Pillar 2 IRRBB capital allocations consist of a Fair Value Risk component and an Earnings Risk component. The Fair Value Risk component covers the impact on the bank's equity due to adverse movements in the MtM values of positions accounted for at Fair Value through Profit and Loss (FVTPL) or Fair Value through other comprehensive income (FVOCI). The Earnings Risk component covers the impact of rate changes on future earnings capacity, and the resulting implications for internal capital buffer levels.

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 below.

The Market risk measured by VaR showed an average utilisation of EUR 14.8m in 2019 (average in 2018 was EUR 13m) and was primarily driven by interest rate VaR. Stressed VaR showed an average utilisation of EUR 46.6m which is higher compared to 2018 (average in 2018 was EUR 33m) and primarily driven by interest rate stressed VaR with additional contributions from credit spread stressed VaR. The highs in VaR were reached in Q3 and Q4 while highs in stressed VaR were reached in Q1 and Q4. VaR and stressed VaR are primarily driven by market risk in Northern European and Nordic countries.

The Incremental Risk Charge (IRC) at the end of 2019 was significantly lower than

Market risk figures for the trading book[1]

EURm	31 Dec 2019	2019 high	2019 low	2019 avg	31 Dec 2018
Total VaR	21.1	22.5	10.1	14.8	18.3
Interest rate risk	18.1	20.6	8.4	14.0	16.4
Equity risk	6.1	9.6	1.4	3.4	2.5
Credit spread risk	4.3	10.5	3.1	5.1	6.5
Foreign exchange risk	1.6	6.3	0.7	2.9	1.9
Inflation risk	1.8	2.8	1.4	2.0	2.2
Diversification effect	34.1	58.1	34.1	45.7	37.9
Total Stressed VaR	66.8	86.1	27.9	46.6	61.9
Incremental Risk Charge (IRC)	21.3	41.2	7.3	16.1	34.8
Comprehensive Risk Charge (CRC)	16.5	29.0	9.3	19.6	28.7

1) Equity Event Risk, which equalled EUR 0.2m at end of 2019.

Market risk for the banking book figures

EURm	31 Dec 2019	2019 high	2019 low	2019 avg	31 Dec 2018
Total VaR	33.5	57.8	26.5	42.1	37.5

G2. Risk and Liquidity management, cont.

at the end of 2018. The decrease was driven by a reduction in both default and migration exposure. The lowest exposure occurred during Q3 2019, while IRC peaked in Q1 2019. The average IRC decreased by EUR 8.7m compared to the previous year, especially driven by a consistently lower default component.

Comprehensive Risk Charge (CRC) at the end of 2019 was lower than at the end of 2018 driven by buy-backs and spread tightening. The lowest exposure occurred during Q4 2019, while CRC peaked during Q1 2019. Average CRC for 2019 dropped by EUR 5.6m compared to 2018.

The VaR for Banking Book has reduced slightly over the year, driven by higher concentration on high rated government bonds and a small reduction in mortgage bond exposure over the year. Overall Banking Book market risk is within appetite and under control.

The fair value of illiquid alternative investments was EUR 852.6m at the end of 2019 (EUR 644.9m at the end of 2018), of which private equity funds EUR 338.9m, hedge funds EUR 1.4m, credit funds EUR 253.3m and seed-money investments EUR 258.9m. All four types of investments are spread over a number of funds.

Structural Interest Income Risk (SIIR)/EV

At the end of the year, the worst loss out of the six Basel scenarios for SIIR was driven by the Steepener Basel scenario, where the loss was EUR 1,030m (against the worst loss in 2018 of EUR 1,176m, also 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 263.9m at end of year 2019.

Other market risks / Pension risk

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. See note G34 for more information.

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.

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 mandate and for managing these risks within risk limits and risk appetite in accordance with the operational risk management framework.

Group Operational Risk (GOR) within Group Risk and Compliance (GRC) constitutes the second line of defence (2nd LoD) risk control function 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 first line of defence (1st LoD). 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 the implementation of the frameworks.

The focus areas of the monitoring and control work performed by GOR are decided during an annual 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 utilisation and incidents to the Chief Risk Officer (CRO), who thereafter reports to the Chief Executive Officer (CEO) in Group Leadership Team (GLT), the Group Board and relevant committees.

The Risk Appetite Statement (RAS) for operational risk is expressed in terms of:

- residual risk level in breach of risk appetite and requirements for mitigating actions for risks; and
- total loss amount from incidents and management of incidents.

Management of operational risk

Management of operational risk includes all activities aimed at identifying, assessing and measuring, responding and mitigating, controlling and monitoring and reporting on risks. The risk management is supported by various processes including e.g. the Risk and Control Self-Assessment, Change Risk Management and Approval, Incident Management, Scenario Analysis, Business Continuity and Crisis Management, Information Security Management, Third Party Risk Management and Significant Operating Processes.

Some of these processes are described below and additional details on processes for managing and controlling operational risks are included in the Capital and Risk Management Report.

Risk and Control Self-Assessment

The Risk and Control Self-Assessment (RCSA) process provides a risk-based view of operational and compliance risks across Nordea. The process improves risk awareness and enables effective assessment, control, and mitigation of identified risks. For risks identified in the RCSA process, 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.

Change Risk Management and Approval framework

The objective of the Change Risk Management and Approval (CRMA) framework is to ensure that there is a full understanding of both financial and non-financial risks when executing changes. Associated risks shall be adequately managed consistent with Nordea's risk strategy, risk appetite and corresponding risk limits before a change is approved, executed or implemented.

Changes in scope of the CRMA framework include e.g. new or significant changes to products, services, or IT systems.

Incident Management

The objective of Incident Management is to ensure appropriate handling of detected incidents in order to minimise the impact on Nordea and its customers, to prevent reoccurrence, and to reduce the impact of future incidents. In addition, the Incident Management shall enable timely, accurate and complete information for internal and external reporting and capital modelling, and secure timely notification to relevant supervisory authorities.

G2. Risk and Liquidity management, cont.

Business Continuity and Crisis Management

The objective of the Business Continuity and Crisis Management is to protect Nordea's employees, customers, stakeholders and assets by ensuring that Nordea builds, maintains, and tests the ability to continue and recover prioritised activities and assets, should an extraordinary event or crisis occur. Crisis Management shall ensure that extraordinary events or crisis situations are identified, escalated and managed to minimize impact.

Financial Reporting Risk

Financial reporting risk is defined as the risk of misstatements in external financial reporting and regulatory capital reporting. The risk arises from erroneous interpretation and implementation of accounting standards and regulation, the use of judgement in reporting, as well as from inadequate governance and control frameworks around valuation and financial reporting. The framework for managing financial reporting risk is designated as the Accounting Key Controls (AKC), framework, based on the the Committee of Sponsoring Organizations of the Treadway Commission (COSO), framework, which provides the structure and guidance for designing, operating and evaluating the system of internal control over financial reporting across the group. The AKC framework is the mechanism through which management expresses its various assertions over its financial statements. GRC control function for financial reporting risk is responsible for the independent monitoring, assessment and oversight of the risks and the group's implementation of the AKC framework, and reports to Board Audit Committee on a quarterly basis.

Compliance Risk

Nordea defines compliance risk as the risk of failure to comply with applicable laws, regulations, standards, supervisory requirements and related internal rules governing Nordea's activities in any jurisdiction where Nordea operates.

Nordea's Code of Conduct and corporate values underpin Nordea's culture and set the parameters for how Nordea's employees should conduct themselves. All Nordea's employees are required to complete annual training in the Code of Conduct to ensure proper awareness and knowledge of the ethical principles.

In 2019, Nordea continued the development to ensure that Nordea's culture and behaviours are consistent with Nordea's values and that Nordea delivers fair outcomes for its customers throughout the entire stage of the customer lifecycle. The quality of investment advice is monitored continuously to ensure customer protection and recent outcomes indicating improvement. The improved results are driven by the changes made in the advisory tool, instructions and training of advisors. It is also important to manage conflicts of interest in relation to products and services. In 2019, enhancements have been implemented in regular product reviews and the approval process. The complaints handling framework has in the recent years been developed and the process is renewed with clear and regular reporting, a strong feedback culture, root cause analysis and mitigating activities.

Nordea's Raising Your Concern (RYC or "whistleblowing") process ensures that Nordea employees, customers and external stakeholders have the right to and feel safe when speaking up if they witness or suspect misconduct or unethical behaviour. The RYC process encompasses ways to report a suspected breach of ethical standards, or breach of internal or external rules. Concerns can be raised openly, confidentially or anonymously by individuals ("whistle-blow"). The RYC process also outlines rules and procedures for how RYC investigations are conducted.

Nordea further strengthened the financial crime defences in 2019. Significant compliance enhancements have been achieved within the areas of: i) governance, ii) IT support of customer due diligence processes, iii) participation in the development of a Nordic KYC Utility (a cross-bank initiative to centrally collect customer due diligence data), iv) transaction monitoring and sanction screening capabilities by e.g. upgrading systems, introducing additional automated processes and improving timeliness of suspicious activity reporting, v) updating Nordea's policies in light of changes in regulation, and vi) strengthening of Nordea's Anti-Bribery and Corruption programme.

Managers throughout Nordea are accountable for the compliance risks related to their mandate and for managing these in accordance with the compliance risk management framework.

Group Compliance (GC) within Group Risk and Compliance (GRC) constitutes the independent compliance function and is responsible for developing and maintaining the risk management framework for compliance risks and for guiding the business in their implementation of and adherence to the framework.

Compliance activities are presented in the form of an annual compliance oversight plan to the Chief Executive Officer (CEO) and the Board of Directors (BoD). The annual compliance oversight plan represents a comprehensive approach to the compliance activities of Nordea, combining GC's overall approach to key risk areas. The plan is supported by granular plans in each Business Area, Group Function, Consolidated Group Subsidiaries and Nordea Bank Abp branches and for each risk area.

GC is responsible for regular reporting to the BoD, the CEO in Group Leadership Team (GLT), branch management and relevant committees, at least quarterly.

The Risk Appetite Statement (RAS) for compliance risk is expressed in terms of the residual risk level in breach of risk appetite and requirements for mitigating actions for risks. The RAS for conduct risk includes metrics regarding the Code of Conduct as well as customer outcomes and market integrity.

Details on key processes for managing and controlling compliance risks are included in the Capital and Risk Management Report.

Nordea is subject to various legal regimes and requirements, including but not limited to those of the Nordic countries, the European Union and the United States. Supervisory and governmental authorities that administer and enforce those regimes make regular inquiries and conduct investigations with regards to Nordea's compliance in many areas, such as investment advice, anti-money laundering (AML), trade regulation and sanctions adherence, external tax rules, competition law and governance and control. The outcome and timing of these inquiries and investigations is unclear and pending, and accordingly, it cannot be excluded that these inquiries and investigations could lead to criticism against the bank, reputation loss, fines, sanctions, disputes and/or litigations.

In June 2015, the Danish Financial Supervisory Authority investigated how Nordea Bank Denmark A/S had followed the regulations regarding AML. The outcome has resulted in criticism and the matter was, in accordance with Danish administrative practice, handed over to the police for further handling and possible sanctions. As previously stated, Nordea expects to be fined in Denmark for our weak AML processes and procedures in the past and has made a provision for ongoing AML-related matters.

There is a risk that the outcome of possible fines from authorities could be higher (or potentially lower) than the current provision and that this could also impact the bank's financial performance. In addition, some of these proceedings could lead to litigation. Given this uncertainty, we will maintain the level of provision for ongoing AML related matters while also continuing the dialogue with the Danish Authorities regarding their allegations for historical AML weaknesses.

G2. Risk and Liquidity management, cont.

Nordea has made significant investments to address the deficiencies highlighted by the investigations. Amongst other Nordea established in 2015 the Financial Crime Change Programme and has strengthened the organization significantly to enhance the AML and sanction management risk frameworks. Nordea has also established the Business Ethics and Values Committee and a culture transformation program to embed stronger ethical standards into our corporate culture. In addition, the group is investing in enhanced compliance standards, processes and resources in both the first and second lines of defence.

The Danish tax authorities have raised a claim for damages against Nordea of approximately DKK 900m 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. It is our assessment that Nordea is not liable, and Nordea disputes the claim.

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. Traditional products (participating savings and life insurance products) and health insurance take minor roles 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 currency 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 specified 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 risk management

During 2019, 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 19.2bn in long-term debt (excluding subordinated debt and covered bonds issued by Nordea Kredit Realkreditaktieselskab) of which approx. EUR 13bn included covered bonds issued in Sweden, Finland and Norway. Throughout 2019, 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, Group Risk and Compliance, is responsible for providing independent oversight of and challenge to the first line of defence.

The Third Line of Defence includes 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 Liquidity Stress Horizon, which defines the risk appetite by setting a minimum survival of 90 days 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.

G2. Risk and Liquidity management, cont.

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 Liquidity Stress Horizon metrics stipulating that the liquidity buffer needs to be sufficient to cover peak cumulative stressed outflows experienced over the first 90 days 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. 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 2019, the total volume utilised under short-term programmes was EUR 44.3bn (EUR 46.8bn) with an average maturity of 0.3 (0.3) years. The total volume under long-term programmes was EUR 159.3bn (EUR 152.8bn) with an average maturity being 6.3 (6.0) years. Nordea's funding sources are presented in a table below.

The liquidity risk position remained at a low level throughout 2019. The Liquidity Stress Horizon was 504 days as of year-end 2019 (533 days as of year-end 2018) with a yearly average of 642 days (332 days) – the Group limit is not below 90 days.

The yearly average of the funding gap risk was EUR +29.7bn (EUR +17.7bn in 2018) against a limit of EUR –15bn. Nordea's liquidity buffer ranged between EUR 88.1bn and 108.2bn throughout 2019 (EUR 86.9bn and 110.1bn) with an average liquidity buffer of EUR 97.2bn (EUR 97.8bn).

The combined LCR according to EBA Delegated Act rules for the Nordea Group was at the end of 2019 166% (185%) with a yearly average of 188% (184%). At the end of 2019 the LCR in EUR was 236% (257%) and in USD 146% (214%), with yearly averages of 201% (190%) and 187% (183%), respectively. At the end of 2019 Nordea's NSFR was 108.6% according to CRR2.

Net balance of stable funding

EURbn	31 Dec 2019	31 Dec 2018
Stable liabilities and equity		
Tier 1 and Tier 2 capital	31	32
Secured/unsecured borrowing >1Y	124	126
Stable retail deposits	68	65
Less stable retail deposits	17	16
Wholesale deposits <1Y	71	72
Total Stable Liabilities	**311**	**311**

Net balance of stable funding, cont.

Stable assets	31 Dec 2019	31 Dec 2018
Wholesale and retail loans >1Y	238	240
Long term lending to banks and financial companies	1	1
Other illiquid assets	25	26
Total Stable Assets	**264**	**266**
Off-balance-sheet items	**2**	**2**
Net balance of stable funding (NBSF)	**44**	**43**

Funding sources, 31 December 2019

Liability type	Interest rate base	Average maturity (years)	EURm
Deposits by credit institutions			
Shorter than 3 months	Euribor etc.	0.1	31,456
Longer than 3 months	Euribor etc.	0.5	848
Deposits and borrowings from the public			
Deposits on demand	Administrative	0.0	149,012
Other deposits	Euribor etc.	0.2	19,712
Debt securities in issue			
Certificates of deposits	Euribor etc.	0.4	22,094
Commercial papers	Euribor etc.	0.2	22,192
Mortgage covered bond loans	Fixed rate, market-based	7.7	115,346
Other bond loans	Fixed rate, market-based	2.6	34,094
Derivatives			42,047
Other non-interest-bearing items			57,452
Subordinated debt			
Tier 2 subordinated bond loans	Fixed rate, market-based	4.8	7,410
Additional Tier 1 subordinated bond loans (undated)	Fixed rate, market-based		2,409
Equity			31,528
Total			**535,602**
Liabilities to policyholders			19,246
Total, including life insurance operations			**554,848**

Net Stable Funding Ratio (NSFR), 31 December 2019

	EURbn
Available stable funding	290,5
Required stable funding	267,6
Net stable funding	22,9
Net Stable Funding Ratio (NSFR)[1]	**108.6%**

1) According to CRR2 regulation.

G3. 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. At Nordea, the CODM has been defined as Group Leadership Team (former Group Executive Management). The main differences compared to the section "Business areas" in this report are that the information to CODM is prepared using plan exchange rates and 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, Business Banking, Large Corporates & Institutions and Asset & Wealth Management, with further breakdown into operating segments where relevant, and for the operating segment Group Finance. 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.

Compared with the 2018 Annual Report there is a change in the presentation of the business area Personal Banking. Personal Banking is only presented on a Nordic level and has no further break-down by country in order to align with other segments. The business area Commercial & Business Banking has changed name to Business Banking and the business area Wholesale Banking has changed name to Large Corporates & Institutions. The changes are reflected in the reporting to the Chief Operating Decision Maker (CODM) and are consequently part of the segment reporting in Note G3. Comparative figures have been restated accordingly.

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.

Large Corporates & Institutions 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 banking 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 Asset Management division 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 that is not allocated to the main business areas.

The main objective of Group Finance is to manage the Group's funding and to support the management and control of the Nordea Group. The main income in Group Finance originates from Group Treasury & ALM (TALM).

G3. Segment reporting, cont.

Income statement 2019

EURm	Personal Banking	Business Banking	Large Corporates & Institutions	Asset & Wealth Management	Group Finance	Other Operating segments[3]	Total operating segments	Recon-ciliation	Total Group
Net interest income	2,166	1,352	863	54	33	0	4,468	–150	4,318
Net fee and commission income	1,184	615	454	1,430	–4	3	3,682	–671	3,011
Net result from items at fair value	173	210	308	112	151	12	966	58	1,024
Profit from associated undertakings accounted for under the equity method	0	2	0	33	0	18	53	–3	50
Other income	2	20	1	14	7	138	182	50	232
Total operating income	**3,525**	**2,199**	**1,626**	**1,643**	**187**	**171**	**9,351**	**–716**	**8,635**
- of which internal transactions[1]	–678	–275	–464	–22	1,454	–15	0	–	–
Staff costs	–631	–422	–356	–402	–127	–191	–2,129	–888	–3,017
Other expenses	–1,308	–710	–564	–321	92	–117	–2,928	1,289	–1,639
Depreciation, amortisation and impairment charges of tangible and intangible assets	–63	–19	–14	–12	–3	–751	–862	–468	–1,330
Total operating expenses	**–2,002**	**–1,151**	**–934**	**–735**	**–38**	**–1,059**	**–5,919**	**–67**	**–5,986**
Profit before loan losses	**1,523**	**1,048**	**692**	**908**	**149**	**–888**	**3,432**	**–783**	**2,649**
Net loan losses	–135	–140	–255	–1	0	2	–529	–7	–536
Operating profit	**1,388**	**908**	**437**	**907**	**149**	**–886**	**2,903**	**–790**	**2,113**
Income tax expense	–333	–218	–105	–218	–34	215	–693	122	–571
Net profit for the year	**1,055**	**690**	**332**	**689**	**115**	**–671**	**2,210**	**–668**	**1,542**
Balance sheet 31 Dec 2019, EURbn									
Loans to the public[2]	154	83	51	8	–	1	297	26	323
Deposits and borrowings from the public[2]	73	42	35	10	–	1	161	8	169

Income statement 2018

EURm	Personal Banking	Business Banking	Large Corporates & Institutions	Asset & Wealth Management	Group Finance	Other Operating segments[3]	Total operating segments[3]	Recon-ciliation	Total Group
Net interest income	2,116	1,320	920	69	40	14	4,479	12	4,491
Net fee and commission income	1,176	578	472	1,411	–19	0	3,618	–625	2,993
Net result from items at fair value	167	297	412	167	73	26	1,142	–54	1,088
Profit from associated undertakings accounted for under the equity method	0	9	0	13	8	91	121	3	124
Other income	6	21	1	21	1	126	176	300	476
Total operating income	**3,465**	**2,225**	**1,805**	**1,681**	**103**	**257**	**9,536**	**–364**	**9,172**
- of which internal transactions[1]	–518	–236	–469	–15	1,251	–13	0	–	–
Staff costs	–635	–427	–393	–460	–128	–24	–2,067	–931	–2,998
Other expenses	–1,279	–757	–544	–316	140	–14	–2,770	1,204	–1,566
Depreciation, amortisation and impairment charges of tangible and intangible assets	–51	–15	–9	–9	–3	0	–87	–395	–482
Total operating expenses	**–1,965**	**–1,199**	**–946**	**–785**	**9**	**–38**	**–4,924**	**–122**	**–5,046**
Profit before loan losses	**1,500**	**1,026**	**859**	**896**	**112**	**219**	**4,612**	**–486**	**4,126**
Net loan losses	–79	–24	–92	–6	0	21	–180	7	–173
Operating profit	**1,421**	**1,002**	**767**	**890**	**112**	**240**	**4,432**	**–479**	**3,953**
Income tax expense	–341	–240	–184	–205	–24	–58	–1,052	180	–872
Net profit for the year	**1,080**	**762**	**583**	**685**	**88**	**182**	**3,380**	**–299**	**3,081**
Balance sheet 31 Dec 2018, EURbn									
Loans to the public[2]	144	81	49	7	–	1	282	26	308
Deposits and borrowings from the public[2]	68	41	35	9	–	1	154	11	165

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 Business Support.

2) The volumes are only disclosed separate for operating segments if separately reported to the Chief Operating Decision Maker.

3) Items effecting comparability are generally included in Other Operating segments.

G3. Segment reporting, cont.

Break-down of Business Banking

	Business Banking		Business Banking Direct		Business Banking Other[1]		Total Business Banking	
Income statement, EURm	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**	**2019**	**2018**
Net interest income	1,135	1,096	220	209	–3	15	1,352	1,320
Net fee and commission income	475	459	172	164	–32	–45	615	578
Net result from items at fair value	176	289	33	17	1	–9	210	297
Profit from associated undertakings accounted for under the equity method	–2	5	0	0	4	4	2	9
Other income	0	1	1	0	19	20	20	21
Total operating income	**1,784**	**1,850**	**426**	**390**	**–11**	**–15**	**2,199**	**2,225**
- of which internal transactions	–280	–233	5	–4	0	1	–275	–236
Staff costs	–170	–173	–49	–51	–203	–203	–422	–427
Other expenses	–649	–681	–203	–216	142	140	–710	–757
Depreciation, amortisation and impairment charges of tangible and intangible assets	–4	–5	–1	–2	–14	–8	–19	–15
Total operating expenses	**–823**	**–859**	**–253**	**–269**	**–75**	**–71**	**–1,151**	**–1,199**
Profit before loan losses	**961**	**991**	**173**	**121**	**–86**	**–86**	**1,048**	**1,026**
Net loan losses	–120	–14	–10	–3	–10	–7	–140	–24
Operating profit	**841**	**977**	**163**	**118**	**–96**	**–93**	**908**	**1,002**
Income tax expense	–202	–234	–39	–29	23	23	–218	–240
Net profit for the year	**639**	**743**	**124**	**89**	**–73**	**–70**	**690**	**762**
Balance sheet 31 Dec, EURbn								
Loans to the public	72	70	11	11	–	–	83	81
Deposits and borrowings from the public	31	30	11	11	–	–	42	41

1) Business Banking Other includes the areas COO, Transaction Banking and Digital Banking.

G3. Segment reporting, cont.

Break-down of Large Corporates & Institutions

Income statement, EURm	Corporate & Investment Banking 2019	Corporate & Investment Banking 2018	Financial Institutions Group & International Banks 2019	Financial Institutions Group & International Banks 2018	Banking Russia 2019	Banking Russia 2018	Capital Markets unallocated 2019	Capital Markets unallocated 2018	Large Corporates & Institutions Other[1] 2019	Large Corporates & Institutions Other[1] 2018	Total Large Corporates & Institutions 2019	Total Large Corporates & Institutions 2018
Net interest income	814	845	33	33	42	57	–6	1	–20	–16	863	920
Net fee and commission income	376	396	149	132	8	11	–79	–66	0	–1	454	472
Net result from items at fair value	141	146	146	139	12	8	9	119	0	0	308	412
Profit from associated undertakings accounted for under the equity method	–	–	–	–	–	–	–	–	–	–	–	–
Other income	0	0	0	0	1	0	1	1	–1	0	1	1
Total operating income	**1,331**	**1,387**	**328**	**304**	**63**	**76**	**–75**	**55**	**–21**	**–17**	**1,626**	**1,805**
- of which internal transactions	–342	–306	–31	–42	–50	–54	–34	–56	–7	–11	–464	–469
Staff costs	–74	–98	–10	–10	–18	–21	–201	–214	–53	–50	–356	–393
Other expenses	–412	–407	–231	–208	–14	–19	68	86	25	4	–564	–544
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	0	0	0	–3	–2	0	0	–11	–7	–14	–9
Total operating expenses	**–486**	**–505**	**–241**	**–218**	**–35**	**–42**	**–133**	**–128**	**–39**	**–53**	**–934**	**–946**
Profit before loan losses	**845**	**882**	**87**	**86**	**28**	**34**	**–208**	**–73**	**–60**	**–70**	**692**	**859**
Net loan losses	–307	–43	–1	–1	53	–48	0	0	0	0	–255	–92
Operating profit	**538**	**839**	**86**	**85**	**81**	**–14**	**–208**	**–73**	**–60**	**–70**	**437**	**767**
Income tax expense	–129	–201	–21	–20	–19	3	50	18	14	16	–105	–184
Net profit for the year	**409**	**638**	**65**	**65**	**62**	**–11**	**–158**	**–55**	**–46**	**–54**	**332**	**583**
Balance sheet 31 Dec, EURbn												
Loans to the public	48	45	2	2	1	2	–	–	–	–	51	49
Deposits and borrowings from the public	24	24	10	10	1	1	–	–	–	–	35	35

1) Large Corporates & Institutions Other includes the areas International Divisions and COO.

Break-down of Asset & Wealth Management

Income statement, EURm	Private Banking 2019	Private Banking 2018	Asset Management 2019	Asset Management 2018	Life & Pensions unallocated 2019	Life & Pensions unallocated 2018	Asset & Wealth Management Other[1] 2019	Asset & Wealth Management Other[1] 2018	Total Asset & Wealth Management 2019	Total Asset & Wealth Management 2018
Net interest income	58	77	–2	–3	0	0	–2	–5	54	69
Net fee and commission income	447	444	920	899	310	318	–247	–250	1,430	1,411
Net result from items at fair value	34	32	–2	9	79	127	1	–1	112	167
Profit from associated undertakings accounted for under the equity method	–	–	–	–	33	13	–	–	33	13
Other income	0	5	7	9	0	11	7	–4	14	21
Total operating income	**539**	**558**	**923**	**914**	**422**	**469**	**–241**	**–260**	**1,643**	**1,681**
- of which internal transactions	–19	–12	1	1	0	0	–4	–4	–22	–15
Staff costs	–116	–162	–175	–164	–64	–85	–47	–49	–402	–460
Other expenses	–222	–233	–90	–124	–131	–61	122	102	–321	–316
Depreciation, amortisation and impairment charges of tangible and intangible assets	0	–1	–4	0	–3	–6	–5	–2	–12	–9
Total operating expenses	**–338**	**–396**	**–269**	**–288**	**–198**	**–152**	**70**	**51**	**–735**	**–785**
Profit before loan losses	**201**	**162**	**654**	**626**	**224**	**317**	**–171**	**–209**	**908**	**896**
Net loan losses	–1	–6	–	–	–	–	–	–	–1	–6
Operating profit	**200**	**156**	**654**	**626**	**224**	**317**	**–171**	**–209**	**907**	**890**
Income tax expense	–48	–36	–157	–144	–54	–73	41	48	–218	–205
Net profit for the year	**152**	**120**	**497**	**482**	**170**	**244**	**–130**	**–161**	**689**	**685**
Balance sheet 31 Dec, EURbn										
Loans to the public	8	7	–	–	–	–	–	–	8	7
Deposits and borrowings from the public	10	9	–	–	–	–	–	–	10	9

1) Asset & Wealth Management Other includes the areas Savings and COO.

G3. 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	
	2019	2018	2019	2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Total Operating segments	9,351	9,536	2,903	4,432	297	282	161	154
Group functions[1]	–7	25	–222	–141	–	–	–	–
Unallocated items	27	235	–85	140	29	28	9	12
Eliminations	–8	–7	–	–	–	–	–	–
Differences in accounting policies[2]	–728	–617	–483	–478	–3	–2	–1	–1
Total	**8,635**	**9,172**	**2,113**	**3,953**	**323**	**308**	**169**	**165**

1) Consists of Group Business Risk Management, Group People, Group Legal, Group Internal Audit, Chief of staff office, Group Business Support and Group Risk & Compliance.
2) Impact from different plan exchange rates and internal allocation principles used in the segment reporting.

Total operating income split on product groups

EURm	2019	2018
Banking products	5,642	5,811
Capital Markets products	927	931
Savings products & Asset management	1,455	1,440
Life & Pensions	418	468
Other	193	522
Total	**8,635**	**9,172**

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 are a bundled product in which the fund company invests in stocks, bonds, derivatives or other standardised products on behalf of the funds shareholders. Discretionary Management is a service providing the management of an investment portfolio on behalf of the customer and Portfolio Advice is a service provided to support customers investment decisions.

Life & Pensions includes life insurance and pension products and services.

Geographical information

	Total operating income, EURm		Assets, EURbn	
	2019	2018	31 Dec 2019	31 Dec 2018
Sweden	2,232	2,665	139	144
Finland	1,726	1,731	127	133
Norway	1,684	1,660	97	86
Denmark	2,447	2,493	177	168
Other	546	623	15	20
Total	**8,635**	**9,172**	**555**	**551**

Nordea's main geographical markets comprise the Nordic countries. Revenues and assets are distributed to geographical areas based on the location of customers' operations. Goodwill is allocated to different countries based on the location of the business activities of the acquired entities.

G4. Net interest income

Interest income

EURm	2019	2018
Interest income calculated using the effective interest rate method[1]	6,399	5,978
Other interest income	1,350	1,447
Negative yield on financial assets	–309	–172
Interest expense	–3,334	–2,902
Negative yield on financial liabilities	212	140
Net interest income	**4,318**	**4,491**

1) Of which contingent leasing income amounts to EUR 78m (EUR 70m). Contingent leasing income at Nordea consists of variable interest rates, excluding the fixed margin. If the contingent leasing income decreases, there will be an offsetting impact from lower funding expenses. Interest income on the net investment in finance leases amounts to EUR 155m (EUR 147m).

G4. Net interest income, cont.

Interest income calculated using the effective interest rate method

EURm	2019	2018
Loans to credit institutions	589	529
Loans to the public	5,345	5,066
Interest-bearing securities	254	274
Yield fees and interest on hedges of assets	211	109
Interest income calculated using the effective interest rate method	**6,399**	**5,978**

Other interest income

EURm	2019	2018
Loans at fair value to the public	1,177	793
Interest-bearing securities measured at fair value	181	210
Yield fees and other interest income on fair value assets	–8	444
Other interest income	**1,350**	**1,447**

Interest expense

EURm	2019	2018
Deposits by credit institutions	–328	–336
Deposits and borrowings from the public	–523	–457
Debt securities in issue	–2,729	–2,585
Subordinated liabilities	–417	–335
Other interest expenses[1]	663	811
Interest expense	**–3,334**	**–2,902**

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	2019	2018
Financial assets at fair value through other comprehensive income	214	253
Financial assets at amortised cost	5,929	5,675
Financial assets at fair value through profit or loss (related to hedging instruments)	–7	–85
Financial assets at fair value through profit or loss	1,304	1,410
Financial liabilities at amortised cost	–3,129	–2,879
Financial liabilities at fair value through profit or loss	7	117
Net Interest Income	**4,318**	**4,491**

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

G5. Net fee and commission income

EURm	2019	2018
Asset management commissions	1,455	1,440
- of which income	1,748	1,741
- of which expense	–293	–301
Life & Pension	251	258
- of which income	259	290
- of which expense	–8	–32
Deposit Products	23	23
- of which income	23	23
Brokerage, securities issues and corporate finance	157	173
- of which income	368	280
- of which expense	–211	–107
Custody and issuer services	41	49
- of which income	74	90
- of which expense	–33	–41
Payments	307	302
- of which income	413	419
- of which expense	–106	–117
Cards	220	218
- of which income	350	341
- of which expense	–130	–123
Lending Products	429	399
- of which income	458	425
- of which expense	–29	–26
Guarantees	111	116
- of which income	131	133
- of which expense	–20	–17
Other	17	15
- of which income	107	104
- of which expense	–90	–89
Total	**3,011**	**2,993**

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 390m (EUR 383m).

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 2,375m (EUR 2,311m). The corresponding amount for fee expenses is EUR –8m (EUR –32m).

G5. Net fee and commission income, cont.

Break down by Business Areas

EURm, 2019	Personal Banking	Business Banking	Large Corporates & Institutions	Asset & Wealth Management	Group Finance	Other & Elimination	Nordea Group
Asset management commissions	179	33	5	1,238	0	0	1,455
Life & Pension	59	27	5	160	0	0	251
Deposit Products	9	13	1	0	0	0	23
Brokerage, securities issues and corporate finance	23	29	75	33	0	–3	157
Custody and issuer services	6	5	36	3	–7	–2	41
Payments	83	160	69	1	1	–7	307
Cards	149	48	13	1	0	9	220
Lending Products	139	133	154	3	0	0	429
Guarantees	9	36	66	0	0	0	111
Other	16	10	20	–23	1	–7	17
Total	**672**	**494**	**444**	**1,416**	**–5**	**–10**	**3,011**

EURm, 2018	Personal Banking	Business Banking	Large Corporates & Institutions	Asset & Wealth Management	Group Finance	Other & Elimination	Nordea Group
Asset management commissions	179	37	11	1,213	0	0	1,440
Life & Pension	60	24	4	170	0	0	258
Deposit Products	10	11	2	0	0	0	23
Brokerage, securities issues and corporate finance	25	20	102	31	–2	–3	173
Custody and issuer services	8	7	36	9	–10	–1	49
Payments	89	164	53	–1	1	–4	302
Cards	170	35	12	1	0	0	218
Lending Products	117	101	179	1	0	1	399
Guarantees	7	40	71	0	0	–2	116
Other	21	18	3	–15	–4	–8	15
Total	**686**	**457**	**473**	**1,409**	**–15**	**–17**	**2,993**

G6. Net result from items at fair value

EURm	2019	2018
Equity related instruments	734	226
Interest related instruments and foreign exchange gains/losses	110	684
Other financial instruments (including credit and commodities)	103	55
Life insurance[1,2]	77	123
Total	**1,024**	**1,088**

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 394m (EUR 840m).

Break-down of life insurance

EURm	2019	2018
Equity related instruments	1,571	–515
Interest related instruments and foreign exchange gains/losses	283	–65
Investment properties	123	125
Change in technical provisions	–1,794	20
Change in collective bonus potential	–139	512
Insurance risk income	66	91
Insurance risk expense	–33	–45
Total	**77**	**123**

Net result from categories of financial instruments

EURm	2019	2018
Financial assets at fair value through other comprehensive income	90	–45
Financial assets designated at fair value through profit or loss	199	–41
Financial liabilities designated at fair value through profit or loss	–5,167	1,385
Financial assets and liabilities mandatorily at fair value through profit or loss[1]	7,651	–1,885
Financial assets at amortised cost[2]	206	104
Financial liabilities at amortised cost	–732	315
Foreign exchange gains/losses excluding currency hedges	94	512
Non-financial assets and liabilities	–1,317	743
Total	**1,024**	**1,088**

1) Of which amortised deferred day one profit amounts to EUR 41m (EUR 39m).
2) Gain or loss recognised in the income statement arising from derecognition of financial assets measured at amortised cost amounts to EUR 65m (EUR 53m) of which EUR 65m (EUR 53m) is gains and EUR 0m (EUR 0m) is losses. The reason for derecognition is that the assets have been prepaid by the customer or sold.

G7. Other operating income

EURm	2019	2018
Divestments of shares[1]	138	385
Income from real estate	3	2
Sale of tangible and intangible assets	9	9
Other	82	80
Total	**232**	**476**

1) 2019: Gain related to sale of LR Realkredit EUR 138m. 2018: 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.

G8. Staff costs

EURm	2019	2018
Salaries and remuneration (specification below)[1]	–2,370	–2,361
Pension costs (specification below)	–269	–292
Social security contributions	–452	–434
Other staff costs[2]	74	89
Total	**–3,017**	**–2,998**
Salaries and remuneration		
To executives[3]		
- Fixed compensation and benefits	–19	–22
- Performance-related compensation	–7	–11
Total	**–26**	**–33**
To other employees	–2,344	–2,328
Total	**–2,370**	**–2,361**

1) Of which allocation to profit sharing 2019 EUR 10m (EUR 57m), consisting of a new allocation of EUR 22m (EUR 46m) and an adjustment related to prior years of EUR 12m (EUR 10m).
2) Including capitalisation of IT project with EUR 166m (EUR 190m).
3) Executives include the Board of Directors (including deputies), CEO, deputy CEO, executive vice presidents and Group Leadership Team 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 137 (130) individuals.

Pension costs[1]

EURm	2019	2018
Defined benefits plans (Note G34)[2]	–37	–43
Defined contribution plans	–232	–249
Total	**–269**	**–292**

1) Pension cost for executives, as defined in footnote 3 above, amounts to EUR 4m (EUR 3m) and pension obligations to EUR 8m (EUR 13m).
2) Excluding social security contributions. Including social security contributions EUR 46m (EUR 54m).

G8. Staff costs, cont.

Remuneration for the Board of Directors, the CEO and Group Leadership Team

Board remuneration

The Annual General Meeting (AGM) 2019 decided on annual remuneration for the Board of Directors (the Board), for the Chairman amounting to EUR 300,000, for the Deputy Chairman EUR 145,000 and for other members to EUR 95,000.

In addition, the annual remuneration paid for board committee work on the Board Operations and Sustainability Committee, the Board Audit Committee and the Board Risk Committee amounts to EUR 60,000 for the committee chairmen and EUR 30,000 for the other members. Remuneration for board committee work on the Board Remuneration Committee amounts to EUR 42,000 for the committee chairman and EUR 26,000 for the other members.

Separate remuneration is not paid to members who are employees of the Nordea Group.

Nordea covers or reimburses all direct expenses for the members of the Board of Directors, including travel, logistics and accommodation, related to board work.

There are no commitments for severance pay, pension or other remuneration for the members of the Board at 31 December 2019.

Remuneration to the Board of Directors[1]

EUR	2019	2018
Chairman of the Board:		
Torbjörn Magnusson[6]	267,000	–
Björn Wahlroos[4]	80,088	320,045
Vice Chairman of the Board:		
Kari Jordan[5]	128,250	–
Lars G Nordström[4]	42,725	180,323
Other Board members[2]:		
Pernille Erenbjerg	146,638	121,434
Nigel Hinshelwood	181,300	120,818
Petra von Hoeken[5]	116,250	–
Robin Lawther	134,750	127,879
Torbjörn Magnusson[6]	30,388	91,552
John Maltby[5]	116,250	–
Sarah Russell	151,400	140,467
Silvija Seres[4]	30,388	121,435
Kari Stadigh[3]	–	34,566
Birger Steen	173,900	140,467
Maria Varsellona	124,138	121,434
Lars Wollung[3]	–	29,882
Total	**1,723,465**	**1,550,302**

1) Board remuneration consists of a fixed annual fee and a fixed annual fee for committee work. Any benefits are included at taxable values.
2) Employee representatives excluded.
3) Resigned as member of the Board as from the AGM 2018.
4) Resigned as member of the Board as from the AGM 2019.
5) New member of the Board as from the AGM 2019.
6) Elected as Chairman of the Board as from the AGM 2019

G8. Staff costs, cont.

Remuneration to the Chief Executive Officer (CEO) and Group Leadership Team (GLT)

	Fixed salary[1]		GLT Executive Incentive Programme[2]		Benefits[1]		Total	
EUR	2019	2018	2019	2018	2019	2018	2019	2018
Chief Executive Officer:								
Frank Vang-Jensen[3]	408,314	–	158,416	–	7,844	–	574,574	–
Casper von Koskull[4]	958,339	1,334,678	229,145	691,000	50,509	92,571	1,237,993	2,118,249
Interim Deputy Managing Director:								
Jussi Koskinen[5]	131,729	–	59,905	–	4,414	–	196,048	–
Group Chief Operating Officer and Deputy Chief Executive Officer:								
Torsten Hagen Jørgensen[6]	877,633	1,258,392	214,972	775,699	43,921	58,399	1,136,526	2,092,490
Group Leadership Team:								
9 (9) individuals excluding CEO and Interim Deputy Managing Director[7]	5,232,982	5,600,291	1,454,983	3,298,847	86,786	86,987	6,774,751	8,986,125
Total	**7,608,997**	**8,193,361**	**2,117,421**	**4,765,546**	**193,474**	**237,957**	**9,919,892**	**13,196,864**
Former Chief Executive Officer:								
Casper von Koskull	417,852	–	109,470	–	18,649	–	545,971	–
Former Group Chief Operating Officer and Deputy Chief Executive Officer:								
Torsten Hagen Jørgensen	302,702	–	–	–	833	–	303,535	–
Total[8]	**8,329,551**	**8,193,361**	**2,226,891**	**4,765,546**	**212,956**	**237,957**	**10,769,398**	**13,196,864**

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 GLT were offered a Variable Salary Part (VSP) and a share-based Long Term Incentive Programme (LTIP). Since 2013, an Executive Incentive Programme (formerly GEM EIP, now GLT EIP) was offered. The outcome from GLT EIP 2019 has been expensed in full in 2019 but will be paid out over a five-year deferral period with forfeiture clauses compliant to remuneration regulations. Part of the GLT EIP 2019 deferred outcome is delivered in Nordea shares (excluding dividends), with a post-deferral one-year retention period.

3) The annual fixed base salary of Frank Vang-Jensen as CEO was EUR 1,250,000 in 2019. Benefits included primarily car benefits, amounting to EUR 7,293. Frank Vang-Jensen took up the position as CEO on 5 September 2019.

4) The annual fixed base salary to Casper von Koskull as CEO was EUR 1,354,462 in 2019. Benefits included primarily housing benefits and tax consultation, amounting to EUR 45,370. Casper von Koskull stepped down as CEO on 5 September 2019.

5) The annual fixed base salary to Jussi Koskinen as Interim Deputy Managing Director was EUR 450,000 in 2019. Benefits included primarily car benefits, amounting to EUR 4,059. Jussi Koskinen took up the position as Interim Deputy Managing Director on 10 September 2019.

6) The annual fixed base salary to Torsten Hagen Jørgensen as Group COO and Deputy CEO was DKK 8,560,000 (EUR 1,146,516) in 2019. In addition, car and holiday allowance paid amount to DKK 608,053 (EUR 81,442). Benefits included primarily housing benefits, amounting to EUR 41,846. Torsten Hagen Jørgensen stepped down as Group COO and Deputy CEO by 10 September 2019.

7) Remuneration to other GLT members is included for the period they have been appointed and eligible for GLT EIP 2019. Two GLT members left Nordea during 2019, one on 8 May 2019 and one on 10 September 2019. Two new GLT members were appointed on 17 December 2019.

8) Severance pay committed during 2019 to the five executives leaving Nordea amounts to EUR 2,427,212, of which EUR 0 is to the former CEO. Total remuneration to be paid in 2020 during the notice period to the five executives after leaving Nordea amounts to EUR 3,547,455, of which EUR 1,540,425 is to the former CEO and includes fixed salary, pension cost and benefits. These provisions are not included in the above table.

Long Term Incentive Programmes (LTIP) 2012

LTIP 2012 was fully expensed in May 2015. All shares in LTIP 2012 are fully vested and consequently not conditional. 60% of the vested shares were deferred with forfeiture clauses in line with regulatory requirements and allotted over a five-year period, for LTIP 2012 starting May 2015. See also the separate Remuneration section on page 56 for more details. The numbers of outstanding shares are presented as of 31 December 2019.

No current GLT members have outstanding LTIP shares.

Number of outstanding shares	LTIP 2012
Former Chief Executive Officers (former CEOs):	
Christian Clausen	15,075
Casper von Koskull	10,620
Former Group Chief Operating Officer and Deputy Chief Executive Officer (former Group COO and Deputy CEO):	
Torsten Hagen Jørgensen	9,848
Total	**35,543**

Salary and benefits

The BRC prepares alterations in salary levels and outcome of the GLT Executive Incentive Programme (GLT EIP) as well as other changes in the remuneration package for the Chief Executive Officer (CEO), the Interim Deputy Managing Director and the other members of Group Leadership Team (GLT), for resolution by the Board.

GLT EIP 2019, which is based on specific targets, could be a maximum of 100% of fixed base salary. In accordance with remuneration regulations 40% of the GLT EIP 2019 will be paid out in 2020, 30% will be deferred to 2023 and 30% to 2025. In line with regulatory requirements, 50% of the GLT EIP 2019 outcome is delivered in Nordea shares, which are subject to retention for 12 months when the deferral period ends.

Benefits included primarily car benefits, tax consultation and housing.

Members of the GLT are indemnified for legal expenses incurred in relation to legal advice in defending or disputing certain claims or investigations from third parties, excluding crimes or actions made with intent or gross negligence. For each GLT member, the indemnity is capped at an aggregate amount of EUR 37.5m, unless the Board of Directors decides otherwise on a case-by-case basis. The indemnity is secondary to any other insurance coverage.

Chief Executive Officer (CEO) from 5 September 2019

Frank Vang-Jensen was appointed CEO on 5 September 2019. Remuneration for the CEO consists of three components:

G8. Staff costs, cont.

Fixed salary, the GLT Executive Incentive Programme (GLT EIP) and benefits.

The annual fixed base salary for the CEO was decided to be EUR 1,250,000 as of 5 September 2019.

The GLT EIP 2019 was based on specific targets and could amount to a maximum of 100% of fixed base salary. For 2019, as CEO, the outcome of the GLT EIP amounted to EUR 158,416.

The benefits for 2019 amounted to EUR 7,844 and include primarily car benefits.

Total earned remuneration for 2019, as CEO, based on the three components (excluding pension) amounted to EUR 574,574.

Chief Executive Officer (CEO) until 5 September 2019

Casper von Koskull was appointed CEO on 1 November 2015 and stepped down on 5 September 2019. Remuneration until 5 September 2019 for the CEO consisted of three components: Fixed salary, the GLT Executive Incentive Programme (GLT EIP) and benefits.

The annual fixed base salary as CEO was decided to be EUR 1,354,462 as from 1 January 2019.

The GLT EIP 2019 was based on specific targets and can amount to a maximum of 100% of fixed base salary. For 2019 the outcome of the GLT EIP amounted to EUR 229,145. The outcome is pro-rata reflecting the period until 5 September 2019.

The benefits for 2019 amounted to EUR 50,509 and included primarily housing benefits and tax consultation.

The total earned remuneration for 2019, as CEO, based on the three components (excluding pension) amounted to EUR 1,237,993.

The CEO took part in past LTIPs until 2012. For more information on LTIP see the separate section on remuneration in the Board of Directors' report and above.

Interim Deputy Managing Director from 10 September 2019

Jussi Koskinen was appointed Interim Deputy Managing Director on 10 September 2019. Remuneration for the Interim Deputy Managing Director consisted of three components: Fixed salary, the GLT Executive Incentive Programme (GLT EIP) and benefits.

The annual fixed base salary, as Interim Deputy Managing Director, was EUR 450,000 including holiday allowance as of 10 September 2019.

The GLT EIP 2019 was based on specific targets and can amount to a maximum of 100% of fixed base salary. For 2019 the outcome of the GLT EIP amounted to EUR 59,905.

The benefits for 2019 amounted to EUR 4,414 and included primarily car benefits.

The total earned remuneration for 2019, as Interim Deputy Managing Director, based on the three components (excluding pension) amounted to EUR 196,048.

Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO) until 10 September 2019

Torsten Hagen Jørgensen was appointed Group COO and Deputy CEO on 1 November 2015 and stepped down on 10 September 2019. Remuneration for the Group COO and Deputy CEO consisted of three components: Fixed salary, the GLT EIP and benefits.

The annual fixed base salary as Group COO and Deputy CEO for 2019 was decided to be DKK 8,560,000 (EUR 1,146,516).

The GLT EIP 2019 was based on specific targets and can amount to a maximum of 100% of fixed base salary. For 2019 the outcome of the GLT EIP amounted to EUR 214,972. The outcome is pro-rata reflecting the period until 10 September 2019.

The benefits for 2019 amounted to EUR 43,921 and included primarily housing benefits.

The total earned remuneration for 2019, as Group COO and Deputy CEO, based on the three components (excluding pension) amounted to EUR 1,136,526.

The Group COO and Deputy CEO took part in past LTIPs until 2012. For more information on the LTIPs, see the separate section on remuneration in the Board of Directors' report and above.

Former Chief Executive Officer (former CEO) from 5 September 2019

Remuneration for the former CEO consisted of three components: Fixed salary, the GLT Executive Incentive Programme (GLT EIP) and benefits. Total earned remuneration for 2019, as Former CEO, based on the three components (excluding pension) amounted to EUR 545,971.

Former Group Chief Operating Officer and Deputy Chief Executive Officer (former Group COO and Deputy CEO) from 10 September 2019

Remuneration for the former Group COO and deputy CEO consisted of three components: Fixed salary, the GLT Executive Incentive Programme (GLT EIP) and benefits. Total earned remuneration for 2019, as former Group COO and Deputy CEO, based on the three components (excluding pension) amounted to EUR 303,535

Pension

Chief Executive Officer (CEO) from 5 September 2019

The CEO is covered by a defined contribution plan from 5 September 2019. The pension contribution was 30% of the fixed base salary.

Chief Executive Officer (CEO) until 5 September 2019

During the period 1 January 2019 to 5 September 2019 the CEO was covered by the Finnish statutory pension scheme and in addition had a defined contribution plan corresponding to 8.5% of fixed salary. According to the statutory pension rules the part of the GLT EIP 2019 outcome paid or retained in 2020 is included in pensionable income.

Interim Deputy Managing Director from 10 September 2019

The Interim Deputy Managing Director is covered by the Finnish statutory pension scheme. According to the statutory pension rules the part of the GLT EIP 2019 outcome paid or retained in 2020 is included in pensionable income.

Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO) until 10 September 2019

The Group COO and Deputy CEO had a defined contribution plan. The pension contribution was 30% of fixed base salary.

Former Chief Executive Officer (former CEO) from 5 September 2019

During the period 5 September 2019 to 31 December 2019 the former CEO was covered by the Finnish statutory pension scheme and in addition had a defined contribution plan corresponding to 8.5% of fixed salary.

G8. Staff costs, cont.

Former Group Chief Operating Officer and Deputy Chief Executive Officer (former Group COO and Deputy CEO) from 10 September 2019
During the notice period the former Group COO and Deputy CEO had a defined contribution plan. The pension contribution was 30% of fixed base salary.

Group Leadership Team (GLT)
The pension agreements for the other seven GLT members vary according to local country practices. Pension agreements are defined contribution plans or a combination of defined contribution and defined benefit plans.

As of 31 December 2019, three members had 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 was in total 30% of fixed salary.

One member had a defined contribution plan in accordance with local practices in Denmark. The pension contribution is in total 30% of fixed base salary.

One member was covered by the Finnish statutory pension scheme and in addition had a defined contribution plan corresponding to 8.5% of fixed salary.

Two members do not have a pension agreement with Nordea.

Pension expense and pension obligation

	2019		2018	
EUR	Pension expense[1]	Pension obligation[2]	Pension expense[1]	Pension obligation[2]
Chief Executive Officer (CEO):				
Frank Vang-Jensen	122,494	–	–	–
Casper von Koskull	74,620	–	313,663	357,936
Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO):				
Torsten Hagen Jørgensen	238,857	–	344,546	–
Group Leadership Team (GLT):				
9 (9) individuals excluding CEO and Interim Deputy Managing Director[3]	905,302	1,004,303	872,073	777,583
Board members:[4]				
Lars G Nordström	–	–	–	312,465
Total	**1,341,273**	**1,004,303**	**1,530,282**	**1,447,984**
Former Chairman of the Board, former CEOs and Deputy CEOs:				
Vesa Vainio[5]	–	5,118,594	–	4,844,682
Lars G Nordström	–	313,010	–	–
Casper von Koskull[6]	35,026	399,536	–	–
Torsten Hagen Jørgensen[7]	96,893	–	–	–
Total	**1,473,192**	**6,835,443**	**1,530,282**	**6,292,666**

1) The pension expense is related to pension premiums paid under defined contribution agreements and pension rights earned during the year under defined benefit agreements (Current service cost and Past service cost and settlements as defined in IAS 19). Of the total pension expense EUR 1,436,414 (EUR 1,471,537) 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, so 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 GLT included for the period they are appointed. The pension obligation is the value of pension liabilities toward three Swedish GLT members on 31 December 2019.
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 is mainly due to defined benefit pension rights earned at, and funded by, banks forming Nordea. The increase compared to 2018 is mainly due to lower interest rates applied in the valuation.
6) The pension obligation is in accordance with the collective pension agreement BTP2 in Sweden and earned from 5 September to 31 December 2019.
7) The pension contribution is in accordance with the agreed terms and conditions for the period from 10 September to 31 December 2019.

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 severance pay equal to 12 months' salary, to be reduced by any salary he receives from other employment during these 12 months.

The Interim Deputy Managing Director and seven GLT members have a notice period of six months and Nordea a notice period of 12 months. Severance pay of up to 12 months' salary is provided to be reduced by any salary the executive receives from other employment during the severance pay period.

Additional disclosures on remuneration
The Board of Directors report includes a separate section on remuneration, page 56. 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 on 25 March 2020.

G8. Staff costs, cont.

Loans to key management personnel

Loans to key management personnel, as defined in Note G1 section 28, amount to EUR 2m (EUR 5m). 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 Finland the employee interest rate for loans corresponds to Nordea's funding cost with a margin of 30 basis points. In Denmark the employee interest rate for loans is variable and was 2.25% at 31 December 2019. In Norway the employee interest rate for loans is variable and was 2.30% at 31 December 2019. 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

LTIP 2012 was fully expensed in May 2015. All shares in LTIP 2012 are fully vested and consequently not conditional. 60% of the vested shares were deferred with forfeiture clauses in line with regulatory requirements and allotted over a five-year period, for LTIP 2012 starting May 2015. See also the separate Remuneration section on page 56 for more details. The numbers of outstanding shares are presented as of 31 December 2019.

Long Term Incentive Programmes

	2019			2018		
	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	69,305	207,915	69,305	147,251	441,753	147,251
Granted[1]	6,925	20,775	6,925	11,576	34,728	11,576
Forfeited	–	–	–	–	–	–
Allotted	–38,115	–114,345	–38,115	–89,522	–268,566	–89,522
Outstanding at end of year[2]	**38,115**	**114,345**	**38,115**	**69,305**	**207,915**	**69,305**
- of which currently exercisable	–	–	–	–	–	–
Rights LTIP 2011						
Outstanding at the beginning of year	40,794	68,160	18,357	75,642	126,385	34,038
Granted[1]	4,072	6,803	1,832	5,946	9,935	2,676
Forfeited	–	–	–	–	–	–
Allotted	–44,866	–74,963	–20,189	–40,794	–68,160	–18,357
Outstanding at end of year[2]	**0**	**0**	**0**	**40,794**	**68,160**	**18,357**
- of which currently exercisable	–	–	–	–	–	–
Rights LTIP 2010						
Outstanding at the beginning of year	0	0	0	19,193	20,275	8,634
Forfeited	–	–	–	–	–	–
Allotted	–	–	–	–19,193	–20,275	–8,634
Outstanding at end of year[2]	**0**	**0**	**0**	**0**	**0**	**0**
- of which currently exercisable	–	–	–	–	–	–

1) Granted rights are compensation for dividend on the underlying Nordea share during the year.
2) Allotment of rights have been deferred following retention requirements by the Nordic FSAs. There is no exercise price for the deferred rights.

Share-based payment transactions

From 2019, Nordea operates deferrals in financial instruments on parts of variable remuneration for certain employee categories. Parts of variable remuneration are deferred for delivery after three years or deferred for delivery in equal instalments over a three to five year period. Once financial instruments are no longer in deferral, a retention period for certain employee categories is applied. Since 2011 and until 2018, Nordea operated share-linked deferrals as well as retention on parts of variable remuneration through the use indexation with Nordea's Total Shareholder Return (TSR) 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, in 2013 Nordea introduced the Executive Incentive Programme ("EIP") which aims to strengthen Nordea's capability to recruit, motivate and retain selected people leaders and key employees outside of GLT, and aims to reward strong performance. The aim is also to further stimulate these people whose efforts have direct impact on Nordea's result, profitability and long term value growth. The EIP rewards performance meeting agreed predetermined targets on Group, business unit and individual level. The effect on the long term result is to be considered when determining the targets. The EIP shall not exceed the fixed salary. The EIP for 2019 shall be paid in the form of cash and financial instruments and be subject to deferral, forfeiture clauses and retention in line with relevant remuneration regulations. Deferred EIP awards are normally delivered pro-rata during the deferral period. There are no vesting conditions for the programme, but forfeitures and clawbacks are possible under certain conditions. Participation in the programme is offered to up to 400 selected people leaders and key employees,

G8. Staff costs, cont.

except for members of GLT who were instead offered a GLT EIP (further information about the GLT EIP can be found in the Remuneration section in the Board of Director's Report), within the Nordea Group. The EIP is offered instead of Nordea's LTIP and VSP for the employees invited. The allocation of the EIP 2019 is decided during spring 2020. A provision of EUR 20m excl. social costs is made 2019 for the cash settled part. The same amount was recognised as an expense in the income statement for the equity settled part and as an increase in equity in the balance sheet.

The table below only includes deferred amounts indexed with Nordea TSR. The 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	2019	2018
Opening balance	89	109
Deferred/earned during the year	40	45
TSR indexation during the year	–11	–15
Payments during the year	–44	–49
Translation differences	–	–1
Closing balance	**74**	**89**

Gender distribution

In the parent company's Board of Directors, of the AGM elected Board members, 50% (50%) were men and 50% (50%) were women. In the Board of Directors of the Nordea Group companies, 68% (70%) were men and 32% (30%) were women. The corresponding numbers for other executives were 74% (72%) men and 26% (28%) women. Internal Boards consist mainly of management in Nordea, the employee representatives excluded.

Average number of employees, Full-time equivalents

	Total		Men		Women	
	2019	2018	2019	2018	2019	2018
Denmark	7,904	8,505	4,560	4,826	3,344	3,679
Sweden	6,712	7,055	3,294	3,494	3,418	3,561
Finland	6,368	6,459	2,448	2,404	3,920	4,055
Norway	2,952	2,962	1,599	1,598	1,353	1,364
Poland	4,006	2,980	2,274	1,636	1,732	1,344
Russia	335	396	123	148	212	248
Estonia	432	253	142	78	290	175
Luxembourg	254	434	141	245	113	189
United States	116	116	56	56	60	60
Singapore	64	75	28	32	36	43
United Kingdom	54	58	31	35	23	23
Germany	45	44	27	26	18	18
China	29	29	12	12	17	17
Switzerland	5	10	4	5	1	5
Italy	10	9	7	6	3	3
Spain	6	5	3	3	3	2
Brazil	0	2	0	2	–	–
France	3	3	3	3	–	–
Chile	3	–	2	–	1	–
Belgium	2	–	2	–	–	–
Total average	**29,300**	**29,395**	**14,756**	**14,609**	**14,544**	**14,786**
Total number of employees (FTEs), end of period	**29,000**	**28,990**				

G9. Other expenses

EURm	2019	2018
Information technology	–530	–484
Marketing and representation	–59	–60
Postage, transportation, telephone and office expenses	–66	–83
Rents, premises and real estate	–150	–312
Resolution fee	–211	–167
Other	–623	–460
Total	**–1,639**	**–1,566**

Auditors' fees

EURm	2019	2018
PricewaterhouseCoopers		
Auditing assignments	–9	–10
Audit-related services[1]	–1	–1
Tax advisory services	–	0
Other assignments[1]	–1	–1
Total	**–11**	**–12**

1) Of which Audit-related services EUR 0.1m (EUR 0.1m) and Other assignments EUR 0.4m (EUR 0.5m) to PricewaterhouseCoopers Oy.

G10. Depreciation, amortisation and impairment charges of tangible and intangible assets

EURm	2019	2018
Depreciation/amortisation		
Properties and equipment	–275	–113
Intangible assets	–283	–194
Total	**–558**	**–307**
Impairment charges		
Properties and equipment	–27	–
Intangible assets	–745	–175
Total	**–772**	**–175**
Total	**–1,330**	**–482**

G11. Net loan losses

EURm, 2019	Loans to central banks and credit institutions[2]	Loans to the public[2]	Interest-bearing securities	Off balance sheet items[3]	Total
Net loan losses, stage 1	2	–6	1	–15	–18
Net loan losses, stage 2	6	–46	0	–29	–69
Net loan losses, non-defaulted	**8**	**–52**	**1**	**–44**	**–87**
Stage 3, defaulted					
Net loan losses, individually assessed, collectively calculated[1]	1	–48	–	–1	–48
Realised loan losses	–	–443	–	–9	–452
Decrease of provisions to cover realised loan losses	–	312	–	9	321
Recoveries on previous realised loan losses	1	46	–	–	47
Reimbursement right	–	–	–	3	3
New/increase in provisions	–	–555	–	–16	–571
Reversals of provisions	–	223	–	28	251
Net loan losses, defaulted	**2**	**–465**	**0**	**14**	**–449**
Net loan losses	**10**	**–517**	**1**	**–30**	**–536**

EURm, 2018	Loans to central banks and credit institutions[2]	Loans to the public[2]	Interest-bearing securities	Off balance sheet items[3]	Total
Net loan losses, stage 1	3	–14	0	–5	–16
Net loan losses, stage 2	10	51	0	–10	51
Net loan losses, non-defaulted	**13**	**37**	**0**	**–15**	**35**
Stage 3, defaulted					
Net loan losses, individually assessed, collectively calculated[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**	**0**	**1**	**–173**

1) Includes individually identified assets for which the provision has been calculated based on statistical models.
2) Provisions included in Note G14 "Loans and impairment".
3) Provisions included in G33 "Provisions".

G12. Taxes

Income tax expense

EURm	2019	2018
Current tax	–1,051	–891
Deferred tax	480	19
Total	**–571**	**–872**

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 as follows:

EURm	2019	2018
Profit before tax	2,113	3,953
Tax calculated at a tax rate of 20.0%	–423	–791
Effect of different tax rates in other countries	–61	–197
Interest on subordinated debt	–24	–18
Income from associated undertakings	–18	22
Tax-exempt income	53	158
Non-deductible expenses	–46	–30
Adjustments relating to prior years	–26	17
Utilisation and origination of unrecognised tax assets	–57	0
Change of tax rate	–2	10
Effect of outside basis differences	49	0
Not creditable foreign taxes	–16	–43
Tax charge	**–571**	**–872**
Average effective tax rate	27%	22%

Deferred tax

	Deferred tax assets		Deferred tax liabilities	
EURm	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Deferred tax related to:				
Tax losses carry-forward	118	105	–	–
Loans to the public	74	36	387	363
Derivatives	126	2	28	355
Intangible assets	0	3	94	63
Investment properties	0	–	4	34
Retirement benefit assets/obligations	126	39	46	30
Liabilities/provisions	160	66	56	32
Foreign tax credits	225	101	193	–
Other	11	7	26	24
Netting between deferred tax assets and liabilities	–353	–195	–353	–195
Total	**487**	**164**	**481**	**706**

The Nordea Group has EUR 487m (EUR 164m) deferred tax assets on the balance sheet at the end of 2019. The recognition of deferred tax assets is based on an assessment of the probability and amount of future taxable profits and on future reversals of existing taxable temporary differences, which include estimation uncertainty. The estimation uncertainties that are assessed to pose significant risks of resulting in material adjustments to the carrying amount of deferred tax assets are described below.

The balance includes a gross asset of EUR 104m recognised in relation to Danish tax losses of Nordea Bank Abp. These losses can be carried forward with no expiry. Management expects the tax losses to be utilised within the next three to four years based on estimated taxable profits available under currently applied capitalisation policies for tax purposes, and sooner if the company opts out from recognising expenses for tax purposes in excess of expenses under accounting rules. Furthermore, Nordea Bank Abp's head office in Finland has recognised a EUR 225m deferred tax asset in relation to unused foreign tax credits that management expects to be utilised within the expiry period of five years. This expectation is based on estimated future taxable profits from foreign operations, reversal of temporary differences and upfront taxation in Finland of certain types of income compared to relevant branch jurisdictions.

Additionally, the Group has unrecognised deferred tax assets of EUR 54m (EUR 87m) in relation to tax loss carry forwards in various entities as well as EUR 334m (EUR 141m) in relation to unused foreign tax credits in Nordea Bank Abp, Nordea Investment Management AB and Nordea Funds Ltd. Unrecognised deferred tax assets relating to tax losses may be recovered in the event of extraordinary taxable income arising in the relevant entities. Unrecognised deferred tax assets relating to foreign tax credits may be recovered in the event of unexpected timing of taxation or tax base between head office and branches.

EURm	31 Dec 2019	31 Dec 2018
Unrecognised deferred tax assets		
Unused tax losses carry-forward with no expirey date	54	87
Unused tax credits	334	141
Total	**388**	**228**

G13. Earnings per share

	2019	2018
Earnings:		
Profit attributable to shareholders of Nordea Bank Abp, EURm	1,519	3,070
Number of shares (in millions):		
Number of shares outstanding at beginning of year	4,050	4,050
Average number of own shares	–15	–14
Weighted average number of basic shares outstanding	**4,035**	**4,036**
Adjustment for diluted weighted average number of additional ordinary shares outstanding[1]	0	1
Weighted average number of diluted shares outstanding	**4,035**	**4,037**
Basic earnings per share, EUR	0.38	0.76
Diluted earnings per share, EUR	0.38	0.76

1) Relates to the Long Term Incentive Programmes (LTIP). For further information on these programmes, see Note G1 "Accounting policies" section 23.

G14. Loans and impairment

EURm	31 Dec 2019	31 Dec 2018
Loans measured at fair value through profit and loss	83,624	77,521
Loans measured at amortised cost, not impaired (stage 1 and 2)	254,412	247,204
Impaired loans (stage 3)	4,610	4,581
- of which servicing	2,312	2,097
- of which non-servicing	2,298	2,484
Loans before allowances	**342,646**	**329,306**
- of which central banks and credit institutions	17,737	18,977
Allowances for impaired loans (stage 3)	–1,686	–1,599
- of which servicing	–783	–720
- of which non-servicing	–903	–879
Allowances for not impaired loans (stage 1 and 2)	–497	–441
Allowances	**–2,183**	**–2,040**
- of which central banks and credit institutions	–14	–15
Loans, carrying amount	**340,463**	**327,266**

Nordea has granted EUR 148bn (EUR 138bn) in mortgage credits. No intermediary credits or public sector credits have been granted.

G15. Interest-bearing securities

EURm	31 Dec 2019	31 Dec 2018
State, municipalities and other public bodies	15,528	18,756
Mortgage institutions	25,447	28,077
Other credit institutions	13,372	24,736
Corporates	8,282	4,601
Other	2,301	52
Total	**64,930**	**76,222**

Provisions for credit risks amount to EUR 1m (EUR 2m).

G16. 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 2019	31 Dec 2018
Interest-bearing securities	7,151	7,568
Total	**7,151**	**7,568**

For information on transferred assets and reverse repos, see Note G42 "Financial instruments set off on balance or subject to netting agreements".

G17. Shares

EURm	31 Dec 2019	31 Dec 2018
Shares	3,285	4,407
Fund units, equity related	7,557	5,679
Fund units, interest related	3,342	2,366
Total	**14,184**	**12,452**

G18. Assets and deposits in pooled schemes and unit-linked investment contracts

EURm	31 Dec 2019	31 Dec 2018
Assets		
Interest-bearing securities	1,363	1,284
Shares	29,049	23,076
Properties	307	158
Other assets	80	65
Total	**30,799**	**24,583**
Liabilities		
Pooled schemes	4,377	3,964
Unit-linked investment contracts	27,482	21,689
Total	**31,859**	**25,653**

The Life Group and Nordea Denmark, branch of Nordea Bank Abp, have assets and liabilities included on their balance sheet for which customers bear the risk. Since the assets and liabilities legally belong to the entities, which also carries risks and rewards, these assets and liabilities are included on the Group's balance sheet.

G19. 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.

31 Dec 2019, EURm	Fair value Positive	Fair value Negative	Total nom. amount
Derivatives not used for hedge accounting	36,784	40,298	6,534,534
Fair value hedges[1]	1,269	1,422	180,547
Cash flow hedges[1]	1,019	120	22,253
Net investment hedges	39	207	7,358
Total derivatives	**39,111**	**42,047**	**6,744,692**

31 Dec 2018, EURm	Fair value Positive	Fair value Negative	Total nom. amount
Derivatives not used for hedge accounting	33,915	38,624	6,571,710
Fair value hedges[1]	1,959	402	160,440
Cash flow hedges[1]	1,143	437	20,795
Net investment hedges	8	84	8,544
Total derivatives	**37,025**	**39,547**	**6,761,489**

1) Some cross currency interest rate swaps are used both as fair value hedges and cash flow hedges. The nominal amount of these instruments have been split on the rows fair value hedges and cash flow hedges in the table above based on the relative fair value of these hedging instruments. The total nominal amount of cross currency interest rate swaps was EUR 24,296m on 31 December 2019.

Derivatives not used for hedge accounting

31 Dec 2019, EURm	Fair value Positive	Fair value Negative	Total nom. amount
Interest rate derivatives			
Interest rate swaps	20,077	19,354	3,521,834
FRAs	7	28	1,353,157
Futures and forwards	13	13	126,999
Options	5,308	5,984	378,691
Total	**25,405**	**25,379**	**5,380,681**
Equity derivatives			
Equity swaps	68	93	6,399
Futures and forwards	1	35	1,018
Options	221	459	10,325
Total	**290**	**587**	**17,742**
Foreign exchange derivatives			
Currency and interest rate swaps	5,735	7,890	417,689
Currency forwards	4,242	5,290	555,046
Options	96	106	16,938
Total	**10,073**	**13,286**	**989,673**
Other derivatives			
Credit default swaps (CDS)	1,011	1,026	140,992
Commodity derivatives	0	0	5,284
Other derivatives	5	20	162
Total	**1,016**	**1,046**	**146,438**
Total derivatives not used for hedge accounting	**36,784**	**40,298**	**6,534,534**

31 Dec 2018, EURm	Fair value Positive	Fair value 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**

G19. Derivatives and hedge accounting, cont.

Risk management

Nordea manages its identified market risks according to the risk management framework and strategy described in the Market risk section in Note G2 "Risk and Liquidity management".

Nordea classifies its exposures to market risk into either trading (the Trading Book) or non-trading (the Banking Book) portfolios that 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 further 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 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 Note G2 "Risk and Liquidity management".

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 principal of the hedged item. The hedging ratio is established by matching the notional of the derivatives against the principal 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 hedge 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 hedge relationships, irrespective of whether or not there has been a change in hedge designation during the year.

Hedged items

	Interest rate risk	
EURm	2019	2018
Fair value hedges		
Carrying amount of hedged assets[1]	63,864	46,773
- of which accumulated amount of fair value hedge adjustment[3]	217	169
Carrying amount of hedged liabilties[2]	107,001	81,424
- of which accumulated amount of fair value hedge adjustment[3]	2,018	1,273

1) Presented on the balance sheet rows Loans to central banks, Loans 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 Deposits by credit institution, Deposits and borrowings from the public, Debt securities in issue and Fair value changes of the hedged items in portfolio hedge of interest rate risk.
3) Of which all relate 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:

Hedging instruments

	Fair value		
31 Dec 2019, EURm	Positive	Negative	Total nom. amount
Fair value hedges			
Interest rate risk	1,269	1,422	180,547

	Fair value		
31 Dec 2018, EURm	Positive	Negative	Total nom. amount
Fair value hedges			
Interest rate risk	1,959	402	160,440

The below table presents the changes in the fair value of the hedged items and the 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	2019	2018
Fair value hedges		
Changes in fair value of hedging instruments	707	–237
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	–688	194
Hedge ineffectiveness recognised in the income statement[1,2]	19	–43

1) Recognised on the row "Net result from items at fair value".
2) When disclosing the hedge ineffectiveness, the valuation adjustments (CVA, DVA, FFVA) have not been considered.

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 Note G2 "Risk and Liquidity management".

There is an economic relationship between the hedged

G19. Derivatives and hedge accounting, cont.

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.

Hedging instruments

	Fair value		
31 Dec 2019, EURm	Positive	Negative	Total nom. amount
Cash flow hedges			
Interest rate risk	304	0	10,767

	Fair value		
31 Dec 2018, EURm	Positive	Negative	Total nom. amount
Cash flow hedges			
Interest rate risk	6	0	190

The below table specifies the fair value adjustments arising from continuing hedging relationships, irrespective of whether there has been a change in hedge designation during the year.

Hedge ineffectiveness

	Interest rate risk	
EURm	2019	2018
Cash flow hedges		
Changes in fair value of hedging instruments	14	16
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	–14	–16
Hedge ineffectiveness recognised in the income statement[1,2]	–	–
Hedging gains or losses recognised in OCI	14	16

1) Recognised on the row "Net result from items at fair value".
2) When disclosing the hedge ineffectiveness, the valuation adjustments (CVA, DVA, FFVA) have not been considered.

Cash flow hedge reserve

	Interest rate risk	
EURm	2019	2018
Balance at 1 Jan	5	–3
Cash flow hedges:		
Valuation gains/losses during the year	14	16
Tax on valuation gains/losses during the year	–3	–3
Transferred to the income statement during the year	–6	–6
Tax on transfers to the income statement during the year	1	1
Other comprehensive income, net of tax	6	8
Total comprehensive income	6	8
Balance at 31 Dec	**11**	**5**
of which relates to continuing hedges for which hedge accounting is applied	11	5
of which relates to hedging relationships for which hedge accounting is no longer applied	–	–

G19. Derivatives and hedge accounting, cont.

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 instruments

31 Dec 2019, EURm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instrument hedging interest rate risk	–	7,408	60,400	73,983	38,425	180,216
Total	**–**	**7,408**	**60,400**	**73,983**	**38,425**	**180,216**

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
Total	**–**	**5,024**	**19,030**	**108,380**	**25,517**	**157,951**

Average rate of instruments hedging interest rate risk
The average interest rate on the fixed leg of instruments hedging interest rate risk per 31 December 2019 is 0.78%.

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 as described below is limited through a stress loss limit for the CET1-ratio impact from FX fluctuations in a severe but plausible stress scenario (see the Market risk section in Note G2 "Risk and Liquidity management").

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, thus exposing Nordea to a foreign exchange risk. Differences in exposures to individual currencies that exist between different transactions are predominantly matched by 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.

The below table specifies the fair value adjustments arising from continuing hedging relationships, irrespective of whether there has been a change in hedge designation during the year.

Hedging instruments

	Fair value		
31 Dec 2019, EURm	Positive	Negative	Total nom. amount
Cash flow hedges			
Foreign exchange risk	715	120	11,486
Net investment hedges			
Foreign exchange risk	39	207	7,358
Total derivatives used for hedge accounting	**754**	**327**	**18,844**

	Fair value		
31 Dec 2018, EURm	Positive	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**

G19. Derivatives and hedge accounting, cont.

Hedge ineffectiveness

	Foreign exchange risk	
EURm	2019	2018
Cash flow hedges		
Changes in fair value of hedging instruments	138	704
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	–138	–704
Hedge ineffectiveness recognised in the income statement[1,2]	–	–
Hedging gains or losses recognised in OCI	138	704
Net investment hedges		
Changes in fair value of hedging instruments	–62	67
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	62	–67
Hedge ineffectiveness recognised in the income statement[1,2]	–	–
Hedging gains or losses recognised in OCI	–62	67

1) Recognised on the row Net result from items at fair value.
2) When disclosing the hedge ineffectiveness, the valuation adjustments (CVA, DVA, FFVA) have not been considered.

Cash flow hedge reserve

	Foreign exchange risk	
EURm	2019	2018
Balance at 1 Jan	–17	–43
Cash flow hedges:		
Valuation gains/losses during the year	138	704
Tax on valuation gains/losses during the year	–28	–156
Transferred to the income statement during the year	–164	–670
Tax on transfers to the income statement during the year	34	148
Other comprehensive income, net of tax	–20	26
Total comprehensive income	–20	26
Balance at 31 Dec	**–37**	**–17**
of which relates to continuing hedges for which hedge accounting is applied	–37	–17
of which relates to hedging relationships for which hedge accounting is no longer applied	–	–

Maturity profile of the nominal amount of hedging instruments

31 Dec 2019, EURm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instruments hedging foreign exchange risk	–	255	5,318	13,482	10,887	29,942
Total	**–**	**255**	**5,318**	**13,482**	**10,887**	**29,942**

31 Dec 2018, EURm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instruments 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**

G19. Derivatives and hedge accounting, cont.

Average rates of instruments hedging foreign exchange risk

The average forward exchange rates of instruments hedging foreign exchange risk per 31 December 2019 are presented in the table below.

31 Dec 2019	NOK	SEK	USD	RUB
EUR	10.08	10.68	1.10	71.53

The IBOR reform

The IBOR transition is a global reform with significant impact on the financial industry. It will affect a large variety of financial services and thus individuals, companies and institutions. The transition will influence products, market liquidity, risk management, data and technology infrastructure as well as financials and the balance sheet. IBORs are embedded in a vast range of financial instruments including loans, mortgages, bonds, trading product and derivative contracts.

Current expectations are that some IBORs will be replaced, while others may continue to exist but with a reformed methodology. There is currently uncertainty as to the timing and the methods of transition for the different IBORs and whether some existing benchmarks will continue to be supported. EONIA (for EUR) as well as LIBOR for e.g. USD, GBP and CHF will cease to exist after 2021, while EURIBOR and the Nordic IBORs at the moment are expected to be published beyond 2021 in reformed formats. The uncertainties are expected to remain until the relevant contracts are all transitioned into new IBORs.

Nordea has established an IBOR Transition Programme sponsored by the CFO and Group Treasurer to prepare and coordinate Group-wide efforts to manage the operational impacts and financial risks caused by the transition from existing IBOR rates to alternative near risk-free rates. An IBOR Transition Office is responsible for the Group-wide coordination of transition activities and reports to a Steering Committee with participation from senior management in Business Areas and Group Functions to ensure a centralised Nordea strategy and senior management steering and oversight. Business Areas and Group Functions are responsible for, and drive, the execution of changes required for a successful transition to alternative near risk-free rates.

As explained in Note G1, Nordea has early adopted the amendments to IFRS 7 and IAS 39 and is applying the relief for the year-end reporting. In the table below, nominal amounts of the hedging derivatives in scope for the relief are disclosed.

Hedging derivatives with floating leg

31 Dec 2019, EURm	Total nominal amounts
CIBOR	9,122
STIBOR	17,810
NIBOR	12,767
EURIBOR	56,964
LIBOR	24,694
Other	22
Total	**121,379**

G20. Investments in associated undertakings and joint ventures

EURm	31 Dec 2019	31 Dec 2018
Acquisition value at beginning of year	1,603	1,237
Acquisitions during the year	362	335
Sales during the year	–1,414	–3
Share in earnings[1]	69	122
Dividend received	–19	–23
Reclassifications	–	–28
Translation differences	–8	–37
Acquisition value at end of year	**593**	**1,603**
Accumulated impairment charges at beginning of year	**–2**	**–2**
Impairment charges during the year	–19	–
Accumulated impairment charges at end of year	**–21**	**–2**
Total	**572**	**1,601**

1) See table Share in earnings.

Share in earnings

EURm	31 Dec 2019	31 Dec 2018
Profit from companies accounted for under the equity method	69	124
Portfolio hedge, Eksportfinans ASA	–	–2
Share in earnings	**69**	**122**

Nordea's share of the associated undertakings' aggregated balance sheets and income statements (excluding Luminor, see below) can be summarised as follows:

EURm	31 Dec 2019	31 Dec 2018
Total assets	4,259	2,054
Net profit for the year	45	21
Other comprehensive income	1	0
Total comprehensive income	46	21

Nordea has issued contingent liabilities of EUR 0m (EUR 26m) on behalf of associated undertakings.

Nordea has one material associate, Luminor Holding AS. The company is the result of the merger of Nordea's and DnB's businesses in the Baltics. In 2018, the investment was classified as a joint venture as Nordea held 50.0% of the voting rights. In 2019, Nordea sold shares in Luminor and as at 31 December 2019, Nordea owns 19.9% of the shares in Luminor.

As communicated in connection with the announcement of the deal on 13 September 2018, Nordea and Blackstone have additionally entered into a forward sale agreement for the sale of Nordea's remaining 20 per cent stake. The forward sale is subject to certain conditions but is expected to complete over the next three financial years.

Luminor is included in the consolidated accounts of Nordea via the equity method. Luminor applies IFRS in its consolidated accounts and the balance sheet and income statements below are based on IFRS. The disclosed figures show the entire Luminor Group, not just Nordea's share. The full-year figures for 2019 were not available when this report was published.

G20. Investments in associated undertakings and joint ventures, cont.

Balance sheet Luminor Group

EURm	30 Sep 2019	31 Dec 2018
Assets		
Cash and balances with central banks	2,400	3,275
Loans to central banks and credit institutions	175	204
Loans to the public	10,760	11,451
Interest-bearing securities	222	167
Derivatives	74	46
Other assets	160	167
Total assets	**13,791**	**15,310**

EURm	30 Sep 2019	31 Dec 2018
Liabilities and equity		
Deposits by credit institutions	1,331	3,939
Deposits and borrowings from the public	9,923	9,073
Debt securities in issue	658	350
Derivatives	58	43
Other liabilities	186	106
Equity	1,635	1,799
Total liabilities and equity	**13,791**	**15,310**

Income statement Luminor Group

	9 months	12 months
EURm	2019	2018
Interest income	228	309
Interest expense	−39	−39
Net commission income	59	83
Net result from items at fair value	19	32
Other income	12	4
Total operating income	**279**	**389**
Staff costs	−87	−114
Other administrative expenses	−115	−115
Depreciation and amortisation	−10	−14
Net loan losses	−12	−4
Operating profit	**55**	**142**
Income tax expense	−5	−14
Net profit for the year	**50**	**128**
Other comprehensive income	2	2
Total comprehensive income	**52**	**130**

Reconciliation of the carrying amount in Luminor

EURm	31 Dec 2019	31 Dec 2018
Nordea's share of equity in Luminor	327	1,013
Transaction costs	–	23
Other	–	1
Carrying amount of the holding in Luminor	**327**	**1,037**

G20. Investments in associated undertakings and joint ventures, cont.

Associated undertakings

31 Dec 2019	Registration number	Domicile	Carrying amount 2019, EURm	Carrying amount 2018, EURm	Voting power of holding %
Eksportfinans ASA	816521432	Oslo	153	161	23
Eiendomsverdi AS	881971682	Oslo	15	13	25
Suomen Luotto-osuuskunta	0201646-0	Helsinki	2	2	27
LR Realkredit A/S	26045304	Copenhagen	–	7	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	14	5	40
Automatia Pankkiautomaatit Oy	0974651-1	Helsinki	8	7	33
NF Fleet Oy	2006935-5	Espoo	9	9	20
NF Fleet AB	556692-3271	Stockholm	6	6	20
NF Fleet A/S	29185263	Copenhagen	4	4	20
NF Fleet AS	988906808	Oslo	3	3	20
Bankomat AB	556817-9716	Stockholm	8	7	20
Visa Sweden	801020-5097	Stockholm	–	6	–
Luminor Holding AS	14723133	Estonia	327	–	20
P27Nordic Payments Platform AB	559198-9610	Stockholm	11	–	17
Mondido Payments AB	556960-7129	Stockholm	4	–	14
Nordic KYC Utility AB	559210-0779	Stockholm	2	–	17
Subaio ApS	37766585	Aalborg	1	–	25
Other			2	5	
Total			**572**	**564**	

Nordea's share of the joint ventures' aggregated balance sheets and income statements can be summarised as follows:

EURm	31 Dec 2019[1]	31 Dec 2018[2]
Total assets	–	345
Net profit for the year	–	–4
Other comprehensive income	–	0
Total comprehensive income	**–**	**–4**

1) Relacom filed for bankruptcy on 3 January 2020 and is excluded from the disclosure.
2) Estimate based on situation as of Q3 2018.

Joint ventures

	Registration number	Domicile	Carrying amount 2019, EURm	Carrying amount 2018, EURm	Voting power of holding %	Ownership %	Average number of FTE
Luminor Group AB[1]	559072-8316	Stockholm	–	1,037	–	–	–
Relacom Management AB[2]	556746-3103	Stockholm	–	–	61	61	3,000
Total			**–**	**1,037**			
Total associated undertakings and joint ventures			**572**	**1,601**			

1) Luminor Group has been reclassified as an associate in 2019, see above.
2) The joint control is based on a shareholders' agreement setting out that decisions about all relevant activities in the entity are made jointly. The company filed for bankruptcy on 3 January 2020.

For information about investments in group undertakings and companies in which Nordea has unlimited responsibility, see Note P21 "Investments in group undertakings".

G21. Intangible assets

Cash-generating units, EURm	Goodwill[1] 31 Dec 2019	Computer software 31 Dec 2019	Total 31 Dec 2019	Goodwill[1] 31 Dec 2018	Computer software 31 Dec 2018	Total 31 Dec 2018
Corporate & Investment Banking Denmark	–	47	47	–	87	87
Corporate & Investment Banking Finland	–	50	50	–	117	117
Corporate & Investment Banking Norway	173	69	242	172	87	259
Corporate & Investment Banking Sweden	–	63	63	–	88	88
Financial Institutions Group and International Banks	–	18	18	–	22	22
Business Banking Denmark	141	97	238	141	130	271
Business Banking Finland	–	138	138	–	183	183
Business Banking Norway	519	66	585	462	90	552
Business Banking Sweden	81	116	197	82	175	257
Business Banking Direct	–	23	23	–	30	30
Personal Banking Denmark	447	152	599	447	249	696
Personal Banking Finland	–	189	189	–	231	231
Personal Banking Norway	486	115	601	388	147	535
Personal Banking Sweden	122	324	446	124	389	513
Private Banking Denmark	–	14	14	–	16	16
Private Banking Finland	–	16	16	–	18	18
Private Banking Norway	–	6	6	–	7	7
Private Banking Sweden	–	9	9	–	10	10
Asset Management	–	79	79	–	91	91
Total	**1,969**	**1,591**	**3,560**	**1,816**	**2,167**	**3,983**
Other intangible assets	–	–	135	–	–	52
Total intangible assets	**1,969**	**1,591**	**3,695**	**1,816**	**2,167**	**4,035**

1) Excluding goodwill in associated undertakings.

Movements in goodwill, EURm	31 Dec 2019	31 Dec 2018
Acquisition value at beginning of year	1,958	1,995
Acquisitions during the year	150	–
Translation differences	2	−37
Acquisition value at end of year	**2,110**	**1,958**
Accumulated impairment charges at beginning of year	−142	−1
Impairment charges during the year	–	−141
Translation differences	1	0
Accumulated impairment charges at end of year	**−141**	**−142**
Total	**1,969**	**1,816**

Movements in computer software, EURm	31 Dec 2019	31 Dec 2018
Acquisition value at beginning of year	2,788	2,377
Acquisitions during the year	437	534
Sales/disposals during the year	−441	−78
Transfers/reclassifications during the year	14	0
Translation differences	−16	−45
Acquisition value at end of year	**2,782**	**2,788**
Accumulated amortisation at beginning of year	−548	−417
Amortisation according to plan for the year	−246	−162
Accumulated amortisation on sales/disposals during the year	197	20
Transfers/reclassifications during the year	−10	0
Translation differences	1	11
Accumulated amortisation at end of year	**−606**	**−548**
Accumulated impairment charges at beginning of year	−73	−43
Accumulated impairment charges on sales/disposals during the year	244	–
Impairment charges during the year	−742	−32
Translation differences	−14	2
Accumulated impairment charges at end of year	**−585**	**−73**
Total	**1,591**	**2,167**

G21 . Intangible assets, cont.

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, including goodwill, 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 Nordea's macroeconomic 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 over 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 programme. There is also an allocation of central costs to business areas to make sure the cash flows for the CGUs include all 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	
%	2019	2018	2019	2018
Sweden	6.4	6.6	1.8	2.0
Denmark	6.2	5.9	1.3	1.3
Finland	6.9	5.9	1.3	1.3
Norway	7.9	6.4	1.8	1.8
Russia	–	9.2	–	0.0

1) Post–tax.

The impairment tests conducted in 2019 did not indicate any need for goodwill impairment. 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.

The new Group business plan, including new financial targets, updated business plans per business area, and the further consolidation to a global IT platform, in the third quarter, triggered a full impairment test of Nordea's capitalised IT systems and an assessment of future restructuring needs. It was concluded that impairment of IT systems was required due to that the expected lifetime of some IT systems being significantly shorter than previously expected, hence inability to realise full benefits, and in some cases due to decisions to stop the current development or use of the functionality.

The impairment recognised as a result of this test amounted to EUR 735m and was recognised in Group Responsibility, which is included in Other Operating segments in the segment reporting in Note G3. The carrying amounts after impairment for the IT assets are disclosed per CGU in the table above, based on the receiving entity.

G22. Properties and equipment

	31 Dec 2019			31 Dec 2018
EURm	Owned	Right of use assets	Total	Owned
Equipment	447	19	466	506
Land and buildings	49	1,487	1,536	40
Total	**496**	**1,506**	**2,002**	**546**
Equipment				
Acquisition value at beginning of year	1,340	–	1,340	1,331
Adjustments to opening balance	2	8	10	–
Acquisitions during the year	67	19	86	51
Sales/disposals during the year	–32	–1	–33	–20
Transfers/reclassifications	–19	–	–19	0
Translation differences	0	0	0	–22
Acquisition value at end of year	**1,358**	**26**	**1,384**	**1,340**
Accumulated depreciation at beginning of year	–829	–	–829	–742
Adjustments to opening balance	–2	–	–2	–
Accumulated depreciation on sales/disposals during the year	18	0	18	15
Transfers/reclassifications	18	–	18	0
Depreciation according to plan for the year	–99	–7	–106	–113
Translation differences	–1	0	–1	11
Accumulated depreciation at end of year	**–895**	**–7**	**–902**	**–829**
Accumulated impairment charges at beginning of year	–5	–	–5	–5
Impairment charges during the year	–11	–	–11	0
Translation differences	0	–	0	0
Accumulated impairment charges at end of year	**–16**	**–**	**–16**	**–5**
Total	**447**	**19**	**466**	**506**
Land and buildings				
Acquisition value at beginning of year	44	–	44	48
Adjustments to opening balance	–	1,515	1,515	–
Acquisitions during the year	3	167	170	–
Sales/disposals during the year	0	–16	–16	–4
Reclassifications	8	–	8	–
Translation differences	0	1	1	0
Acquisition value at end of year	**55**	**1,667**	**1,722**	**44**
Accumulated depreciation at beginning of year	–3	–	–3	–5
Adjustments to opening balance	–	–2	–2	–
Accumulated depreciation on sales/disposals during the year	0	6	6	2
Depreciation according to plan for the year	–2	–167	–169	0
Translation differences	0	–1	–1	0
Accumulated depreciation at end of year	**–5**	**–164**	**–169**	**–3**
Accumulated impairment charges at beginning of year	–1	–	–1	–1
Impairment charges during the year	–	–16	–16	–
Translation differences	0	0	0	–
Accumulated impairment charges at end of year	**–1**	**–16**	**–17**	**–1**
Total	**49**	**1,487**	**1,536**	**40**

G23. Leasing

Nordea as a lessor

Finance leases

Nordea owns assets leased to customers under finance lease agreements. Finance lease agreements are reported as receivables on the lessee included in "Loans to the public" (see Note G14) in 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 2019	31 Dec 2018
Gross investments	6,803	6,436
Less unearned finance income	–797	–786
Net investments in finance leases	**6,006**	**5,650**
Less unguaranteed residual values accruing to the benefit of the lessor	–3	–34
Present value of future minimum lease payments receivable	**6,003**	**5,616**
Accumulated allowance for uncollectible minimum lease payments receivable	–11	–8

In Finance lease contracts the residual value risk is carried by the vendor or by the lessee according to the terms of the contract.

As of 31 December 2019 the gross investment and the net investment by remaining maturity was distributed as follows:

	31 Dec 2019	
EURm	Gross investment	Net investment
2020	1,924	1,636
2021	1,687	1,445
2022	1,419	1,256
2023	700	649
2024	455	434
Later years	618	586
Total	**6,803**	**6,006**

Operating leases

Assets subject to operating leases mainly comprise machinery and equipment. On the balance sheet they are reported as "Properties and equipment".

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

EURm	31 Dec 2019
2020	1
2021	0
2022	0
2023	–
2024	–
Later years	–
Total	**1**

Nordea as a lessee

EURm	2019	2018
Expense related to short-term leases	–12	–
Expense related to low-value leases	–1	–
Expense related to variable payments	–31	–
Leasing expenses during the year	–	–218
Interest expense during the year	–12	–
Sublease income	3	4
Total cash outflow on leases	–196	–

Other lease disclosures

See Note G22 "Properties and equipment" for further information related to Right of use assets.

See Note G44 "Maturity analysis for assets and liabilities" for further information on the maturity profile.

There are no significant lease commitments for leases that have not yet commenced.

Nordea operates in leased premises. The premises are mainly divided into head office contracts, banking branches and other contracts. The head office contracts in the different Nordic countries generally have a fixed lease term, of 10–25 years. Usually these contracts have either continuation options or they are automatically continued unless separately terminated at the end of the lease term.

Banking branch contracts generally either have fixed lease terms of 1–10 years or are without an end date with the right to terminate. The termination clauses are generally 6–24 months. The main principle is that the premises contracts do not contain purchase options. The company car contracts generally have a fixed lease term of less than 5 years.

G24. Investment properties

EURm	31 Dec 2019	31 Dec 2018
Carrying amount at beginning of year	1,607	1,448
Acquisitions during the year	102	131
Sales/disposals during the year	–157	–15
Fair value adjustments	42	57
Transfers/reclassifications during the year	–10	0
Translation differences	1	–14
Carrying amount at end of year	**1,585**	**1,607**

Amounts recognised in the income statement[1]

EURm	2019	2018
Fair value adjustments[2]	74	62
Rental income	69	85
Direct operating expenses that generate rental income	–18	–21
Direct operating expenses that did not generate rental income	–1	–1
Total	**124**	**125**

1) Included in "Net result from items at fair value".
2) Including also fair value adjustments on investment properties presented as "Assets in pooled schemes and unit-linked investments contracts" on the balance sheet.

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 G41 "Assets and liabilities at fair value".

G25. Other assets

EURm	31 Dec 2019	31 Dec 2018
Claims on securities settlement proceeds	1,366	2,832
Cash/margin receivables	9,978	10,161
Other	1,199	1,756
Total	**12,543**	**14,749**

G26. Prepaid expenses and accrued income

EURm	31 Dec 2019	31 Dec 2018
Accrued interest income	354	272
Other accrued income	372	324
Prepaid expenses	339	717
Total	**1,065**	**1,313**

G27. Deposits by credit institutions

EURm	31 Dec 2019	31 Dec 2018
Central banks	11,409	16,456
Banks	17,570	21,579
Other credit institutions	3,325	4,384
Total	**32,304**	**42,419**

G28. Deposits and borrowings from the public

EURm	31 Dec 2019	31 Dec 2018
Deposits[1]	166,426	160,228
Repurchase agreements	2,299	4,730
Total	**168,725**	**164,958**

1) Deposits related to individual pension savings (IPS) are also included.

G29. 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 investment contracts.

Insurance contracts consist of Life insurance provisions and other insurance-related items.

EURm	31 Dec 2019	31 Dec 2018
Traditional life insurance provisions	6,304	6,187
- of which guaranteed provisions	6,222	6,110
- of which non-guaranteed provisions	82	77
Collective bonus potential	2,113	1,937
Unit-linked insurance provisions	6,978	6,375
- of which guaranteed provisions	0	0
- of which non-guaranteed provisions	6,978	6,375
Insurance claims provision	461	433
Provisions, Health & personal accident	72	69
Total Insurance contracts	**15,928**	**15,001**
Investment contracts	3,318	3,229
- of which guaranteed provisions	3,318	3,229
- of which non-guaranteed provisions	–	–
Total	**19,246**	**18,230**

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 methodology on consolidation. Each market represented by Nordic and European entities measures and recognises insurance contracts using local accounting policies. See also Note G1 section 19.

G29. Liabilities to policyholders, cont.

31 Dec 2019, 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	**6,187**	**1,937**	**6,375**	**433**	**69**	**3,229**	**18,230**
Gross premiums written	87	–	441	–	–	156	684
Transfers	40	–	–43	–	–	–56	–59
Addition of interest/investment return	273	–	1,740	–	–	540	2,553
Claims and benefits	–280	–	–806	28	–	–234	–1,292
Expense loading including addition of expense bonus	–25	–	–41	–	–	–28	–94
Change in provisions/bonus potential	–298	200	98	–	3	–	3
Other	272	–	–790	–	–	–249	–767
Translation differences	48	–24	4	–	–	–40	–12
Provisions/bonus potentials, end of year	**6,304**	**2,113**	**6,978**	**461**	**72**	**3,318**	**19,246**
Provision relating to bonus schemes/ discretionary participation feature:	98%					69%	

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 including 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%	

Insurance risks

Insurance risk is described in Note G2 "Risk and Liquidity management".
Additional quantitative information is found below.

Life insurance risk and market risks in the Life insurance operations, Sensitivities

	31 Dec 2019		31 Dec 2018	
Sensitivities, EURm	Effect on policyholders' liabilities[1]	Effect on Nordea's equity[2]	Effect on policyholders' liabilities[1]	Effect on Nordea's equity[2]
Mortality – increase in life span of 1 year	23.0	–17.7	23.2	–17.9
Mortality – decrease in life span of 1 year	–0.1	0.1	–0.4	0.3
Disability – 10% increase	8.3	–6.5	8.9	–6.9
Disability – 10% decrease	–5.7	4.4	–6.3	4.9
50 bp increase in interest rates	–286.0	6.7	–287.3	–5.6
50 bp decrease in interest rates	287.3	–6.7	288.7	5.6
12% decrease in all share prices	–828.7	–0.1	–680.8	–0.8
8% decrease in property value	–114.8	–0.5	–115.9	–0.8
8% loss on counterparts	–0.5	0.0	–1.5	0.0

1) + (plus) indicates that policyholders liabilities increase.
2) – (minus) indicates that equity decreases.

G29. Liabilities to policyholders, cont.

Liabilities to policyholders by guarantee levels (technical interest rate)

31 Dec 2019, EURm	Non	0 pct.	0 to 2 pct.	2 to 3 pct.	3 to 4 pct.	Over 4 pct.	Total liabilities
Technical provision	7,060	1,426	2,827	2,228	2,170	889	16,600

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

Risk profiles on insurance

Product	Risk types	Material effect
Traditional	Mortality	Yes
	Disability	Yes
	Return guaranties	Yes
Unit-linked	Mortality	Yes
	Disability	Yes
	Return guaranties	No
Health and personal accident	Mortality	No
	Disability	Yes
	Return guaranties	No
Financial contract	Mortality	No
	Disability	No
	Return guaranties	Yes

G30. Debt securities in issue

EURm	31 Dec 2019	31 Dec 2018
Certificates of deposit	22,094	29,693
Commercial papers	22,192	17,078
Covered bonds	115,361	107,936
Senior Non Preferred bonds	2,732	2,440
Other bonds	31,307	33,227
Other	40	48
Total	**193,726**	**190,422**

G31. Other liabilities

EURm	31 Dec 2019	31 Dec 2018
Liabilities on securities settlement proceeds	921	1,617
Sold, not held, securities	9,111	12,495
Accounts payable	151	152
Cash/margin payables	4,675	4,289
Lease liabilities	1,225	–
Other	3,785	4,762
Total	**19,868**	**23,315**

G32. Accrued expenses and prepaid income

EURm	31 Dec 2019	31 Dec 2018
Accrued interest	1	5
Other accrued expenses	1,261	1,423
Prepaid income	214	268
Total	**1,476**	**1,696**

G33. Provisions

EURm	31 Dec 2019	31 Dec 2018
Restructuring	304	193
Guarantees/commitments	144	121
Other	122	7
- of which AML related matters	95	–
Total	**570**	**321**

Provisions for restructuring costs have been utilised in the amount of EUR 117m in 2019, and an increase of EUR 246m has been accounted for. The restructuring provision is related to the new Group business plan, including new financial targets. Approximately EUR 200m of the EUR 304m is expected to be utilised in 2020. However, like for any other provision, there is uncertainty surrounding timing and amount. The uncertainty is expected to decrease as the plans are executed.

Loan loss provisions on off-balance sheet items amount to EUR 144m (EUR 121m).

More information on these provisions can be found in Note G2 "Risk and Liquidity management".

Excluding AML related matters, other provisions relate mainly to maintenance obligations in head office premises.

	Restructuring		Other	
EURm	2019	2018	2019	2018
At beginning of year	193	225	7	13
New provisions made	246	103	124	5
Provisions utilised	–117	–123	–5	–8
Reversals	0	–9	–4	–3
Reclassifications	–16	0	0	0
Translation differences	–2	–3	0	0
At end of year	**304**	**193**	**122**	**7**

G34. Retirement benefit obligations

EURm	31 Dec 2019	31 Dec 2018
Retirement benefit assets	173	246
Retirement benefit obligations	439	398
Net liability (–)/asset (+)	**–266**	**–152**

Nordea sponsors both defined contribution plans (DCP) and defined benefit plans (DBP). IAS 19 ensures 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 legislation, 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 provides 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 performed 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
2019					
Discount rate[2]	1.39%	2.20%	0.60%	0.76%	1.82%
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]
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]

1) The assumptions disclosed for 2019 have an impact on the liability calculation by year-end 2019, while the assumptions disclosed for 2018 are used for calculating the pension expense in 2019.
2) More information on the discount rate can be found in Note G1 "Accounting policies", section 24. The sensitivities to changes in the discount rate are provided below.
3) All pensions in Denmark are salary indexed. The inflation has hence no impact on the DBO.
4) With CMI_2018 projections for 2019 calculations and CMI_2017 projections for 2018 calculations.

Sensitivities – Impact on Defined Benefit Obligation (DBO)

%	Swe	Nor	Fin	Den	UK
Discount rate - Increase 50bps	–11.1%	–8.1%	–6.4%	–5.1%	–9.0%
Discount rate - Decrease 50bps	12.9%	9.0%	7.1%	5.5%	10.3%
Salary increase - Increase 50bps	3.8%	0.3%	0.4%	4.9%	–
Salary increase - Decrease 50bps	–2.8%	–0.3%	–0.4%	–4.6%	–
Inflation - Increase 50bps	11.1%	8.0%	5.3%	–	1.7%
Inflation - Decrease 50bps	–9.8%	–7.7%	–4.9%	–	–1.6%
Mortality - Increase 1 year	5.1%	3.7%	4.8%	6.3%	4.8%
Mortality - Decrease 1 year	–5.1%	–4.9%	–4.7%	–6.0%	–4.6%

The sensitivity analyses are prepared by changing one actuarial assumption while keeping the other assumptions unchanged. This is a simplified approach because the actuarial assumptions are usually correlated. However, it enables isolating 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 includes the impact on the liabilities held for future SWT (special wage tax) or SSC (social security contributions) in Sweden and Norway, respectively.

As all pensions in Denmark are salary-indexed, inflation has no impact on the DBO in Denmark.

G34. Retirement benefit obligations, cont.

Net retirement benefit liabilities/assets

EURm	Swe 2019	Nor 2019	Fin 2019	Den 2019	UK 2019	Total 2019	Total 2018
Obligations	1,993	796	791	102	108	3,790	3,494
Plan assets	1,710	710	845	126	133	3,524	3,342
Net liability(–)/asset(+)	**–283**	**–86**	**54**	**24**	**25**	**–266**	**–152**
- of which retirement benefit assets	1	61	59	27	25	173	246
- of which retirement benefit liabilities	284	147	5	3	–	439	398

Movements in the obligation

2019, EURm	Swe	Nor	Fin	Den	UK	Total
Opening balance	1,840	744	722	96	92	3,494
Current service cost	28	4	3	–	–	35
Interest cost	38	21	10	2	3	74
Pensions paid	–68	–37	–39	–6	–4	–154
Past service cost and settlements	4	–7	2	–	–	–1
Remeasurement from changes in demographic assumptions	–	–	0	–1	–1	–2
Remeasurement from changes in financial assumptions	210	71	95	9	14	399
Remeasurement from experience adjustments	–33	–13	–2	2	–	–46
Translation differences	–35	9	–	0	4	–22
Change in provision for SWT/SSC[1]	9	4	–	–	–	13
Closing balance	**1,993**	**796**	**791**	**102**	**108**	**3,790**
- of which relates to the active population	26%	11%	13%	–	–	19%
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%

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 20 (18) years in Sweden, 15 (14) years in Norway, 14 (12) years in Finland, 11 (11) years in Denmark and 20 (22) years in the UK based on discounted cash flows. The fact of all DBPs now being closed to new entrants gives a lower duration. The increase in average duration during the year is due to changed assumptions.

G34. Retirement benefit obligations, cont.

Movements in the fair value of plan assets

2019, EURm	Swe	Nor	Fin	Den	UK	Total
Opening balance	1,604	681	824	122	111	3,342
Interest income (calculated using the discount rate)	34	19	13	2	3	71
Pensions paid	0	−19	−39	−6	−4	−68
Contributions by employer	–	4	−31	2	–	−25
Remeasurement (actual return less interest income)	105	18	78	6	17	224
Translation differences	−33	7	–	0	6	−20
Closing balance	**1,710**	**710**	**845**	**126**	**133**	**3,524**

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**

Asset composition

The combined return on assets in 2019 was 8.8% (2.0%). The year was characterised by strong returns across all asset classes, primarily in equities and spread bonds. At the end of the year, the equity exposure in Nordea´s pension funds/foundations represented 19% (24%) of total assets.

The Group expects to contribute EUR 3m to its defined benefit plans in 2020.

Asset composition in funded schemes

%	Swe 2019	Nor 2019	Fin 2019	Den 2019	UK 2019	Total 2019	Total 2018
Bonds	83%	68%	59%	85%	84%	74%	66%
- sovereign	43%	43%	30%	53%	84%	41%	36%
- covered bonds	23%	19%	9%	32%	0%	18%	18%
- corporate bonds	17%	6%	20%	0%	0%	15%	12%
- issued by Nordea entities	*2%*	*4%*	–	–	–	*2%*	*1%*
- with quoted market price in an active market	*83%*	*68%*	*59%*	*85%*	*84%*	*74%*	*66%*
Equity	16%	17%	25%	15%	16%	19%	24%
- domestic	4%	4%	7%	15%	5%	5%	6%
- European	4%	4%	6%	0%	2%	4%	6%
- US	4%	5%	6%	0%	6%	5%	7%
- emerging	4%	4%	6%	0%	3%	4%	5%
- Nordea shares	–	–	–	–	–	*0%*	*0%*
- with quoted market price in an active market	*16%*	*17%*	*26%*	*15%*	*16%*	*19%*	*24%*
Real estate[1]	0%	15%	15%	0%	0%	6%	7%
- occupied by Nordea	–	–	*5%*	–	–	*1%*	*1%*
Cash and cash equivalents	1%	0%	1%	0%	0%	1%	3%

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

G34. 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 46m (EUR 54m). Total pension costs comprise defined benefit pension costs as well as costs related to defined contribution plans (see specification in Note G8 "Staff costs").

Recognised in the income statement

2019, EURm	Swe	Nor	Fin	Den	UK	Total
Current service cost	28	4	3	–	–	35
Net interest	4	2	–3	0	0	3
Past service cost and settlements	4	–7	2	–	–	–1
SWT/SSC[1]	9	0	–	–	–	9
Pension cost on defined benefit plans (expense+/ income–)	**45**	**–1**	2	0	**0**	**46**
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**

1) Cost related to special wage tax (SWT) in Sweden and social security contribution (SSC) in Norway.

Compared with the pension cost in 2018, excluding past service cost and related SWT and SSC, the pension cost remained unchanged in 2019.

Recognised in other comprehensive income

2019, EURm	Swe	Nor	Fin	Den	UK	Total
Remeasurement from changes in demographic assumptions	–	–	0	–1	–1	–2
Remeasurement from changes in financial assumptions	210	71	95	9	14	399
Remeasurement from experience adjustments	–33	–13	–2	2	–	–46
Remeasurement of plan assets (actual return less interest income)	–105	–18	–78	–6	–17	–224
SWT/SSC[1]	17	8	–	–	–	25
Pension cost on defined benefit plans (expense+/income–)	**89**	**48**	**15**	**4**	**–4**	**152**
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**

1) Cost related to special wage tax (SWT) in Sweden and social security contribution (SSC) in Norway.

G34. 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 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 AFP plan gives the entitled employees a lifelong addition to regular pensions from the age of 62. Furthermore, the scheme allows employees to continue working while receiving AFP without this affecting their pension rights. The plan is founded on the basis of a tripartite cooperation between employer organisations, employee organisations and the Norwegian government. The government covers one third of the pension expense for the AFP plan while the member companies collectively cover the remaining two thirds of the pension expense. The premium the member firms pay to the plan is determined to be sufficient to cover on-going pension expenses and 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 2019 was 2.5% of employees' wages between 1 and 7.1 times the average base amount according to 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 2019 amount to EUR 3m. Payments into the plan in 2019 covered 2,500 employees. The premium rate for 2020 will be 2.5% of the employees' wages between 1 and 7.1 times the average base amount according to the Norwegian National Insurance Act. The expected premiums in 2020 amount to EUR 3m.

The employees that meet the requirements for AFP are guaranteed AFP payments regardless of the solvency of their employers. Consequently, the employer members have joint responsibility for two thirds of the pensions payable to employees who at any given time, meet the requirements for AFP. Any deficit or surplus on windup of the plan or the withdrawal of entities 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 7m (EUR 6m) at the end of the year. These obligations are largely 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 2019 were EUR 0m (EUR 0m). Complete information concerning key management personnel is disclosed in Note G8 "Staff costs".

G35. Subordinated liabilities

EURm	31 Dec 2019	31 Dec 2018
Additional Tier 1	2,409	2,384
Tier 2	7,410	6,771
Total	**9,819**	**9,155**

G36. Assets pledged as security for own liabilities

EURm	31 Dec 2019	31 Dec 2018
Assets pledged for own liabilities		
Securities etc[1]	24,458	23,465
Loans to the public	146,615	144,707
Other assets pledged	12,922	3,727
Total	**183,995**	**171,899**
The above pledges pertain to the following liabilities		
Deposits by credit institutions	12,178	13,062
Deposits and borrowings from the public	5,569	2,402
Derivatives	4,676	–
Debt securities in issue	113,283	107,647
Other liabilities and commitments	2,464	2,587
Total	**138,170**	**125,698**

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 asset pledged relate to certificates of deposits pledged by Nordea to comply with authority requirements.

G37. Other assets pledged

Other assets pledged are mainly related to securities, which include interest-bearing securities pledged as securities for payment settlements within the central banks and clearing institutions in the amount of EUR 3,919m (EUR 4,788m). The terms and conditions require day to day securities and relate to intraday/over night liquidity. 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, is also accounted for under this item.

G38. Contingent liabilities

EURm	31 Dec 2019	31 Dec 2018
Guarantees		
- Loan guarantees	2,791	2,434
- Other guarantees	13,855	13,949
Documentary credits	1,146	1,433
Other contingent liabilities	0	3
Total	**17,792**	**17,819**

In its normal business, Nordea issues various forms of guarantees in favour of its customers. Loan guarantees are given for customers to guarantee obligations in other credit- and pension institutions. Other guarantees consist mainly of commercial guarantees such as bid guarantees, advance payment guarantees, warranty guarantees and export-related guarantees. Contingent liabilities also include unutilised irrevocable import documentary credits and confirmed export documentary credits. These transactions are part of the bank's services and support 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 for which the possibility of an outflow of resources is considered 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 of managing directors or board members in group undertakings of Nordea Bank Abp.

Nordea Bank Abp has indemnified the members of the GLT against legal expenses incurred in relation to legal advice in defending or disputing certain claims or investigations from third parties, excluding crimes or actions made with intent or gross negligence. For each GLT member, the indemnity is capped at an aggregate amount of EUR 37.5m, unless the Board of Directors decides otherwise on a case-by-case basis. The indemnity is secondary to any other insurance coverage.

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 G8 "Staff costs".

Claims in civil lawsuits and possible fines

Within the framework of its normal business operations, Nordea faces a number of claims in civil lawsuits and disputes, most of which involve relatively limited amounts, as well as possible fines due to e.g. weak anti-money laundering processes and procedures in the past. Presently, none of the current disputes are considered likely to have any significant adverse effect on Nordea or its financial position. As previously stated, Nordea expects to be fined in Denmark for weak AML processes and procedures in the past and has made a provision for ongoing AML-related matters. Nordea cannot exclude the possibility of fines, which could impact the bank's financial performance. In addition, some of these proceedings could lead to litigation. See also Note G2 "Risk and Liquidity management" and Note G33 "Provisions".

G39. Commitments

EURm	31 Dec 2019	31 Dec 2018
Unutilised overdraft facilities	28,871	29,626
Loan commitments	46,459	43,661
Future payment obligations	222	100
Other commitments	1,511	1,092
Total	**77,063**	**74,479**

Reverse repurchase agreements are recognised on and derecognised from the balance sheet on the settlement date. Nordea has as per 31 December 2019 signed reverse repurchase agreements that have not yet been settled and consequently are not recognised on the balance sheet. On the settlement date these reverse repurchase agreements will, as far as possible, replace existing reverse repurchase agreements not yet derecognised as per 31 December 2019. The net impact on the balance sheet is minor. These instruments have not been disclosed as commitments.

For information on credit commitments, see Note G1 "Accounting policies", section 26, about derivatives, see Note G19 "Derivatives and Hedge accounting" and about reverse repurchase agreements, see Note G43 "Transferred assets and obtained collaterals".

Nordea has in addition entered into an agreement to acquire SG Finans for an agreed purchase price of EUR 575m, contingent on customary regulatory approvals. See the Board of Directors' report for additional details.

G40. Classification of financial instruments

Assets

31 Dec 2019, 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	35,509	–	–	–	–	–	35,509
Loans to central banks	5,889	3,318	–	–	–	–	9,207
Loans to credit institutions	5,724	2,792	–	–	–	–	8,516
Loans to the public	245,226	77,514	–	–	–	–	322,740
Interest-bearing securities	3,489	28,460	4,088	–	28,893	–	64,930
Financial instruments pledged as collateral	–	6,265	–	–	886	–	7,151
Shares	–	14,184	–	–	–	–	14,184
Assets in pooled schemes and unit-linked investment contracts	–	30,324	169	–	–	306	30,799
Derivatives	–	36,784	–	2,327	–	–	39,111
Fair value changes of the hedged items in portfolio hedge of interest rate risk	217	–	–	–	–	–	217
Investments in associated undertakings and joint ventures	–	–	–	–	–	572	572
Intangible assets	–	–	–	–	–	3,695	3,695
Properties and equipment	–	–	–	–	–	2,002	2,002
Investment properties	–	–	–	–	–	1,585	1,585
Deferred tax assets	–	–	–	–	–	487	487
Current tax assets	–	–	–	–	–	362	362
Retirement benefit assets	–	–	–	–	–	173	173
Other assets	1,079	10,778	–	–	–	686	12,543
Prepaid expenses and accrued income	693	–	–	–	–	372	1,065
Total	**297,826**	**210,419**	**4,257**	**2,327**	**29,779**	**10,240**	**554,848**

Liabilities

31 Dec 2019, 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	23,330	8,974	–	–	–	32,304
Deposits and borrowings from the public	164,027	4,698	–	–	–	168,725
Deposits in pooled schemes and unit-linked investment contracts	–	–	31,859	–	–	31,859
Liabilities to policyholders	–	–	3,318	–	15,928	19,246
Debt securities in issue	135,223	–	58,503	–	–	193,726
Derivatives	–	40,298	–	1,749	–	42,047
Fair value changes of the hedged items in portfolio hedge of interest rate risk	2,018	–	–	–	–	2,018
Current tax liabilities	–	–	–	–	742	742
Other liabilities[1]	4,634	14,153	–	–	1,081	19,868
Accrued expenses and prepaid income	215	–	–	–	1,261	1,476
Deferred tax liabilities	–	–	–	–	481	481
Provisions	–	–	–	–	570	570
Retirement benefit liabilities	–	–	–	–	439	439
Subordinated liabilities	9,819	–	–	–	–	9,819
Total	**339,266**	**68,123**	**93,680**	**1,749**	**20,502**	**523,320**

1) Of which lease liabilities classified into the category Amortised cost EUR 1,225m.

G40. Classification of financial instruments, cont.

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**

G40. Classification of financial instruments, cont.

Financial assets designated at fair value through profit or loss

EURm	2019	2018
Carrying amount per end of year	4,257	7,287
Maximum exposure to credit risk per end of year	4,257	7,287
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	–	–
Changes in fair value due to changes in own credit risk, accumulated	–	–
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) consist of all assets in Nordea Life and Pension held under investment contracts, EUR 4,088m (EUR 7,134m). Also, assets in pooled schemes and unit-linked investment contracts in Life, EUR 169m (EUR 153m), are 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 essentially the same change in the carrying amount of the corresponding liabilities to policyholders. There is thus no significant impact on the income statement or equity due to changes in credit risk of these assets in Life.

Financial liabilities designated at fair value through profit or loss consist of issued bonds in the Danish group undertaking Nordea Kredit Realkreditaktieselskab, EUR 55,766m (EUR 51,616m), issued structured bonds in Markets operation, EUR 2,737m (EUR 3,162m), deposits linked to the investment return of separate assets, EUR 4,377m (EUR 3,964m) and investment contracts and pooled schemes in Life, EUR 30,800m (EUR 24,923m). For issued structured bonds in Markets, changes in fair value due to changes in own credit risk are recognised in other comprehensive income and Nordea calculates 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, are calculated by determining the amount of changes in its fair value that are 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

	2019			2018		
EURm	Liabilities for which changes in credit risk are presented in OCI	Liabilites for which changes in credit risk are presented in profit or loss	Total	Liabilities for which changes in credit risk are presented in OCI	Liabilites for which changes in credit risk are presented in profit or loss	Total
Carrying amount per end of the year	2,737	90,943	93,680	3,162	80,503	83,665
Amount to be paid at maturity[1]	2,737	93,317	96,054	3,322	81,600	84,922
Changes in fair value due to changes in own credit risk, during the year	–15	94	79	20	–54	–34
Changes in fair value due to changes in own credit risk, accumulated	–5	–456	–461	10	–550	–540

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 at the carrying amount.

G41. Assets and liabilities at fair value

Fair value of financial assets and liabilities

EURm	31 Dec 2019 Carrying amount	31 Dec 2019 Fair value	31 Dec 2018 Carrying amount	31 Dec 2018 Fair value
Financial assets				
Cash and balances with central banks	35,509	35,509	41,578	41,578
Loans	340,680	343,410	327,435	330,681
Interest-bearing securities	64,930	65,047	76,222	76,334
Financial instruments pledged as collateral	7,151	7,151	7,568	7,568
Shares	14,184	14,184	12,452	12,452
Assets in pooled schemes and unit-linked investment contracts	30,493	30,493	24,425	24,425
Derivatives	39,111	39,111	37,025	37,025
Other assets	11,857	11,857	13,428	13,428
Prepaid expenses and accrued income	693	693	989	989
Total	**544,608**	**547,455**	**541,122**	**544,480**

Fair value of financial assets and liabilities, cont.

EURm	31 Dec 2019 Carrying amount	31 Dec 2019 Fair value	31 Dec 2018 Carrying amount	31 Dec 2018 Fair value
Financial liabilities				
Deposits and debt instruments	406,592	407,337	408,227	409,014
Deposits in pooled schemes and unit-linked investment contracts	31,859	31,859	25,653	25,653
Liabilities to policyholders	3,318	3,318	3,234	3,234
Derivatives	42,047	42,047	39,547	39,547
Other liabilities	17,562	17,562	18,817	18,817
Accrued expenses and prepaid income	215	215	273	273
Total	**501,593**	**502,338**	**495,751**	**496,538**

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 2019, 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	–	–	3,318	–	–	–	3,318
Loans to credit institutions	–	–	2,792	–	–	–	2,792
Loans to the public	–	–	77,514	–	–	–	77,514
Interest-bearing securities[2]	19,694	1,487	48,726	2,660	172	13	68,592
Shares	11,825	10,184	325	322	2,034	860	14,184
Assets in pooled schemes and unit-linked investment contracts	30,078	26,129	359	359	362	362	30,799
Derivatives	37	–	37,717	12	1,357	–	39,111
Investment properties	–	–	–	–	1,585	1,578	1,585
Other assets	–	–	10,743	–	35	34	10,778
Total	**61,634**	**37,800**	**181,494**	**3,353**	**5,545**	**2,847**	**248,673**
Liabilities at fair value on the balance sheet[1]							
Deposits by credit institutions	–	–	8,974	–	–	–	8,974
Deposits and borrowings from the public	–	–	4,698	–	–	–	4,698
Deposits in pooled schemes and unit-linked investment contracts	–	–	31,859	27,482	–	–	31,859
Liabilities to policyholders	–	–	3,318	3,318	–	–	3,318
Debt securities in issue	8,155	–	48,116	–	2,232	–	58,503
Derivatives	59	–	40,805	13	1,183	–	42,047
Other liabilities	3,587	–	10,564	–	2	–	14,153
Total	**11,801**	**–**	**148,334**	**30,813**	**3,417**	**–**	**163,552**

1) All items are measured at fair value on a recurring basis at the end of each reporting period.
2) Of which EUR 7,151m relates to the balance sheet item Financial instruments pledged as collateral.

G41. 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 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.

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 ongoing 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 has 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

G41. 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 is 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). If the impact from unobservable parameters on the valuation of the bond is significant the bond is categorised as Level 3 in the fair value hierarchy.

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.

Further Nordea has 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 2019 changed the principle for calculating the impact of funding costs and funding benefits on the valuation of uncollateralised and imperfectly collateralised derivatives (FFVA) in order to address an identified double counting versus the CVA.

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 pledged as collateral) of EUR 4,272m (EUR 6,778m) from Level 1 to Level 2 and EUR 701m (EUR 3,169m) from Level 2 to Level 1 of the fair value hierarchy. Nordea has also transferred derivative assets of EUR 0m (EUR 4m) and derivative liabilities of EUR 4m (EUR 2m) from Level 2 to Level 1. Nordea has also transferred debt securities in issue of EUR 4,455m (EUR 7,534m) from Level 1 to Level 2 and EUR 0m (EUR 384m) from Level 2 to Level 1. Further Nordea transferred other liabilities from Level 1 to Level 2 of EUR 1,426m (EUR 1,494m) and EUR 1m (EUR 128m) 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.

G41. Assets and liabilities at fair value, cont.

Movements in Level 3

		Fair value gains/losses recognised in the income statement during the year										
2019, EURm	1 Jan 2019	Realised	Unrealised	Recognised in OCI	Purchases/ Issues	Sales	Settlements	Transfers into Level 3	Transfers out of Level 3	Reclassification[1]	Translation differences	31 Dec 2019
Interest-bearing securities	329	–1	8	–	14	–180	2	–	–	–	–	172
- of which Life	4	–	9	–	–	–1	1	–	–	–	–	13
Shares	1,697	123	51	–	358	–419	–19	169	–31	91	14	2,034
- of which Life	916	42	–25	–	35	–221	–19	166	–31	–	–3	860
Assets in pooled schemes and unit-linked investment contracts	189	2	45	–	145	–22	2	1	–	–	–	362
- of which Life	189	2	45	–	145	–22	2	1	–	–	–	362
Derivatives (net)	15	–121	200	–	–33	–	121	–	–8	–	–	174
Other assets	74	–	–5	–	–	–	–33	–	–	–	–1	35
- of which Life	40	–	–	–	–	–	–6	–	–	–	–	34
Investment properties	1,607	2	39	–	103	–157	–	–	–	–10	1	1,585
- of which Life	1,588	2	38	–	101	–145	–	–	–	–7	1	1,578
Debt securities in issue	2,627	54	–232	–8	422	–	–634	3	–	–	–	2,232
Other Liabilities	14	–	–	–	1	–13	–	–	–	–	–	2

1) Due to deconsolidation of Nordea Bank S.A., Shares in Level 3 increased by EUR 91m and Investment properties in Level 3 decreased by EUR 3m. In addition, investment properties in Level 3 of EUR 7m have been reclassified from Investment properties to Properties and equipment.

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 were 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 G6). Assets and liabilities related to derivatives are presented net.

		Fair value gains/losses recognised in the income statement during the year										
2018, EURm	1 Jan 2018	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

G41. 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 a 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.

G41. Assets and liabilities at fair value, cont.

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

31 Dec 2019, EURm	Fair value	Of which Life[1]	Valuation techniques	Unobservable input	Range of fair value
Interest-bearing securities					
Mortgage and other credit institutions[2]	164	9	Discounted cash flows	Credit spread	–16/16
Corporates	8	4	Discounted cash flows	Credit spread	–0/0
Total	**172**	**13**			**–16/16**
Shares					
Private equity funds	833	489	Net asset value[3]		–93/93
Hedge funds	87	83	Net asset value[3]		–8/8
Credit Funds	421	167	Net asset value/market consensus[3]		–35/35
Other funds	289	115	Net asset value/fund prices[3]		–26/26
Other[4]	460	62	–		–32/32
Total	**2,090**	**916**			**–194/194**
Derivatives					
Interest rate derivatives	265	–	Option model	Correlations	–31/35
				Volatilities	
Equity derivatives	–10	–	Option model	Correlations	–6/3
				Volatilities	
				Dividend	
Foreign exchange derivatives	–16	–	Option model	Correlations	–0/0
				Volatilities	
Credit derivatives	–69	–	Credit derivative model	Correlations	–24/26
				Recovery rates	
				Volatilities	
Other	4	–	Option model	Correlations	–0/0
				Volatilities	
Total	**174**	**–**			**–61/64**
Debt securities in issue					
Issued structured bonds	2,232	–	Credit derivative model	Correlations	–11/11
				Recovery rates	
				Volatilities	
Total	**2,232**	**–**			**–11/11**
Other, net					
Other assets and Other liabilities, net	33	34			–4/4
Total	**33**	**34**			**–4/4**

1) Investment in financial instruments is a major part of the life insurance business, acquired to fulfil 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 reasonable 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 3% to 100% compared to the values received from suppliers/custodians.

4) Of which EUR 56m related to assets in pooled schemes and unit-linked investment.

G41. 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 fac-

G41. Assets and liabilities at fair value, cont.

tors. 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 on 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.

Investment properties

31 Dec 2019, EURm	Fair value[1]	Of which Life	Valuation techniques	Unobservable input	Range of unobservable input	Weighted average of unobservable input
Norway	713	713	Discounted cash flows	Market rent		
				- Office	110–401 EUR/m²	280 EUR/m²
				- Other	128 EUR/m²	128 EUR/m²
				Yield requirement		
				- Office	4.0%–5.65%	4,6%
				- Other	6.5%–9.5%	7,1%
Finland[3]	933	933	Discounted cash flows[2]	Market rent		
				- Commercial	144–230 EUR/m²	187 EUR/m²
				- Office	189–306 EUR/m²	296 EUR/m²
				- Apartment	189–306 EUR/m²	248 EUR/m²
				- Other	231–291 EUR/m²	261 EUR/m²
				Yield requirement		
				- Commercial	5.75%–7.25%	6,5%
				- Office	4.5%–8.25%	5,8%
				- Apartment	3.25%–4.75%	4,0%
				- Other	4.5% -6%	5,3%
Sweden	238	238	Discounted cash flows[2]	Market rent		
				- Commercial	73–208 EUR/m²	124 EUR/m²
				- Office	226–231 EUR/m²	229 EUR/m²
				- Apartment	166–178 EUR/m²	172 EUR/m²
				- Other	65–66 EUR/m²	65 EUR/m²
				Yield requirement		
				- Commercial	5.10%–6.75%	5,8%
				- Office	4.5%–4.65%	4,6%
				- Apartment	3.73%–4.30%	3,9%
				- Other	6.75%–6.75%	6,8%
Other	7	–	Discounted cash flows	–	–	–
Total	**1,891**	**1,884**				

1) Split based on the valuation methodologies used in different countries.
2) The fair value is calculated by external valuers.
3) Of which EUR 306m related to investment properties in pooled schemes and unit-linked investments in Life.

G41. 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/m²	284 EUR/m²
				- Other	126 EUR/m²	126 EUR/m²
				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/m²	189 EUR/m²
				- Office	123–294 EUR/m²	208 EUR/m²
				- Apartment	189–306 EUR/m²	248 EUR/m²
				- Other	231–288 EUR/m²	260 EUR/m²
				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/m²	124 EUR/m²
				- Office	233 EUR/m²	233 EUR/m²
				- Apartment	169–179 EUR/m²	174 EUR/m²
				- Other	66 EUR/m²	66 EUR/m²
				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.

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 the transaction price not being 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).

G41. Assets and liabilities at fair value, cont.

Deferred Day 1 profit – derivatives, net

EURm	2019	2018
Amount at beginning of year	81	58
Deferred profit/loss on new transactions	85	62
Recognised in the income statement during the year[1]	–41	–39
Amount at end of year	**125**	**81**

1) Of which EUR –m (EUR –m) 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 2019		31 Dec 2018		
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	35,509	35,509	41,578	41,578	3
Loans	257,056	259,786	249,913	253,159	3
Interest-bearing securities	3,489	3,606	3,384	3,496	1,2
Other assets	1,079	1,079	955	955	3
Prepaid expenses and accrued income	693	693	989	989	3
Total	**297,826**	**300,673**	**296,819**	**300,177**	
Liabilities not held at fair value on the balance sheet					
Deposits and debt instruments	334,417	335,162	338,438	339,225	3
Other liabilities	3,409	3,409	989	989	3
Accrued expenses and prepaid income	215	215	273	273	3
Total	**338,041**	**338,786**	**339,700**	**340,487**	

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" has been estimated by discounting the expected future cash flows with an assumed customer interest rate that would have been used on the market if the loans had been issued at the time of the measurement. The assumed customer interest rate is calculated as the benchmark interest rate plus the average margin on new lending in Personal Banking, Business Banking and Large Corporates & Institutions respectively.

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

Interest-bearing securities
The fair value is EUR 3,606m (EUR 3,496m), of which EUR 237m (EUR 0m) is categorised in Level 1 and EUR 3,369m (EUR 3,496m) 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 are based on changes in relevant interest rates compared with corresponding nominal interest rate in the portfolios. The fair value changes in the credit risk are 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 are 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.

G42. Financial instruments set off on balance or subject to netting agreements

31 Dec 2019, EURm	Gross recognised financial assets[1]	Gross recognised financial liabilities set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	126,040	−87,038	39,002	−27,317	–	−9,987	1,698
Reverse repurchase agreements	38,143	−9,965	28,178	–	−28,178	–	0
Securities borrowing agreements	4,324	–	4,324	–	−3,223	–	1,101
Variation margin	382	−382	0	–	–	–	0
Total	**168,889**	**−97,385**	**71,504**	**−27,317**	**−31,401**	**−9,987**	**2,799**

31 Dec 2019, EURm	Gross recognised financial liabilities[1]	Gross recognised financial assets set off on the balance sheet	Net carrying amount on the balance sheet[2]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	125,813	−84,423	41,390	−27,317	–	−4,676	9,397
Repurchase agreements	24,351	−9,965	14,386	–	−14,356	–	30
Securities lending agreements	2,500	–	2,500	–	−2,500	–	0
Variation margin	2,996	−2,997	0	–	–	–	0
Total	**155,660**	**−97,385**	**58,276**	**−27,317**	**−16,856**	**−4,676**	**9,427**

1) All amounts are measured at fair value , except for the reverse repurchase agreements of EUR 3,169m and repurchase agreements of EUR 3,211m 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.

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]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral received	Cash collateral received	Net amount
Assets							
Derivatives	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**

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]	Amounts not set off but subject to master netting agreements and similar agreements: Financial instruments	Financial collateral pledged	Cash collateral pledged	Net amount
Liabilities							
Derivatives	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 reverse 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.

G42. 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 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 Nordea would consequently be able to benefit from netting, in the event of its counter-parties defaulting, in any calculations involving counterparty credit risk.

For a description of counterparty risk, see the section Counterparty risk in Note G2 "Risk and Liquidity management".

G43. Transferred assets and obtained collaterals

Transferred assets that are not derecognised in their entirety and associated liabilities

Assets are considered to be transferred from Nordea if Nordea either transfers the contractual right to receive the cash flows from the asset or to retain that right, but has a contractual obligation to pay the cash flows to one or more entities.

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 whereby 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 whereby Nordea lends securities it holds to a counterpart and receives a fee.

As both repurchase agreements and securities lending transactions result in securities being returned to Nordea, all risks and rewards of the instruments transferred are retained by Nordea, although they are not available to 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.

G43. Transferred assets and obtained collaterals, cont.

EURm	31 Dec 2019	31 Dec 2018
Repurchase agreements		
Interest-bearing securities	7,151	7,568
Securities lending agreements		
Shares	–	–
Total	**7,151**	**7,568**

Liabilities associated with the assets

EURm	31 Dec 2019	31 Dec 2018
Repurchase agreements	7,150	7,564
Securities lending agreements	–	–
Securitisations	–	–
Total	**7,150**	**7,564**
Net	**1**	**4**

Obtained collaterals that 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 upon settlement of the transactions. The fair value of the securities obtained as collateral under reverse repurchase and securities borrowing agreements is disclosed below.

EURm	31 Dec 2019	31 Dec 2018
Reverse repurchase agreements		
Received collaterals that can be repledged or sold	36,218	35,632
- of which repledged or sold	15,791	19,661
Securities borrowing agreements		
Received collaterals that can be repledged or sold	5,680	5,648
- of which repledged or sold	2,612	2,980
Total	**41,898**	**41,280**

G44. Maturity analysis for assets and liabilities

Expected maturity

		31 Dec 2019 Expected to be recovered or settled:			31 Dec 2018 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		35,509	–	35,509	41,578	–	41,578
Loans to central banks	G14	9,207	–	9,207	7,642	–	7,642
Loans to credit institutions	G14	7,629	887	8,516	10,856	464	11,320
Loans to the public	G14	71,994	250,746	322,740	77,834	230,470	308,304
Interest-bearing securities	G15	20,021	44,909	64,930	36,619	39,603	76,222
Financial instruments pledged as collateral	G16	–	7,151	7,151	7,568	–	7,568
Shares	G17	6,474	7,710	14,184	6,049	6,403	12,452
Assets in pooled schemes and unit-linked investment contracts	G18	22,371	8,428	30,799	17,314	7,269	24,583
Derivatives	G19	7,097	32,014	39,111	7,463	29,562	37,025
Fair value changes of the hedged items in portfolio hedge of interest rate risk		44	173	217	74	95	169
Investments in associated undertakings and joint ventures	G20	–	572	572	139	1,462	1,601
Intangible assets	G21	4	3,691	3,695	205	3,830	4,035
Properties and equipment	G22	169	1,833	2,002	127	419	546
Investment properties	G24	715	870	1,585	16	1,591	1,607
Deferred tax assets	G12	23	464	487	17	147	164
Current tax assets		362	–	362	284	–	284
Retirement benefit assets	G34	–	173	173	–	246	246
Other assets	G25	11,944	599	12,543	14,554	195	14,749
Prepaid expenses and accrued income	G26	805	260	1,065	1,094	219	1,313
Total assets		**194,368**	**360,480**	**554,848**	**229,433**	**321,975**	**551,408**
Deposits by credit institutions	G27	32,117	187	32,304	36,690	5,729	42,419
Deposits and borrowings from the public	G28	159,446	9,279	168,725	159,718	5,240	164,958
Deposits in pooled schemes and unit-linked investment contracts	G18	6,188	25,671	31,859	5,242	20,411	25,653
Liabilities to policyholders	G29	1,056	18,190	19,246	1,939	16,291	18,230
Debt securities in issue	G30	65,196	128,530	193,726	71,549	118,873	190,422
Derivatives	G19	8,955	33,092	42,047	8,168	31,379	39,547
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,521	497	2,018	616	657	1,273
Current tax liabilities		742	–	742	414	–	414
Other liabilities[1]	G31	18,589	1,279	19,868	23,233	82	23,315
Accrued expenses and prepaid income	G32	1,471	5	1,476	1,646	50	1,696
Deferred tax liabilities	G12	95	386	481	40	666	706
Provisions	G33	228	342	570	250	71	321
Retirement benefit liabilities	G34	–	439	439	–	398	398
Subordinated liabilities	G35	2,512	7,307	9,819	536	8,619	9,155
Total liabilities		**298,116**	**225,204**	**523,320**	**310,041**	**208,466**	**518,507**
1) Of which liabilities related to right of use assets		138	1,087	1,225	–	–	–

G44. Maturity analysis for assets and liabilities, cont.

Contractual undiscounted cash flows

31 Dec 2019, EURm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Interest-bearing financial assets	50,749	84,251	49,047	137,161	205,741	526,949
Non interest-bearing financial assets	–	–	–	–	67,685	67,685
Non-financial assets	–	–	–	–	10,240	10,240
Total assets	**50,749**	**84,251**	**49,047**	**137,161**	**283,666**	**604,874**
Interest-bearing financial liabilities	152,847	88,214	46,689	100,431	38,667	426,848
Non interest-bearing financial liabilities	–	–	–	–	108,226	108,226
Non-financial liabilities and equity	–	–	–	–	52,030	52,030
Total liabilities and equity	**152,847**	**88,214**	**46,689**	**100,431**	**198,923**	**587,104**
Derivatives, cash inflow	–	569,174	151,980	237,205	87,566	1,045,925
Derivatives, cash outflow	–	568,210	153,460	237,308	87,015	1,045,993
Net exposure	**–**	**964**	**–1,480**	**–103**	**551**	**–68**
Exposure	**–102,098**	**–2,999**	**878**	**36,627**	**85,294**	**17,702**
Cumulative exposure	**–102,098**	**–105,097**	**–104,219**	**–67,592**	**17,702**	**–**

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**	**–**

The table is based on contractual maturities for the on 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 75,330m (EUR 73,287m), which could be drawn on at any time. Nordea has also issued guarantees of EUR 16,646m (EUR 16,383m) which may lead to future cash outflows if certain events occur. For further information about remaining maturity, see also Note G2 "Risk and Liquidity 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 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Assets				
Loans	143	498	–	–
Interest-bearing securities	–	1,635	92	98
Derivatives	3	142	51	116
Other assets	66	2	41	11
Total assets	**212**	**2,277**	**184**	**225**
Liabilities				
Deposits	8	587	524	759
Debt securities in issue	–	25	–	–
Derivatives	8	226	10	19
Other liabilities	–	107	2	1
Total liabilities	**16**	**945**	**536**	**779**
Off balance	**21**	**1,823**	**5**	**–**

	Associated undertakings and joint ventures		Other related parties[1]	
EURm	2019	2018	2019	2018
Net interest income	1	23	2	3
Net fee and commission income	3	–15	–	–
Net result from items at fair value	5	–428	–12	51
Other operating income	1	1	–	–
Total operating expenses	0	–15	–	–
Profit before loan losses	**10**	**–434**	**–10**	**54**

1) Shareholders with significant influence and close family members of key management personnel at Nordea, as well as companies controlled by key management personnel or by close family members of key management personnel at Nordea, are considered to be related parties to Nordea. This group of related parties includes Sampo Plc, which has a significant influence over Nordea, and the subsidiaries of Sampo Plc. Liabilities to Sampo Plc and its subsidiaries consist mainly of deposits and long-term investments in bonds issued by Nordea. The transactions with Sampo Plc and its subsidiaries also include several ongoing derivative contracts. Other related parties also include Nordea's pension foundations.

With the exception of compensation, certain loans and other commitments to key management, all related party transactions are made on the same criteria and terms as those of comparable transactions with external parties of similar standing.

Compensation and loans to key management personnel

Compensation and loans to key management personnel are specified in Note G8 "Staff costs". Certain other commitments to key management are noted in Note G38 "Contingent liabilities".

G46. 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 to a maximum of EUR 952m (EUR 1,060m) and at year-end EUR 871m (EUR 938m) was utilised. Total assets in the conduit were EUR 904m (EUR 971m) at 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 the payments being dependent on the rate at which Viking releases its assets.

AR Finance invests in notes backed by trade receivables. Nordea has provided liquidity facilities to a maximum of EUR 125m (EUR 125m) and at year-end EUR 83m (EUR 114m) was utilised. The entity holds assets of EUR 84m (EUR 117m) at year-end.

Unconsolidated structured entities

For structured entities in which Nordea has an interest but 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 in which 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) 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 the value of investment funds acquired on behalf of policyholders and depositors, for which the policyholder/depositor bears the investment risk, is reflected in the value of the related liability and the maximum net exposure to losses is zero. The change in value in investment funds held on behalf of other policyholders is largely passed on to the policyholders, but as Nordea has issued guarantees in some of these products, Nordea is exposed to the changes in value.

G46. Interests in structured entities, cont.

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 at EUR 1m (EUR 3m), net of hedges.

Investments in illiquid private equity and credit funds are an integral part of managing balance sheet risks in Nordea. The maximum loss on these funds is estimated at EUR 600m (EUR 509m), equal to the investment in the funds.

Nordea's interests in unconsolidated structured entities and any related liability are disclosed in the table below. The carrying amount is the maximum exposure to credit loss, before considering any hedges. Income related to these investments is recognised in "Net result from items at fair value".

EURm	31 Dec 2019	31 Dec 2018
Assets, carrying amount:		
Shares	10,899	8,044
Assets in pooled schemes and unit-linked investment contracts	26,653	22,179
Total assets	**37,552**	**30,223**
Liabilities, carrying amount:		
Deposits in pooled schemes and unit-linked investment contracts	26,653	22,179
Liabilities to policyholders	10,171	7,435
Total liabilities	**36,824**	**29,614**
Off balance, nominal amount:		
Loan commitments	0	0

Nordea holds approximately 2,500 different funds that are classified as unconsolidated structured entities, approximately 400 of which 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 177bn (EUR 151bn). All funds are financed by deposits from the units holders. The total assets in investment funds not managed by Nordea are not considered meaningful for the purpose of understanding the related risks and are thus not disclosed.

Nordea has sponsored two unconsolidated structured entities in which Nordea does not currently have an interest, Archean and Thulite. Nordea has established the entities but has no influence over them, and is thus considered to have sponsored them. During 2019, Thulite entered into one transaction, where it issued bonds and deposited funds with Nordea, as well as entering into a CDS selling credit protection to Nordea. Nordea has not recognised any income during 2019 from Thulite. Archean has issued a guarantee in favour of Nordea and Nordea has received compensation amounting to EUR 18m from Archean under this guarantee during 2019.

G47. 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, geographical area, average number of employees, total operating income, operating profit and income tax expense. Nordea is considered to have a physical presence in a country if Nordea has a subsidiary, associated undertaking or branch in that country. Nordea has not received any significant government subsidies.

			2019				2018			
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, CB, AM, LP	Denmark	7,904	2,588	424	–47	8,505	2,655	898	–159
Finland	RB, CB, AM, LP	Finland	6,368	2,110	198	–90	6,459	1,820	694	–164
Sweden	RB, CB, AM, LP	Sweden	6,712	2,304	442	–150	7,055	3,083	1,080	–302
Norway	RB, CB, AM, LP	Norway	2,952	1,691	726	–198	2,962	1,668	1,061	–161
Russia	CB	Russia	335	53	29	–9	396	62	38	–8
Poland	Other	Poland	4,006	177	5	–2	2,980	124	1	1
Estonia	Other	Estonia	432	19	3	0	253	10	1	0
Luxembourg	AM, LP	Luxembourg	254	276	179	–53	434	326	180	–54
United States	RB, CB, AM, LP	New York	116	90	49	–7	116	87	–65	–21
United Kingdom	RB, CB, AM, LP	London	54	66	40	–11	58	81	57	–3
Singapore	CB	Singapore	64	26	9	–1	75	33	–1	–1
Germany	CB, AM	Frankfurt	45	21	8	–4	44	18	8	1
Switzerland	AM	Zürich	5	2	0	0	10	2	0	0
China	CB	Shanghai	29	6	0	1	29	7	1	–1
Italy	AM	Rome	10	6	1	0	9	5	0	0
Spain	AM	Madrid	6	2	0	0	5	2	0	0
Brazil	AM	Sao Paolo	0	1	–	–	2	1	0	0
France	AM	Paris	3	1	0	0	3	1	0	0
Chile	AM	Santiago	3	2	0	0	–	–	–	–
Belgium	AM	Belgium	2	0	0	0	–	–	–	–
Eliminations[3]			–	–806	–	–	–	–813	–	–
Total			**29,300**	**8,635**	**2,113**	**–571**	**29,395**	**9,172**	**3,953**	**–872**

1) RB= Retail banking, CB=Commercial banking, AM=Asset management, LP=Life and Pension. Split based on Nordea's business activities, not on Nordea's organisational units.
2) Total operating income presented in this table is split by 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 G3 is split by countries based on the location of the customers´ operations.
3) Eliminations of transactions consist mainly of intragroup 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 "Group undertakings included in the Nordea Group" in the section "Capital adequacy for the Nordea Group" and in the last table in Note G20 "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 Investment Funds S.A. French Branch

Estonia
Nordea Bank AB Estonia Branch

Belgium
Nordea Investment Funds S.A. Belgium Branch

Germany
Nordea Bank Abp Niederlassung Frankfurt
Nordea Funds Services GmbH (Germany)
Nordea Investment Funds S.A. German Branch

China
Nordea Bank Abp Shanghai Branch

Poland
Nordea Bank Abp Spolka Akcyjna Oddzial w Polsce

Singapore
Nordea Bank Abp Singapore Branch

Switzerland
Nordea Asset Management Schweiz GmbH

Spain
Nordea Investment Funds S.A. Sucursal en Espana

United Kingdom
Nordea Bank AB London Branch
Nordea Investment Funds S.A. UK Branch

United States
Nordea Bank Abp New York Branch

Chile
NAM Chile SpA

G48. Acquisitions

Acquisition of Gjensidige Bank

On 2 July 2018, Nordea entered into an agreement with Gjensidige Forsikring to acquire all shares in Gjensidige Bank. The transaction was closed on 1 March 2019, when Nordea received final approval from the Norwegian regulators. 1 March is the acquisition date and the date from which the acquired assets and liabilities are recognised on Nordea's balance sheet. Assets and liabilities acquired are disclosed in the table below.

The following purchase price allocation (PPA) has been established as of 1 March 2019.

EURm	1 Mar 2019
Loans to the public[1]	5,185
Interest-bearing securities	608
Accruals and other assets	93
Deposits from the public	–2,315
Debt securities in issue[1]	–3,022
Accruals and other liabilities	–108
Acquired net assets	**441**
Purchase price, settled in cash	576
Cost of combination	**576**
Surplus value	**135**
Allocation of surplus value:	
Non-controlling interest	–46
Customer intangible	29
Brands	8
Deferred tax liability	–6
Goodwill	150

1) Including adjustments for fair value for loans and debt securities in issue measured at amortised cost in Gjensidige.

The fair value of loans in the table above included allowances for the contractual cash flows not expected to be collected. The allowances amounts to EUR 37m.

Nordea has identified a number of intangible assets in the acquisition. Two different customer related intangibles have been identified, one for deposit customers and one for lending customers. The value of the deposit customers is related to the funding they provide at interest rates lower than other funding. The customer intangible related to lending reflects the profit generated in specific portfolios. Amortisation of the deposit-related intangible is done over eight years, while the intangible related to the loans is amortised over four years, reflecting the pace at which customers can be expected to leave. The consumer finance business in Gjensidige is distributed through the brand Oppfinans, which is included in the acquisition. The brand has been valued using a royalty rate of 3.5%. Goodwill arises mainly due to the synergies Nordea expects to achieve. Integrating the business in Gjensidige into Nordea will create cost synergies as well as some income synergies. The brand and the goodwill are expected to have indefinite lives and are consequently not amortised.

The Additional Tier 1 instrument accounted for as equity in Gjensidige is reported as a non-controlling interest in the Nordea consolidated accounts. The impact on Nordea's net profit for the year was insignificant.

Financial statements, Parent company

Contents

Income statement

EURm	Note	Jan–Dec 2019	Oct–Dec 2018[1]
Operating income			
Interest income[2]		4,930	1,202
Interest expense[2]		–2,555	–560
Net interest income	**P4**	**2,375**	**642**
Fee and commission income		2,354	584
Fee and commission expense		–545	–157
Net fee and commission income	**P5**	**1,809**	**427**
Net result from securities trading and foreign exchange dealing	P6	844	199
Net result from securities at fair value through fair value reserve	P6	77	8
Net result from hedge accounting	P6	–31	–55
Net result from investment properties	P25	–1	0
Income from equity investments	P7	1,746	1,153
Other operating income	P8	581	108
Total operating income		**7,400**	**2,482**
Operating expenses			
Staff costs	P9	–2,544	–616
Other administrative expenses	P10	–956	–274
Other operating expenses	P11	–729	–100
Depreciation, amortisation and impairment charges of tangible and intangible assets	P12	–1,128	–115
Total operating expenses		**–5,357**	**–1,105**
Profit before loan losses		**2,043**	**1,377**
Net loan losses	P13	–464	–12
Impairment on other financial assets	P13	–16	–21
Operating profit		**1,563**	**1,344**
Income tax expense	P14	–125	–211
Net profit for the year		**1,438**	**1,133**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018
2) Interest income and interest expenses for the comparative period October – December 2018 have been restated to correspond the presentation of negative interests in year 2019.

Balance sheet

EURm	Note	31 Dec 2019	31 Dec 2018
Assets			
Cash and balances with central banks		33,483	39,562
Debt securities eligible for refinancing with central banks	P15, P18, P43	61,218	72,677
Loans to credit institutions	P16	80,961	64,772
Loans to the public	P17	144,077	154,419
Interest-bearing securities	P18, P43	4,695	1,890
Shares and participations	P19	5,490	4,813
Investments in associated undertakings and joint ventures	P20	87	1,049
Investments in group undertakings	P21	14,190	12,175
Derivatives	P22	39,371	37,221
Fair value changes of the hedged items in portfolio hedge of interest rate risk		71	72
Intangible assets	P23	1,749	2,331
Tangible assets			
- Properties and equipment	P24	296	338
- Investment properties	P25	2	4
Deferred tax assets	P14	453	130
Current tax assets		322	234
Retirement benefit assets	P35	172	243
Other assets	P27	13,140	15,681
Prepaid expenses and accrued income	P28	1,202	1,111
Total assets		**400,979**	**408,722**
Liabilities			
Deposits by credit institutions and central banks	P29	44,790	51,427
Deposits and borrowings from the public	P30	175,286	171,102
Debt securities in issue	P31	77,770	82,667
Derivatives	P22	43,311	40,591
Fair value changes of the hedged items in portfolio hedge of interest rate risk		1,140	536
Current tax liabilities	P14	596	249
Other liabilities	P32	18,094	21,257
Accrued expenses and prepaid income	P33	1,144	1,330
Deferred tax liabilities	P14	14	223
Provisions	P34	645	352
Retirement benefit obligations	P35	375	349
Subordinated liabilities	P36	9,789	9,157
Total liabilities		**372,954**	**379,240**
Equity			
Share capital		4,050	4,050
Additional Tier 1 capital holders		748	750
Invested unrestricted equity		1,080	1,080
Other reserves		–321	–150
Retained earnings		21,030	22,619
Profit or loss for the period		1,438	1,133
Total equity	**P37**	**28,025**	**29,482**
Total liabilities and equity		**400,979**	**408,722**
Off balance sheet commitments			
Commitments given to a third party on behalf of customer	P40		
- Guarantees and pledges		48,534	50,026
- Other		1,120	1,406
Irrevocable commitments in favour of customer	P41		
- Securities repurchase commitments		–	–
- Other		75,549	80,102

Combined income statement

EURm	Combined 2018[1]
Operating income	
Interest income	4,578
Interest expense	–2,105
Net interest income	**2,473**
Fee and commission income	2,244
Fee and commission expense	–457
Net fee and commission income	**1,787**
Net result from securities trading and foreign exchange dealing	868
Net result from securities classified at fair value through fair value reserve	25
Net result from hedge accounting	–61
Net result from investment properties	–1
Income from equity investments	1,735
Other operating income	377
Total operating income	**7,203**
Operating expenses	
Staff costs	–2,478
Other administrative expenses	–980
Other operating expenses	–539
Depreciation, amortisation and impairment charges of tangible and intangible assets	–355
Total operating expenses	**–4,352**
Profit before loan losses	**2,851**
Net loan losses	–122
Impairment on other financial assets	–239
Operating profit	**2,490**
Income tax expense	–514
Net profit for the period	**1,976**

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 column labelled "Combined" includes 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)'s 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, so that changes to own credit risk on financial liabilities designated at fair value are recognised in the fair value reserve in equity, and so that the presentation of the income statement complies with Finnish requirements.

Cash flow statement

EURm	2019	2018[1]
Operating activities		
Operating profit	1,563	1,344
Adjustment for items not included in cash flow	2,240	804
Income taxes paid	–362	–252
Cash flow from operating activities before changes in operating assets and liabilities	**3,441**	**1,896**
Changes in operating assets		
Debt securities eligible for refinancing with central banks	–1,074	3,250
Change in loans to central banks	388	–3,455
Change in loans to credit institutions	–15,292	2,763
Change in loans to the public	9,699	7,884
Change in interest-bearing securities	12,184	–4,371
Change in financial assets pledged as collateral	–3,717	2,283
Change in shares and participations	–326	1,730
Change in derivatives, net	1,386	84
Change in investment properties	3	–1
Change in other assets	2,501	–566
Changes in operating liabilities		
Change in deposits by credit institutions and central banks	–6,589	–8,742
Change in deposits and borrowings from the public	4,859	–9,434
Change in debt securities in issue	–4,854	4,909
Change in other liabilities	–2,951	–1,808
Cash flow from operating activities	**–342**	**–3,578**
Investing activities		
Acquisition of business operations	–1,190	–
Sale of business operations	0	48
Investment in associated undertakings and joint ventures	–26	–8
Sale of associated undertakings and joint ventures	142	1
Acquisition of property and equipment	–48	–3
Sale of property and equipment	12	2
Acquisition of intangible assets	–498	–149
Cash flow from investing activities	**–1,608**	**–109**
Financing activities		
Issued subordinated liabilities	632	–26
Divestment of own shares	29	–
Paid interest on additional tier 1 capital	–26	–
Other changes in equity	–125	–
Dividend paid	–2,788	–
Cash flow from financing activities	**–2,278**	**–26**
Cash flow for the year	**–4,228**	**–3 713**
Cash and cash equivalents at the beginning of year	–43,750	–
Cash and cash equivalents through merger	–	–47,436
Translation difference	–123	–27
Cash and cash equivalents at the end of year	39,645	43,750
Change	**–4,228**	**–3,713**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.

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 statement 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	2019	2018 [1]
Depreciation, amortisation and impairment charges	403	135
Loan losses	1,221	21
Unrealised gains/losses	178	–28
Capital gains/losses (net)	–190	–13
Change in accruals and provisions	–23	110
Translation differences	–57	94
Other	708	485
Total	**2,240**	**804**

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.

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	2019	2018 [1]
Interest payments received	4,853	1,235
Interest expenses paid	–2,613	–564

1) Nordea Bank Abp's financial period started 21 September 2017, with no business activities until 1 October 2018.

Investing activities

Investing activities include acquisitions and disposals of non-current assets, such as 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 2019	31 Dec 2018
Cash and balances with central banks	33,483	39,562
Loans to central banks, payable on demand	4,826	2,429
Loans to credit institutions, payable on demand	1,336	1,759
Total	**39,645**	**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 include instruments that Nordea Bank Abp has the right to resell immediately.

P1. Accounting policies

Content for Note P1

1. Basis for presentation

The financial statements for the parent company, Nordea Bank Abp, are prepared in accordance with the Finnish Accounting Act, the Finnish Credit Institutions Act, the Decree of the Ministry of Finance on the financial statements and consolidated financial statements of credit institutions and investment firms as well as Finnish Financial Supervision Authority's Regulations.

On 20 February 2020 the Board of Directors approved the financial statements, subject to final adoption by the Annual General Meeting on 25 March 2020.

2. Nordea Bank Abp and its financial statements

Nordea Bank Abp is the parent company of the Nordea Group and domiciled in Helsinki, Finland. Nordea Bank Abp was established 21 September 2017 and had no business activities before the merger date 1 October 2018. The first accounting period of Nordea Bank Abp was 21 September 2017–31 December 2018. The comparison income statement presented in the financial statements and in the notes to the financial statements refer to the period October–December 2018.

Nordea Bank Abp presents a Combined income statement for the financial year 2018 in these financial statements for the alternative comparative information. In the Combined income statement, the column labelled "Combined" includes a combination of Nordea Bank Abp's reported income statement and restated income statement 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 IFRS, 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.

3. Accounting policies and presentation

The new accounting requirements implemented by Nordea Bank Abp and their impact on the financial statements are described below.

Amendments to IAS 39 and IFRS 7 "Interest rate benchmark reform"

In September 2019, IASB published amendments to IAS 39, IFRS 9 and IFRS 7 as a consequence of the coming reform of benchmark interest rates. The amendments give some relief in relation to hedge accounting. Under the amendments, the hedge accounting requirements should be evaluated assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Early application is permitted, and Nordea has exercised this option. The amendments have resulted in that the hedge relationships in Nordea pass the effectiveness test and that hedge accounting can continue as before during the relief period.

Presentation of fair value adjustments

As from 1 January 2019 Nordea presents all other valuation adjustment than DVA (Debit Valuation Adjustment) as an adjustment to derivatives with positive fair value and DVA as an adjustment to derivatives with negative fair value on the balance sheet. Earlier all valuation adjustments were presented as an adjustment to derivatives with negative fair value on the balance sheet. The impact on 2019 was a decrease of derivatives with positive fair value and derivatives with negative fair value by EUR 223m. There was no impact on the income statement or equity. Comparative figures have not been restated.

Recognition and presentation of resolution fees

Nordea Bank Abp has recognised the resolution fees as expense at the beginning of the year, when the legal obligation to pay arises, and presents them as "Other expenses" in the income statement. Hence, compared to the Group's accounting principles, there is no change in the accounting policy of resolution fees and no restatements are needed in the parent company.

Other presentation changes

Nordea Bank Abp has changed the presentation of its income statement as follows:

- Negative interest on liabilities has been reclassified from "Interest expense" to "Interest income" and, respectively, negative interest on assets from "Interest income" to "Interest expense".
- Gains on the sale of group and associated undertakings have been reclassified from "Income from equity investments" to "Other operating income".

P1. Accounting policies, cont.

Amended requirements
The following new and amended standards and interpretations were implemented by Nordea Bank Abp 1 January 2019 but have not had any significant impact on the financial statements:
- Amendments to IFRS 9: Prepayment Features with Negative Compensation
- Amendments to IAS 19: Plan Amendments, Curtailment or Settlement

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. The 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 has 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 classification of financial assets
- the derecognition of financial assets
- the impairment testing of loans to the public/credit institution
- the useful economic lives of goodwill and intangible assets
- 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 valuation of deferred tax assets
- claims in civil lawsuits and possible fines.

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 10 "Determination of fair value of financial instruments" and Note P43 "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 126,319m (EUR 119,786m) in Nordea Bank Abp and EUR 74,649m (EUR 70,099m) 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 P43 "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.

Classification of financial assets
Nordea classifies financial assets based on Nordea's business model for managing the assets. When determining the business model for the bonds within the liquidly buffer Nordea makes critical judgements. The bonds within the liquidity buffer is split in two portfolios. For the first portfolio Nordea has determined that the business model is to keep the bonds and collect contractual cash flows and sell financial assets. For the second portfolio, Nordea has determined that the business model is to manage the bonds with the objective of realising cash flows through sale. The bonds within the first portfolio are measured at fair value through other comprehensive income (FVOCI) and the bonds within the second portfolio are measured at fair value through profit or loss (FVPL). Interest-bearing and Debt securities eligible for refinancing with central banks securities in the liquidity buffer measured at FVOCI (the first portfolio) amounts to EUR 28,713m (EUR 32,112m) and interest-bearing securities and Debt securities eligible for refinancing with central banks securities at FVPL (the second portfolio) amounts to EUR 36,962m (EUR 42,205m).

Derecognition of financial assets
Loans and other financial assets 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. Nordea applies judgements to determine if the terms and conditions of the new loan are substantially different from the old loan. Nordea considers the terms and conditions to be substantially different 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 or if the modified cash flows are SPPI, but the original cash flows were not SPPI and vice versa. The carrying amount of loans, debt securities eligible for refinancing with central banks and interest-bearing securities on the asset side of the balance sheet amounts to EUR 290,951 (EUR 293,758).

Impairment testing of loans to the public/credit institutions
Nordea Bank Abp'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 Bank Abp's total lending before impairment allowances was EUR 226,959m (EUR 221,021m) at the end of the year. For more information, see Note P17 "Loans and impairment".

When calculating allowances for individually significant impaired loans, judgement is exercised to estimate the

P1. Accounting policies, cont.

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.

Useful economic lives of goodwill and other intangible assets

Nordea Bank Abp's accounting policy for goodwill and other intangible assets is described in section 17 "Intangible assets". Goodwill and other intangible assets are amortised over their useful lives. The useful lives are estimated as the period over which Nordea Bank Abp will derive a benefit from the asset. The useful lives of the intangible assets are reassessed on a yearly basis, which may affect the yearly amortisations.

Costs directly associated with certain major software development investments are recognised as intangible assets. As the IT landscape develops rapidly, management exercise judgment to estimate the useful life of the software, which affects the yearly amortisation.

Nordea Bank Abp's goodwill amounted to EUR 125m (EUR 194m) at the end of the year. Computer software including the internally generated intangible assets amounted to EUR 1,535m (EUR 2,099m) at the end of the year.

Effectiveness testing of cash flow hedges

Nordea Bank Abp's accounting policies for cash flow hedges are described in section 9 "Hedge accounting".

One important judgement in connection with 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 the currency risk and the interest component as a fair value hedge of the 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 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 375m (EUR 349m) at the end of the year. See section 22 "Employee benefits".

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 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 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.

Valuation of deferred tax assets

Nordea Bank Abp's accounting policy for the recognition of deferred tax assets is described in section 21 "Taxes" and Note P14 "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 453m (EUR 130m) at the end of the year.

Claims in civil lawsuits and possible fines

Within the framework of normal business operations, Nordea Bank Abp faces a number of claims in civil lawsuits and disputes, most of which involve relatively limited amounts, as well as possible fines due to e.g. weak anti-money laundering processes and procedures in the past. Presently, none of the current disputes are considered likely to have any significant adverse effect on Nordea or its financial position. As previously stated, Nordea expects to be fined in Denmark for weak AML processes and procedures in the past and has made a provision for ongoing AML-related matters. Nordea cannot exclude the possibility of fines, impact the bank's financial performance. In addition, some of these proceedings could lead to litigation. See also Note P2 "Risk and Liquidity management", Note P34 "Provisions" and Note P40 "Contingent liabilities".

P1. Accounting policies, cont.

5. Recognition of operating income

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 the 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.

Negative interest on liabilities is presented in the line item "Interest income" and negative interest on assets in "Interest expense". In the line item "Interest income", Nordea Bank Abp presents interest income from financial assets measured at amortised cost or at fair value through fair value reserve. This line items also includes the effect from hedge accounting relating to these assets.

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, interest on the net funding of the operations in Markets is recognised on this line item.

Interest component in FX swaps, and 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", except 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 and other group companies. Asset management commissions and Life & Pension commissions are mainly generated from other group companies.

The recognition of commission income depends on the purpose for which the fees are received. Fees are either recognised as revenue when services are provided or in connection to the execution of a significant act. Fees received in connection to performed services are recognised as income in the period these services are provided.

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 result 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, interest on 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" also 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 on other financial assets" (see also the sub-sections "Net loan losses" and "Impairment on other financial assets" below).

Dividends 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 fair value reserve

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 fair value reserve are recognised in "Net result from securities at fair value through fair value reserve".

Net result from hedge accounting

Income from hedge accounting is described in the separate section 9 "Hedge accounting".

P1. Accounting policies, cont.

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).

Income from equity investments
Dividends received from other than trading shares as well as group contributions are recognised in the income statement as "Income from equity investments". Income is recognised in the period in which the right to receive payment is established.

Other operating income and other expenses
Net gains from divestments of shares in group undertakings, associated undertakings and joint ventures and net gains on the sale of tangible assets as well as other operating income, not related to any other income line item, 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).

Resolution fees are presented as "Other expenses" in the income statement.

6. Impairment
Net loan losses
Impairment losses from financial assets classified into the category Amortised cost (see section 13 "Financial instruments"), in the line items, "Loans to credit institutions" and "Loans to the public" on the balance sheet, are reported as "Net loan losses" in the income statement 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 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 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 (see section 13 "Financial instruments"), and impairments on investments in group undertakings, associated undertakings and joint ventures are presented in the line item "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 13 "Financial instruments" and section 14 "Loans to the public/credit institutions".

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

7. Recognition and derecognition of financial instruments on the balance sheet
Derivative instruments, quoted securities and foreign exchange spot transactions are recognised on and derecognised from(and an asset or a liability is recognised as "Other assets" or "Other liabilities" on the balance sheet between the trade date and settlement date) the balance sheet on the trade date. Other financial instruments are recognised on the balance sheet on the 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 assets expire or are transferred to another party. The rights to the cash flows normally expire or are transferred when the counterparty has performed by e.g. repaying a loan to Nordea Bank Abp, i.e. on the settlement date.

Loans and other financial assets where cash flows are modified or part of a restructuring is derecognised, and a new loan recognised, if the terms and conditions of the new loan are 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. The terms and conditions are also considered to be significantly different for financial assets where the modified cash flows are SPPI, but the original cash flows were not SPPI and vice versa

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 counterparty, i.e. on settlement date. Financial liabilities under trade date accounting are generally derecognised and a liability is recognised 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 P45 "Transferred assets and obtained collaterals".

8. Translation of assets and liabilities denominated in foreign currencies
Nordea Bank Abp presents its financial statements in euro (EUR). Foreign currency is defined as any currency other than euro. 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 line item "Net result from securities trading and foreign exchange dealing".

Currency translation of foreign entities/branches
The assets and liabilities of foreign branches have been translated at the closing rates, while items in the income statement is 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

P1. Accounting policies, cont.

period. Translation differences are recognised in the fair value reserve in equity.

Any remaining equity in foreign branches is converted at the closing rates with translation differences recognised in equity.

Information on the most important exchange rates is disclosed in the separate section 28 "Exchange rates".

9. 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 Note P2 "Risk and Liquidity management" (the Market risk section) and Note P22 "Derivatives and hedge accounting".

When a hedging relationship meets the specified hedge accounting criteria set out in IAS 39, Nordea Bank Abp applies two types of hedge accounting:

- Fair value hedge accounting
- Cash flow hedge accounting

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 Note P2 "Risk and Liquidity management" (the Market risk section) and Note P22 "Derivatives and hedge accounting". 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 line 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.

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, hedge accounting is discontinued. For fair value hedges the hedging instrument is measured at fair value through profit or loss 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 Note P2 "Risk and Liquidity management" (the Market risk section) and Note P22 "Derivatives and hedge accounting", 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, determined to be an effective hedge, is recognised 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 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.

P1. Accounting policies, cont.

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 on interest rate risk. When hedging the interest rate risk in lending with floating interest rates Nordea uses interest derivatives 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, hedge accounting is discontinued. 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 from the period when the hedge was effective is reclassified from equity to "Net result from hedge accounting" in the income statement if the expected transaction is no longer expected to occur.

If the expected transaction is no longer highly probable, but is still expected to occur, the cumulative gain or loss on the hedging instrument that has been recognised in the cash flow hedge reserve in equity from the period when the hedge was effective remains in the cash flow hedge reserve 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 forecasted future cash flows.

10. Determination of fair value of financial instruments

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 varies 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 line items:
- Debt securities eligible for refinancing with central banks
- 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:
- Debt securities eligible for refinancing with central banks (when quoted prices in an active market are not available)
- 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 P43 "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).

P1. Accounting policies, cont.

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 P43 "Assets and liabilities at fair value".

11. Cash and balances with central banks

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

- The central bank or the postal giro system is domiciled in the country where the institutions are established
- The balance is readily available at any time

12. 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 recognised in this line item based on the nature of the securities and not based on whether the entity 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.

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 or loss
  - Designated at fair value through profit or loss (fair value option)
- Financial assets at fair value through other comprehensive income, "FVOCI" (recognised through the fair value reserve in equity).

Financial liabilities:
- Amortised cost
- Financial liabilities at fair value through profit or loss:
  - Mandatorily measured at fair value through profit or 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 ord 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 the fair value reserve in equity. Financial assets included in any other business model are measured at fair value through profit or 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 "Recognition of other operating income", subsection "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 items "Interest income" and "Interest expense" in the income statement.

This category consists of mainly all loans and deposits, except for reverse 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 or loss and Designated at fair value through profit or loss (fair value option).

The sub-category Mandatorily measured at fair value through profit or 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 invest-

P1. Accounting policies, cont.

ments 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 or 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 issued structured bonds is recognised in profit or loss except for the changes in credit risk that is recognised through the fair value reserve in equity.

Interest income and interest expense related to all balance sheet items held at fair value through profit or 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 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. 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 "Impairment on other financial assets" in the income statement. When an instrument is disposed of, the fair value changes that previously have been accumulated in the fair value reserve are removed from equity and recognised in the income statement in the item "Net result from securities classified at fair value through fair value reserve.". 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 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 host, 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 structured 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 disclosed in Note P45 "Transferred assets and obtained collaterals" and securities pledged as security in securities lending in Note P38 "Assets pledged as security for own liabilities".

Cash collateral advanced (securities borrowing) to the counterparts is recognised on the balance sheet as "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 and central banks" 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 disclosed in Note P45 "Transferred assets and obtained collaterals". Cash received under repurchase agreements is recognised on the balance sheet as "Deposits by credit institutions and central banks" or as "Deposits and borrowings from the public". Liabilities recognised from repurchase agreements are disclosed in Note P45 "Transferred assets and obtained collaterals".

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 triggers 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 line 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 default, bankruptcy and insolvency of Nordea and the counterparties, 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 instruments are 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 transactions 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 reverse repurchase transaction with central counterparties are offset on the balance sheet if the assets and liabilities relate to the same central counterparty, are settled in the

P1. Accounting policies, cont.

same currency and have the same maturity date. Loans and deposits related to repurchase and reverse 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.

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 "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 line items 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 P42 "Classification of financial instruments" for more information.

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 Note P17 "Loans and impairment". Changes in the allowance account are recognised in the income statement and presented in "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 Bank Abp forgives its claims either through a legal based or voluntary reconstruction, or when Nordea Bank Abp, 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". See Note P34 "Provisions" for more information.

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 Note P2 "Risk and Liquidity management". 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 stages 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 that 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 the PD as the transfer criterion:

- Retail customers with an initial 12-month PD below 1%:

  Exposures with a relative increase in lifetime PD above 100% and an absolute increase in 12 month PD above 45 bps are transferred to stage 2.

P1. Accounting policies, cont.

- Retail customers with an initial 12-month PD above or equal to 1%:
  Exposures with a relative increase in lifetime PD above 100% or an absolute increase in 12 month PD above 300 bps are transferred to stage 2.
- Non-Retail customers with an initial 12-month PD below 0.5%:
  Exposures with a relative increase in lifetime PD above 150% and an absolute increase in 12 month PD above 20 bps are transferred to stage 2.
- Non-Retail customers with an initial 12-month PD above or equal to 0.5%:
  Exposures with a relative increase in lifetime PD above 150% or an absolute increase in 12 month PD above 400 bps are transferred to stage 2.

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 that 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. The model is based on data collected before the reporting date, which require Nordea to identify events that should affect the provisions after the data is sourced to the model calculation. Management evaluates these events and adjusts the provisions if deemed necessary.

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 (the 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 acquires 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 Bank Abp. For example, a property taken over, not held for 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 recognised 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 presentation policies for the appropriate asset. The line item "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

Leases

Leases are not recognised on Nordea Bank Abp's balance sheet. 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 lease terms normally range between 3 to 25 years. Leases are mainly related to office premise contracts and office equipment contracts normal to the business. Future minimum lease payments for non-cancellable leases are presented in Note P26 "Leasing".

P1. Accounting policies, cont.

16. Investments in group undertakings, associated undertakings and joint ventures

The parent company's investments in group undertakings, associated undertakings and joint ventures are recognised under the cost model. At each balance sheet date, all shares in group undertakings, associated undertakings and joint ventures are reviewed for indications of impairment. If such indication exists, an analysis is performed to assess whether the carrying amount of each holding of shares is fully recoverable. The recoverable amount is the higher of fair value less costs to sell and the value in use. Any impairment charge is calculated as the difference between the carrying amount and the recoverable amount and is presented in the line item "Impairment losses on other financial assets" in the income statement.

The parent company applies fair value hedge accounting for the foreign exchange risk in investments in subsidiaries. Shares in subsidiaries are remeasured at each balance sheet date with regards to the hedged risk with a corresponding entry in the line item "Net result from securities trading and foreign exchange dealing". The change in fair value of the hedging instruments is also recognised in the income statement in the line item "Hedge accounting".

17. Intangible assets

Intangible assets are identifiable, non-monetary assets without physical substance. The assets are under Nordea Bank Abp's control, which means that Nordea Bank Abp 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 as well as IT-development and computer software.

Goodwill and other intangible assets are recognised at cost less amortisation and any write-downs. These assets are amortised on a straight-line basis over their useful economic lives, which is normally 5-10 years for goodwill and 3–5 years for IT-development and computer software, in some circumstances for strategic infrastructure up to a maximum of 10 years. The useful lives of assets are reassessed on a yearly basis. Amortisations and write-downs on intangible assets are presented in "Depreciation, amortisation and impairment charges of tangible and intangible assets" in the income statement.

Goodwill is typically recognised when Nordea Bank Abp acquires an asset or business or in connection with the merger of a subsidiary.

IT development and 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 also includes acquired software licenses not related to the function of a tangible asset.

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.

18. Properties and equipment

Properties and equipment include 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 comprises 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 are depreciated on a straight-line basis over the estimated useful life of the assets. The estimates of the useful life of tangible assets are reassessed on a yearly basis. The current estimates of the useful lives are as follows:

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.

19. 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 investment properties".

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. Since the assets and liabilities legally belong to Nordea Bank Abp, these assets and liabilities are recognised on the balance sheet.

Deposit in pooled schemes and unit-linked investment contracts are included in the respective balance sheet line item.

P1. Accounting policies, cont.

The assets and deposits in these contracts are recognised and measured at fair value as described in section 13 "Financial instruments" above.

21. Taxes

The line 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 the applicable line item included in equity.

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 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.

Tax positions are regularly reviewed to identify situations where it is not probable that the relevant tax authorities will accept the treatment used in the tax filings. Uncertain tax positions are considered independently or as a group, depending on which approach better predicts the resolution of the uncertainty. If Nordea concludes it is not probable that the taxation authority will accept an uncertain tax treatment the effect of uncertainty is reflected when determining the related taxable profit (tax loss), tax bases, unused tax losses, unused tax credits or tax rates. This is done by using either the most likely amount or the expected value, depending on which method better predicts the outcome of the uncertainty. Uncertain tax treatment can affect both current tax and deferred tax.

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.

22. 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 Bank Abp 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 26 "Share-based payment".

More information on short-term benefits can be found in Note P9 "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 Bank Abp 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 obligations"). If not, the net amount is recognised as an asset ("Retirement benefit assets"). Non-funded pension plans are recognised as "Retirement benefit obligations". All defined benefit pension plans are closed for new employees.

Most pensions in Denmark, but also plans in other countries, are based on defined contribution arrangements that hold no pension liability for Nordea.

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 fair value reserve.

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 obligations" 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

P1. Accounting policies, cont.

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 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 monthly salary, and post-employment benefits, normally in the form of early retirement. Short-term benefits are presented in "Salaries and remuneration" and post-employment benefits in "Pension costs" in Note P9 "Staff costs".

23. 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 Bank Abp 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.

Nordea determines payments on financial instrument classified as equity (i.e. Additional Tier 1 instruments) as distributions of profits and for that reason such payments are accounted for as dividends. The income tax consequences from the payments are recognised in the income statement.

Invested unrestricted equity
Invested unrestricted equity consists of the subscription price of the shares in Nordea Bank Abp's share issue or rights issue which has not been recorded in Share capital. Transaction costs, net of tax, related to the issue have been deducted.

Other reserves
Other reserves comprise revaluation reserve and fair value reserve.

Fair value reserves include reserves for cash flow hedges, fair value measurement of financial assets classified into the category Financial assets at fair value through other comprehensive income, accumulated remeasurements of defined benefit pension plans and changes in own credit risk related to liabilities measured at fair value using fair value option, as well as a reserve for translation differences.

Retained earnings
Retained earnings include the undistributed profit from the previous years.

Dividends
Dividends paid to the shareholders of Nordea Bank Abp are recorded as a liability following the approval of the Annual General Meeting.

Treasury shares
Treasury shares are not accounted for as assets. Acquisitions of treasury shares are recognised as a deduction of "Retained earnings" on the balance sheet. In addition, 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, i.e. derivatives such as options and warrants and their equivalents, are either presented as financial assets or financial liabilities. Such contracts affects diluted earnings per share when and only when the average price of ordinary shares during the period exceeds the exercise price of the options or warrants (i.e. they are in the money).

24. Provisions
Provisions (which are presented as a liability) are recognised when Nordea has a present obligation (legal or constructive) as a result of a past event if it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

Provisions relating to Employee benefits are further described in section 22 and provisions relating to Financial guarantees contract and credit commitments are described in section 25.

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 IFRS 9. Changes in provisions are recognised in the income statement in the line item "Net loan losses".

Premiums received for financial guarantees are, as stated in section 5 "Recognition of operating income", 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, net of any provisions. Financial guarantees are disclosed in the item "Contingent liabilities" and irrevocable credit commitments in the item "Commitments".

P1. Accounting policies, cont.

26. 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 P9 "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 securities trading and foreign exchange dealing".

For more information see Note P9 "Staff costs".

27. Related party transactions

Nordea Bank Abp defines related parties as:

- Group undertakings
- Associated undertakings and joint ventures
- Key management personnel
- Other related parties including shareholders with significant influence

All transactions with related parties are made on an arm's length basis, apart from loans granted to employees as well as certain other commitments to key management personnel, see Note P9 "Staff costs" and Note P40 "Contingent liabilites".

Information concerning transactions between Nordea Bank Abp and its subsidiaries, associated undertakings and joint ventures as well as other related parties is found in Note P47 "Related-party transactions".

Group undertakings

Group undertakings are defined as the subsidiaries of the parent company Nordea Bank Abp. Further information on the undertakings owned by Nordea Bank Abp is found in Note P21 "Investments in group undertakings".

Transactions between Nordea Bank Abp and its subsidiaries are performed according to arm's length principles in conformity with OECD requirements on transfer pricing.

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 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 Leadership Team (GLT)

For information about compensation, pensions and other transactions with key management personnel, see Note P9 "Staff costs".

Other related parties

Other related parties include shareholders with significant influence which are shareholders that have the power to participate in the financial and operating decisions of Nordea Bank Abp but do not control those policies.

Other related parties comprise close family members to individuals in key management personnel. Other related parties also include companies controlled by key management personnel in Nordea Bank Abp as well as companies controlled by close family members to these key management personnel. Other related parties also include Nordea's pension foundations.

28. Exchange rates

	Jan–Dec 2019	Jan–Dec 2018
EUR 1 = SEK		
Income statement (average)	10.5848	10.2608
Balance sheet (at end of year)	10.4563	10.2330
EUR 1 = DKK		
Income statement (average)	7.4661	7.4533
Balance sheet (at end of year)	7.4717	7.4672
EUR 1 = NOK		
Income statement (average)	9.8499	9.6033
Balance sheet (at end of year)	9.8463	9.9470

P2. Risk and Liquidity management

Maintaining risk awareness in the organisation is engrained in Nordea's 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.

Internal Control Framework

The Internal Control Framework covers the whole Group and sets out the Group Board's and senior executive management's responsibilities in terms of internal control, all Group Functions and Business Areas including outsourced activities and distribution channels. Under the Internal Control Framework, all Business Areas, Group Functions and units are responsible for managing the risks they incur in conducting their activities and for having controls in place that aim to ensure compliance with internal and external requirements. As part of the Internal Control Framework, Nordea has established Group Control Functions with appropriate and sufficient authority, independence and access to the Group Board to fulfil their mission, as well as the Risk Management Framework.

The Internal Control Framework ensures 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 (both internal and external) and compliance with applicable laws, regulations, standards, supervisory requirements and the Group internal rules.

The internal control process is carried out by the governing bodies, risk management functions, management and other staff at Nordea. The internal control process is based on five main components: control environment, risk assessment, control activities, information and communication as well as monitoring. The internal control process is created to ensure 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.

Governing bodies for risk, liquidity and capital management

The Group Board, the Board Risk Committee (BRIC), the President of Nordea Bank Abp and Nordea Group Chief Executive Officer (CEO) in Group Leadership Team (GLT), the Asset and Liability Committee (ALCO) and the Risk Committee (RC) are the key decision-making bodies for risk, liquidity and capital management at Nordea. In addition, the CEO Credit Committee, the Executive Credit Committee and Business Area Credit Committees are the key bodies for Credit decision-making.

Board of Directors and Board Risk Committee

The Group Board has the following overarching risk management responsibilities.

- It decides on the Group risk strategy and the Risk Appetite Framework, including the Risk Appetite Statements, with at least annual reviews and additional updates when needed.
- It decides on and oversees an adequate and effective Risk Management Framework and regularly evaluates whether the Group has effective and appropriate controls for managing the risks.

The Group Board decides on the Group Board Directive on Capital including dividend policy, which ensures adequate capital levels within the Group, on an ongoing and forward-looking basis, consistent with Nordea's business model, risk appetite and regulatory requirements and expectations.

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

President and Chief Executive Officer

The Group CEO is responsible in relation to the Group Board for the overall management of the Group's operations and risks. Responsibilities include ensuring that the risk strategy and risk management decided by the Group Board are implemented, the necessary practical measures are taken and risks are monitored and limited. The Group CEO works together with heads of Business Areas and certain heads of Group Functions within GLT for the purposes of supporting the Group CEO's decision-making.

Group-wide committees have been established in order to promote coordination within the Group, thus ensuring commitment to and ownership of Group-wide prioritisations, decisions and implementation. The composition and the areas of responsibility of each committee are established in the Group Board Directives or Group CEO Instructions for the respective committees.

Asset and Liability Committee

The Asset and Liability Committee (ALCO) is sub-ordinate to the Group CEO in GLT and chaired by the Chief Financial Officer (CFO). ALCO decides on changes to the financial operations and the risk profile of the balance sheet, including asset and liability management (ALM), balance sheet management and liquidity management. ALCO also decides on certain issuances and capital injections for all wholly-owned legal entities within the Group. ALCO has established sub-committees for its work and decision-making within specific risk areas.

Risk Committee

The Risk Committee (RC) is sub-ordinated to the Group CEO in GLT and chaired by the Chief Risk Officer (CRO). It has been established in order to manage the overall Risk Management Framework and prepares or provides guidance regarding proposals to the Group CEO in GLT and/or the relevant Board of Directors (BoD) on issues of major importance concerning Nordea's Risk Management Framework. Given the Risk Appetite Framework decided by the BoD, RC decides on the allocation of cascaded risk limits to risk-taking units and on actions relating to the management of all risks. The first line of defence (1st LoD) is responsible for ensuring that limits are further cascaded and operationally implemented. RC has established sub-committees for its work and decision-making within specific risk areas.

Credit decision-making bodies

The governing bodies for Credit Risk and/or the Credit Risk Management Framework are the Group Board and BRIC. The Group Board and the local BoD delegate credit decision-making according to the Powers to Act as described in the Group Board Directive for Risk:

- The CEO Credit Committee is chaired by the Group CEO and its members include the members of the Executive Credit Committee.
- The Executive Credit Committee is chaired by the Head of Group Credit Management, and BRIC appoints the members of the Executive Credit Committee.

P2. Risk and Liquidity management, cont.

- The Executive Credit Committee establishes credit committees for each Business Area as required by organisational and customer segmentation.

BRIC reviews decisions of the CEO Credit Committee and the Executive Credit Committee, as well as other strategic credit policy matters and development of the credit portfolio. BRIC confirms Industry Group Strategies approved by the RC.

All credit limits within the Nordea Group are based on credit decisions or authorisations made by an ultimate Decision-Making Authority with the right to decide on that limit. Credit decisions include pricing, risk mitigation and any terms and conditions related to the limit or expected utilisation. Credit decisions also serve to delegate decision-making within the approved limit to lower decision-makers, unless otherwise explicitly decided.

Subsidiary governance

At subsidiary level, the local BoD is responsible for approving risk appetite limits and capital actions. The proposals for such items are the joint responsibilities of relevant subsidiary management and Group Functions.

The subsidiary BoD has oversight responsibilities concerning the management and control of risk, risk management frameworks as well as the processes associated with the subsidiary's operations. In addition, there are risk management functions responsible for the risk management framework and processes within the subsidiary.

The subsidiary CEO is part of the decision-making process at the subsidiary level and is responsible for the daily operations.

Governance of Risk Management and Compliance

Group Risk and Compliance (GRC) is Nordea's independent second line of defence (2nd LoD) function. GRC oversees the implementation of the financial and the non-financial risk policies and according to a risk-based approach, monitors and controls the Risk Management Framework including the Compliance Risk Framework and performs oversight to ensure that the risks to which Nordea is or could become exposed, are identified, assessed, monitored, managed and reported on. GRC is organised into divisions with individual risk type responsibility.

Risk and Capital Management Processes

The Risk Management Framework ensures consistent processes for identifying, assessing and measuring, responding to and mitigating, controlling and monitoring and reporting risks to enable informed decisions on risk-taking. The Risk Management Framework encompasses all risks to which Nordea is or could become exposed, including off-balance sheet risks and risks in a stressed situation. Detailed risk information, covering all risks as well as capital adequacy, is regularly reported to the RC, GLT, BRIC and the Group Board. In addition to this, Nordea's compliance with regulatory requirements is reported to the GLT and the Group Board. The Group Board and the CEO in each legal entity regularly receive local risk reporting.

The Risk Identification and Materiality Assessment Process starts with identifying potential risks to which Nordea is or could become exposed. Risks are then assessed for relevance, classified, and included in the Common Risk Taxonomy.

All risks within the Nordea Common Risk Taxonomy need to be classified as material or not material for risk management and capital purposes. Material risks are those assessed as having a material impact on Nordea's current and future financial position, its customers and stakeholders. These risks will typically, though not always, refer to a higher-level risk within the Risk Taxonomy which captures a number of underlying risks in which losses arise from a common source.

Risk appetite

The Risk Appetite Framework (RAF) supports effective risk management and a sound risk culture by enabling informed decisions on risk-taking, with the objective of ensuring that risk-taking activities are conducted within the organisation's risk appetite and that emerging risks are identified and addressed in a timely way.

Risk capacity is the maximum level of risk Nordea is deemed able to assume given its capital (own funds), its risk management and control capabilities, and its regulatory constraints. Risk appetite is the aggregate level and types of risk Nordea is willing to assume within its risk capacity, in line with its business model, to achieve its strategic objectives. The Risk Appetite Statements (RAS) are the articulation of the Group Board approved risk appetite and comprise the qualitative statements and quantitative Limits and Triggers by main risk type, which are deemed appropriate for operating with a prudent risk profile.

Credit concentration metrics cover e.g. sectors and geographic regions of size or importance. Stress test metrics are applied to credit, market and liquidity risk metrics to ensure a forward-looking approach to risk management. Operational risk metrics cover both residual risk levels and requirements for mitigating actions as well as limits for incidents and losses.

Risk appetite processes

The RAF contains all processes and controls to establish, monitor and communicate Nordea's risk appetite:

- Setting risk capacity setting based on capital position: On an annual basis, the Group's overall risk capacity is aligned with the financial and capital planning process, based on Nordea's risk strategy. Risk capacity is set in line with Nordea's capital position, including an appropriate shock absorbing capacity.
- Risk appetite allocation by risk type: Risk appetite includes Risk Appetite Limits for the main risk types which Nordea is or could become exposed to in line with the Risk Taxonomy. 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.
- Risk limit setting: Measurable risk limits are established and set at an appropriate level to manage risk-taking effectively. Risk Appetite Limits are set by the Group Board. These inform the risk limits which are established and approved at lower decision-making levels at Nordea, including RC and sub-RC levels, and also other levels as appropriate. Subsidiary risk limits must be set by the appropriate governing body in alignment with local regulatory requirements and consistent with the Group Risk Limits.
- Controlling and monitoring risk exposures against risk limits: Regular controlling and monitoring of risk exposures in relation to risk limits are carried out to ensure that risk-taking activity remains within the risk appetite.
- Risk appetite limit breach management process: GRC performs oversight to ensure that any Risk Appetite Limit breaches are appropriately escalated to RC and BRIC. GRC reports monthly on any breaches of the risk appetite to the Group Board and other relevant governing bodies including follow-up on the status of actions to be taken, until the relevant risk exposure is within appetite. The reporting includes a consistent status indicator to communicate the current risk exposure compared to the Risk Appetite Limit for all risk types covered by the RAS.

P2. Risk and Liquidity management, cont.

Embedding risk appetite in business processes

The end-to-end risk appetite process cycle is aligned with other strategic processes, including the Internal Capital Adequacy Assessment Process (ICAAP), Internal Liquidity Adequacy Assessment Process (ILAAP) and the Recovery and Resolution Plan.

Moreover, the risk appetite is embedded in business processes and communicated across the organisation in order to meet Nordea's objectives of maintaining a sound risk culture. This includes, but is not limited to, ensuring a strong link between the assessed risk appetite and the business plans and budgets, the capital and liquidity position, the systemic risk profile, the recoverability and resolvability assessments as well as the incentive structures and remuneration framework.

Disclosure requirements of the CRR – Capital and Risk Management Report 2019

Additional information on risk and capital management is presented in the Capital and Risk Management Report 2019, 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.

Credit Risk management

Credits granted within the Group shall conform to the common principles established for the Group. Nordea strives 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:

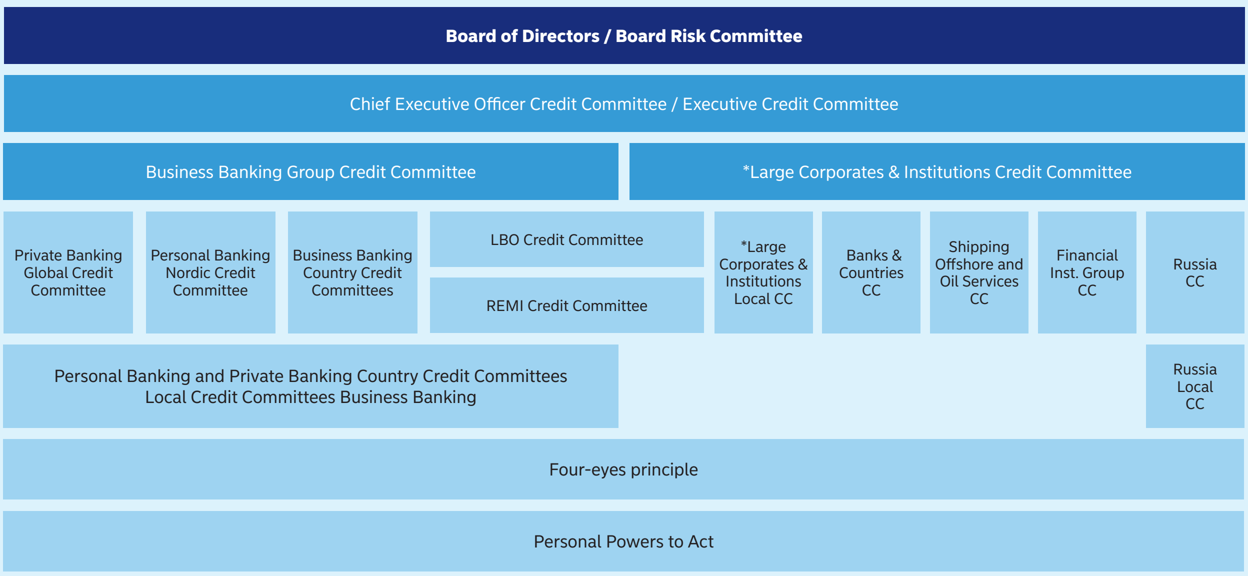
- the three Lines of Defence (LoD), as further described in the Policy for Internal Control in the Nordea Group;
- independence, i.e. the risk control function should be independent of the business it controls; and
- risk-based approach, i.e. the risk control functions should be aligned to the nature,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

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

The basis of credit risk management at 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 at 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, together with the exposure of the customer, decides the level at which the credit decision will be made. Responsibility for a credit risk lies with the customer responsible unit. Customers are risk-categorised by a rating or score in accordance with Nordea's rating and scoring guidelines. The rating and scoring of customers aim to predict their probability of default and consequently rank them according to their respective default risk. Rating and scoring are used as integral parts of the credit risk manage-

Credit Committee Structure



*Reflects organisational name change as of 1 January 2020

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 another decision is taken.

P2. Risk and Liquidity management, cont.

ment and decision-making process. Representatives from the 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 credit policies are established for those industries that have a significant weight in the portfolio and are either highly cyclical or volatile or require special industry competencies.

Credit decisions are reached after a credit risk assessment, based on principles that are defined consistently across the Group. These principles emphasise 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 at Nordea reflect Nordea's view of both the customer relationship and credit risk.

All credit assessments at Nordea shall adequately reflect a 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 an important part of the continuous credit analysis process.

Maximum exposure to credit risk

		31 Dec 2019		31 Dec 2018	
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 credit institutions	P16, P42	74,851	6,110	61,160	3,612
Loans to the public	P17, P42	120,687	23,390	133,546	20,873
Interest-bearing securities	P15, P18, P42	28,950	36,962	32,362	42,205
Derivatives	P22, P42	0	39,371	–	37,221
Off-balance sheet items	P40, P41	124,083	–	130,129	–
Total		**348,571**	**105,833**	**357,197**	**103,911**

Allowances for credit risk

EURm	Note	31 Dec 2019	31 Dec 2018
Loans to credit institutions	P17	14	15
Loans to the public	P17	1,907	1,815
Interest-bearing securities measured at fair value through other comprehesive income or amortised cost	P19	1	2
Off balance sheet items	P17, P34	208	201
Total		**2,130**	**2,033**

If credit weakness is identified in relation to a customer exposure, the customer is categorised as "High Risk" and receives special attention in terms of more frequent reviews. In addition to continuous monitoring, an action plan is established outlining 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. Pledging collateral is a fundamental credit risk mitigation technique at the bank and collaterals are always sought, when reasonable and possible, to minimise 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, floating charges and leasing objects. Collateral coverage should generally be higher for exposures of financially weaker customers than for those who are financially strong. Independent from the strength of collateral position, the repayment capacity is the starting point in credit assessment and assigning credit limits. 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 at 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

P2. Risk and Liquidity management, cont.

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.

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.

Collateral distribution

The distribution of collateral has changed, as shown in table below. The majority of the collateral stems from residential and commercial real estate. The shares of financial collateral and receivables have decreased slightly in 2019. The share of residential real estate has also decreased, while the share of commercial real estate has increased.

Collateral distribution

	31 Dec 2019	31 Dec 2018
Financial Collateral	2.5%	2.8%
Receivables	0.8%	1.0%
Residential Real Estate	37.5%	49.0%
Commercial Real Estate	40.3%	31.8%
Other Physical Collateral	18.9%	15.4%
Total	**100.0%**	**100.0%**

Assets taken over for protection of claims[1]

The table below presents assets taken over distributed by asset type. Land and buildings make up the total assets taken over as at the end of December 2019. In 2019, the Assets have been brought down by 60%. The level of assets taken over is at a low level, and this has been the case for several years.

Assets taken over for protection of claims1

EURm	31 Dec 2019	31 Dec 2018
Current assets, carrying amount:		
Land and buildings	2	5
Shares and other participations	0	–
Other assets	–	–
Total	**2**	**5**

1) In accordance with Nordea's policy for taking over assets for the 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 towards Nordea. The assets taken over are at the latest disposed of when full recovery is reached.

Loan-to-value

The loan-to-value (LTV) ratio is considered a useful measure to evaluate collateral quality, i.e. the credit extended divided by the market value of the collateral pledged. In the table, IRB retail mortgage exposures are distributed by LTV buckets based on the LTV ratio.

Loan-to-value

	31 Dec 2019		31 Dec 2018	
Retail mortgage exposure	EURbn	%	EURbn	%
<50%	13.0	84.0	23.2	81.9
50–70%	1.7	10.8	3.5	12.7
70–80%	0.4	2.6	0.9	3.1
80–90%	0.2	1.3	0.4	1.3
>90%	0.2	1.3	0.3	1.0
Total	**15.5**	**100.0**	**28.3**	**100.0**

Individual and collective assessment of impairment

Requirements for impairment are set forth in IFRS 9, and are based on an expected loss model.

Impairment testing (individual and collective) applies to three forward-looking and weighted scenarios. Assets tested for impairment are divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets in which there has been no significant increase in credit risk, stage 2 includes assets in which 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.

Throughout the process of identifying and mitigating credit 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.

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

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, an established satisfactory repayment plan and an assessment that the recovery is underway.

P2. Risk and Liquidity management, cont.

Collective provisioning

The collective model is executed quarterly and assessed for each legal unit/branch. One important driver for provisions is the trigger for the transfer of assets from stage 1 to stage 2, as explained in "Individual and collective assessment of impairment". 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-month expected loss. In stages 2 and 3, the provisions equal the lifetime expected loss. The output is supplemented by an expert-based analysis process to ensure adequate provisioning. Defaulted customers without individual provisions have collective provisions.

Forbearance

Forbearance is eased terms or restructuring due to the borrower experiencing, or being 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 eased 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, approved according to Powers to Act and followed by impairment testing. Forborne exposures can be performing or non-performing. Individual loan loss provisions are recognised if necessary.

Forbearance

EURm	31 Dec 2019	31 Dec 2018
Forborne loans	2,678	3,061
- of which defaulted	1,907	2,040
Allowances for individually assessed impaired and forborne loans	675	709
- of which defaulted	660	690

Key ratios	31 Dec 2019	31 Dec 2018
Forbearance ratio[1]	1%	1%
Forbearance coverage ratio[2]	25%	23%
- of which defaulted	35%	34%

1) Forborne loans/Loans before allowances.
2) Individual allowances/Forborne loans.

Credit portfolio

Including on- and off-balance sheet exposures the total credit risk exposure at year end was EUR 413bn (EUR 422bn last year). 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 6.6% to EUR 146bn in 2019 (EUR 156bn in 2018). The overall credit quality is solid with strongly rated customers. Of the lending to the public portfolio, corporate customers accounted for 65.7% (59.5%), household customers for 19.0% (27.8%) and the public sector for 2.1% (1.9%). Loans to central banks and credit institutions increased to EUR 81bn at the end of 2019 (EUR 65bn).

P2. Risk and Liquidity management, cont.

Loans measured at amortised cost and fair value to the public[1]

31 Dec 2019, EURm	Denmark	Finland	Norway	Sweden	Russia	Outside Nordic	Total	Of which lending at fair value
Financial institutions	4,929	3,788	1,993	7,543	–	662	18,915	1,820
Crops, etc.	575	154	18	28	–	7	782	–
Animal husbandry	408	102	8	56	–	–	574	–
Fishing and aquaculture	32	6	1,163	1	–	–	1,202	–
Paper, forest and mining	65	512	89	682	–	69	1,417	–
Oil, gas and offshore	449	70	844	246	–	320	1,929	–
Consumer staples (food and health-care)	1,021	602	460	568	–	84	2,734	–
Media, leisure and telecom	264	738	526	1,179	–	0	2,707	–
Consumer durables	130	239	88	695	–	159	1,311	–
Retail trade	354	832	276	873	–	18	2,353	–
Land transportation and IT	310	584	404	602	–	100	2,000	0
Materials	168	314	214	626	–	5	1,327	–
Capital goods	457	1,090	126	520	–	135	2,328	–
Commercial & prof. services	1,979	840	2,767	2,871	–	274	8,731	47
Construction	427	784	2,708	517	–	60	4,496	22
Wholesale trade	1,437	761	321	1,227	–	53	3,799	–
Maritime (shipping)	88	218	4,841	104	–	2,113	7,364	–
Utilities and public services	245	1,737	940	3,047	–	56	6,025	2,113
Real estate commercial properties	1,162	3,677	7,488	5,356	–	707	18,390	89
Real estate residential properties	1,080	2,415	1,529	943	–	–	5,967	–
Other industries	181	20	0	94	–	–18	277	–
Total Corporate	**15,761**	**19,483**	**26,803**	**27,778**	**–**	**4,804**	**94,628**	**4,091**
Housing loans	–	6,271	4,528	0	–	–	10,799	–
Collateralised lending	7,098	4,266	274	1,131	–	0	12,769	244
Non-Collateralised lending	941	435	208	2,161	–	0	3,745	0
Household	**8,039**	**10,972**	**5,010**	**3,292**	**–**	**0**	**27,313**	**244**
Public sector	**1,131**	**1,090**	**28**	**832**	**–**	**–**	**3,081**	**–**
Reverse repurchase agreements	**–**	**19,055**	**–**	**–**	**–**	**442**	**19,055**	**19,055**
Lending to the public by country	**24,931**	**50,600**	**31,841**	**31,901**	**–**	**4,804**	**144,077**	**23,390**
Excl. reverse repurchase agreements	**24,931**	**31,545**	**31,841**	**31,901**	**–**	**4,804**	**125,022**	**4,335**

1) Based on domicile of Nordea company granting the loans.

P2. Risk and Liquidity management, cont.

Loans measured at amortised cost and fair value to the public[1]

31 Dec 2018, EURm	Denmark	Finland	Norway	Sweden	Russia	Outside Nordic	Total	Of which lending at fair value
Financial institutions	4,764	3,414	2,005	7,285	–	386	17,854	2,914
Crops, etc.	669	135	14	15	–	8	841	–
Animal husbandry	580	99	10	59	–	–	748	–
Fishing and aquaculture	21	7	1,088	7	–	–	1,123	–
Paper, forest and mining	79	521	127	863	–	30	1,620	–
Oil, gas and offshore	489	78	483	435	–	359	1,844	99
Consumer staples (food and health-care)	613	565	419	607	–	45	2,249	–
Media, leisure and telecom	207	745	488	904	–	10	2,354	–
Consumer durables	126	284	72	641	–	159	1,282	–
Retail trade	496	850	310	757	–	18	2,431	–
Land transportation and IT	382	395	491	589	–	114	1,971	–
Materials	150	398	232	696	–	4	1,480	–
Capital goods	381	654	73	657	–	36	1,801	–
Commercial & prof. services	2,082	934	1,933	2,507	–	261	7,717	28
Construction	418	613	2,103	538	–	74	3,746	–
Wholesale trade	1,861	714	384	1,479	–	28	4,466	–
Maritime (shipping)	97	303	4,873	130	–	2,583	7,986	–
Utilities and public services	511	2,028	823	2,261	–	144	5,767	1,018
Real estate commercial properties	1,124	3,723	7,225	5,312	–	852	18,236	70
Real estate residential properties	1,003	2,332	1,810	1,233	–	–	6,378	–
Other industries	0	0	0	0	–	0	0	0
Total Corporate	**16,053**	**18,792**	**24,963**	**26,975**	**–**	**5,111**	**91,894**	**4,129**
Housing loans	-	8,844	16,649	0	–	–	25,493	–
Collateralised lending	7,326	4,544	242	1,019	–	0	13,131	30
Non-Collateralised lending	1,003	436	78	2,736	–	–	4,253	0
Household	**8,329**	**13,824**	**16,969**	**3,755**	**–**	**0**	**42,877**	**30**
Public sector	**1,514**	**650**	**30**	**740**	**–**	**–**	**2,934**	**–**
Reverse repurchase agreements	**–**	**16,714**	**–**	**–**	**–**	**–**	**16,714**	**16,714**
Lending to the public by country	**25,896**	**49,980**	**41,962**	**31,470**	**–**	**5,111**	**154,419**	**20,873**
Excl. reverse repurchase agreements	**25,896**	**33,266**	**41,962**	**31,470**	**–**	**5,111**	**137,705**	**4,159**

1) Based on domicile of Nordea company granting the loans.

Loans to the public measured at amortised cost, geographical breakdown[1]

	Gross			Provisions			
31 Dec 2019, EURm	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Net
Denmark	22,750	1,354	771	48	174	472	24,181
Finland	27,091	1,771	823	13	35	260	29,377
Norway	26,078	924	861	19	33	449	27,362
Sweden	22,385	680	355	9	33	183	23,195
Russia	490	0	44	0	0	40	494
US	1,818	13	3	2	1	0	1,831
Other	13,193	313	877	25	20	91	14,247
Total	**113,805**	**5,055**	**3,734**	**116**	**296**	**1,495**	**120,687**

1) Based on domicile of the customers.

P2. Risk and Liquidity management, cont.

Loans to the public measured at amortised cost, geographical breakdown[1]

	Gross			Provisions			
31 Dec 2018, EURm	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Net
Denmark	23,702	1,548	1,154	28	115	630	25,631
Finland	28,394	2,366	843	15	46	269	31,273
Norway	35,005	2,589	781	13	21	235	38,106
Sweden	21,319	964	174	8	16	55	22,378
Russia	513	0	47	18	0	30	512
US	1,537	82	5	2	1	0	1,621
Other	12,175	1,277	886	33	33	247	14,025
Total	**122,645**	**8,826**	**3,890**	**117**	**232**	**1,466**	**133,546**

1) Based om dominicile of Nordea Company granting the loans.

Loans to the public measured at amortised cost, broken down by sector and industry

	Gross			Provisions			
31 Dec 2019, EURm	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Net
Financial institutions	16,776	279	126	9	20	57	17,095
Crops, etc.	702	66	54	2	9	29	782
Animal husbandry	441	62	189	1	9	108	574
Fishing and aquaculture	1,150	16	37	0	0	0	1,203
Paper, forest and mining	1,343	56	39	1	2	17	1,418
Oil, gas and offshore	1,465	16	747	1	0	298	1,929
Consumer staples (food and health-care)	2,630	93	29	2	4	11	2,735
Media, leisure and telecom	2,567	129	46	2	5	29	2,706
Consumer durables	1,184	110	45	1	6	22	1,310
Retail trade	2,143	189	84	2	16	46	2,352
Land transportation and IT	1,857	119	55	1	6	24	2,000
Materials	1,263	49	92	3	5	69	1,327
Capital goods	2,170	138	101	1	8	72	2,328
Commercial & prof. services	8,312	224	251	7	14	83	8,683
Construction	4,229	230	96	4	10	67	4,474
Wholesale trade	3,470	300	85	3	19	34	3,799
Maritime (shipping)	6,776	160	703	24	22	229	7,364
Utilities and public services	3,882	30	5	2	1	3	3,911
REMI	23,434	729	215	14	14	80	24,270
Other	285	3	2	6	7	0	277
Total Corporate	**86,079**	**2,998**	**3,001**	**86**	**177**	**1,278**	**90,537**
Housing loans	9,934	608	278	1	3	17	10,799
Collateralised lending	11,440	966	347	17	45	166	12,525
Non-collateralised lending	3,273	478	108	12	68	34	3,745
Household	**24,647**	**2,052**	**733**	**30**	**116**	**217**	**27,069**
Public sector	**3,079**	**4**	**0**	**0**	**2**	**0**	**3,081**
Lending to the public	**113,805**	**5,054**	**3,734**	**116**	**295**	**1,495**	**120,687**
Excl. reverse repurchase agreements	**113,805**	**5,054**	**3,734**	**116**	**295**	**1,495**	**120,687**

P2. Risk and Liquidity management, cont.

Loans to the public measured at amortised cost, broken down by sector and industry

	Gross			Provisions			
31 Dec 2018, EURm	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Net
Financial institutions	14,386	353	285	19	9	57	14,939
Crops, etc.	712	82	91	1	6	38	840
Animal husbandry	520	128	248	1	7	140	748
Fishing and aquaculture	1,103	19	1	0	0	0	1,123
Paper, forest and mining	1,544	66	38	7	3	17	1,621
Oil, gas and offshore	1,281	71	555	8	0	153	1,746
Consumer staples (food and health-care)	2,122	108	53	1	3	29	2,250
Media, leisure and telecom	2,242	101	37	1	3	21	2,355
Consumer durables	1,185	80	35	1	2	15	1,282
Retail trade	2,100	287	136	2	11	79	2,431
Land transportation and IT	1,703	253	47	5	7	20	1,971
Materials	1,161	323	51	5	19	30	1,481
Capital goods	1,597	182	110	1	4	84	1,800
Commercial & prof. services	7,151	336	285	5	10	68	7,689
Construction	3,327	392	104	3	9	65	3,746
Wholesale trade	4,120	283	154	3	10	78	4,466
Maritime (shipping)	6,506	995	674	16	18	155	7,986
Utilities and public services	4,704	44	4	2	2	0	4,748
REMI	23,599	826	230	10	10	93	24,542
Other	49	111	2	3	6	152	1
Total Corporate	**81,112**	**5,040**	**3,140**	**94**	**139**	**1,294**	**87,765**
Housing loans	23,203	1,998	337	3	15	27	25,493
Collateralised lending	11,841	1,114	315	11	36	121	13,102
Non-collateralised lending	3,668	560	98	9	41	24	4,252
Household	**38,712**	**3,672**	**750**	**23**	**92**	**172**	**42,847**
Public sector	**2,821**	**114**	**–**	**0**	**1**	**0**	**2,934**
Lending to the public by country	**122,645**	**8,826**	**3,890**	**117**	**232**	**1,466**	**133,546**
Excl. reverse repurchase agreements	**122,645**	**8,826**	**3,890**	**117**	**232**	**1,466**	**133,546**

P2. Risk and Liquidity management, cont.

Impaired loans (stage 3) by country and industry

31 Dec 2019, EURm	Denmark	Finland	Norway	Sweden	Russia	Outside Nordic	Total amortised cost loans	Defaulted fair value loans
Financial institutions	91	16	5	14	–	–	126	9
Crops, etc.	52	2	0	–	–	–	54	79
Animal husbandry	177	12	0	0	–	–	189	215
Fishing and aquaculture	0	0	37	–	–	–	37	–
Paper, forest and mining	17	16	6	0	–	–	39	6
Oil, gas and offshore	–	–	308	79	–	360	747	–
Consumer staples (food and health-care)	4	17	4	4	–	–	29	2
Media, leisure and telecom	4	28	3	11	–	–	46	0
Consumer durables	37	5	0	3	–	–	45	–
Retail trade	38	24	4	18	–	–	84	6
Land transportation and IT	8	12	29	3	–	3	55	1
Materials	2	43	5	42	–	0	92	6
Capital goods	17	70	1	13	–	–	101	2
Commercial & prof. services	24	17	52	78	–	80	251	2
Construction	20	55	16	5	–	–	96	3
Wholesale trade	43	25	13	4	–	–	85	1
Maritime (shipping)	47	6	405	0	–	245	703	–
Utilities and public services	2	1	0	2	–	–	5	0
REMI	60	95	58	2	–	–	215	86
Other industries	2	–	–	–	–	–	2	–
Total Corporate	**645**	**444**	**946**	**278**	**–**	**688**	**3,001**	**418**
Housing loans	–	232	47	–	–	–	279	304
Collateralised lending	182	158	2	4	–	–	346	–
Non-collateralised lending	39	9	6	54	–	–	108	–
Household	**221**	**399**	**55**	**58**	**–**	**0**	**733**	**304**
Public sector	**0**	**–**	**–**	**–**	**–**	**–**	**0**	**–**
Reverse repurchase agreements	**–**	**–**	**–**	**–**	**–**	**–**	**0**	**–**
Lending to the public by country	**866**	**843**	**1,001**	**336**	**–**	**688**	**3,734**	**722**
Excl. reverse repurchase agreements	**866**	**843**	**1,001**	**336**	**–**	**688**	**3,734**	**722**

P2. Risk and Liquidity management, cont.

Impaired loans (stage 3) by country and industry

31 Dec 2018, EURm	Denmark	Finland	Norway	Sweden	Russia	Outside Nordic	Total amortised cost loans	Defaulted fair value loans
Financial institutions	195	8	64	18	–	–	285	164
Crops, etc.	90	1	0	–	–	–	91	–
Animal husbandry	240	6	1	0	–	–	247	–
Fishing and aquaculture	0	0	1	–	–	–	1	–
Paper forest and mining	21	17	0	0	–	–	38	–
Oil gas and offshore	–	–	182	–	–	373	555	–
Consumer staples (food and health-care)	4	43	1	4	–	–	52	–
Media leisure and telecom	7	19	4	7	–	–	37	–
Consumer durables	23	9	0	3	–	–	35	–
Retail trade	93	22	5	16	–	–	136	–
Land transportation and IT	11	11	26	0	–	0	48	–
Materials	3	41	5	0	–	2	51	–
Capital goods	14	86	1	9	–	–	110	–
Commercial & prof. services	84	18	49	53	–	82	286	–
Construction	38	42	19	5	–	–	104	–
Wholesale trade	72	23	9	49	–	1	154	–
Maritime (shipping)	50	6	347	1	–	270	674	–
Utilities and public services	2	1	1	0	–	–	4	–
REMI	82	81	65	2	–	–	230	–
Other industries	2	–	–	0	–	–	2	–
Total Corporate	**1,031**	**434**	**780**	**167**	–	**728**	**3,140**	**164**
Housing loans	–	262	74	–	–	32	368	–
Collateralised lending	148	163	1	3	–	12	327	–
Non-collateralised lending	34	9	5	51	–	−44	55	–
Household	**182**	**434**	**80**	**54**	–	**0**	**750**	**0**
Public sector	**–**	**–**	**–**	**–**	**–**	**–**	**0**	**–**
Reverse repurchase agreements	**–**	**–**	**–**	**–**	**–**	**–**	**0**	**–**
Lending to the public by country	**1,213**	**868**	**860**	**221**	–	**728**	**3,890**	**164**
Excl. reverse repurchase agreements	**1,213**	**868**	**860**	**221**	–	**728**	**3,890**	**164**

P2. Risk and Liquidity management, cont.

Loans measured at amortised cost

31 Dec 2019, EURm	Net loan losses[1]	Loan loss ratio, bps	Impaired loans stage 3	Impair-ment ratio bps	Allow-ances total[1]	Provi-sioning ratio,%	Allow-ances (stage 3)[1]	Allow-ances (stage 1 and 2)[1]	Loans measured at amor-tised cost
Financial institutions	27	16	126	73	99	78	72	27	17,095
Crops, etc.	17	221	54	648	51	94	35	16	782
Animal husbandry	23	400	189	2,635	144	76	126	18	574
Fishing and aquaculture	0	1	37	309	1	3	0	1	1,202
Paper, forest and mining	–3	–22	39	274	24	60	19	5	1,417
Oil, gas and offshore	135	698	747	3,349	300	40	299	1	1,929
Consumer staples (food and health-care)	–4	–15	29	107	21	70	12	9	2,735
Media, leisure and telecom	17	61	46	166	40	87	30	10	2,707
Consumer durables	14	105	45	336	31	68	23	8	1,311
Retail trade	3	12	84	345	73	88	51	23	2,353
Land transportation and IT	13	63	55	269	35	64	25	10	2,000
Materials	–7	–51	92	655	79	86	70	8	1,327
Capital goods	7	28	101	421	84	83	71	13	2,328
Commercial & prof. services	35	40	251	285	115	46	88	27	8,683
Construction	10	22	96	211	89	92	70	19	4,474
Wholesale trade	4	12	85	219	62	74	36	26	3,799
Maritime (shipping)	61	83	703	919	282	40	233	49	7,364
Utilities and public services	3	7	5	12	0	0	0	0	3,912
REMI	4	2	215	88	126	59	92	34	24,269
Other industries	9	315	2	59	35	1,885	0	35	276
Total Corporate	**368**	**41**	**3,001**	**325**	**1,691**	**56**	**1,352**	**339**	**90,537**
Housing loans	–7	–7	278	257	29	10	22	7	10,799
Collateralised lending	36	28	347	271	263	76	196	67	12,525
Non-collateralised lending	66	178	108	277	145	135	34	111	3,745
Household	**95**	**35**	**733**	**266**	**437**	**60**	**252**	**185**	**27,069**
Public sector	**1**	**4**	**0**	**0**	**3**	**0**	**0**	**3**	**3,081**
Reverse repurchase agreements	**–**	**0**	**–**	**0**	**–**	**0**	**–**	**–**	**–**
Lending to the public by country	**464**	**38**	**3,734**	**304**	**2,131**	**57**	**1,604**	**527**	**120,687**
Excl. reverse repurchase agreements	**464**	**38**	**3,734**	**304**	**2,131**	**57**	**1,604**	**527**	**120,687**

1) Including provisions for off-balance sheet exposures

P2. Risk and Liquidity management, cont.

Loans measured at amortised cost

31 Dec 2018, EURm	Net loan losses[1]	Loan loss ratio, bps	Impaired loans stage 3	Impair-ment ratio bps	Allow-ances total[1]	Provision-ing ratio, %	Allow-ances (stage 3)[1]	Allow-ances (stage 1 and 2)[1]	Loans measured at amor-tised cost
Financial institutions	–7	–19	285	188	193	68	138	55	14,939
Crops, etc.	–6	–294	91	1,020	53	58	46	7	841
Animal husbandry	4	205	247	2,719	162	65	152	9	748
Fishing and aquaculture	1	18	2	15	1	68	1	0	1,123
Paper, forest and mining	–3	–75	38	232	30	79	19	11	1,620
Oil, gas and offshore	–1	–29	554	2,906	164	30	154	9	1,746
Consumer staples (food and health-care)	–14	–248	52	229	36	69	30	6	2,250
Media, leisure and telecom	–4	–71	37	155	28	76	22	6	2,354
Consumer durables	0	13	35	269	19	54	15	4	1,282
Retail trade	52	875	136	535	101	75	86	16	2,431
Land transportation and IT	–2	–47	48	237	32	67	19	13	1,971
Materials	–5	–139	51	332	57	113	33	25	1,480
Capital goods	4	80	110	580	89	82	82	7	1,800
Commercial & prof. services	11	55	286	366	120	42	101	19	7,689
Construction	–6	–63	104	271	95	91	79	16	3,746
Wholesale trade	–1	–5	154	336	101	66	80	22	4,466
Maritime (shipping)	–20	–98	673	822	218	32	171	46	7,986
Utilities and public services	23	190	4	8	2	63	0	2	4,749
REMI	2	4	230	93	136	59	114	22	24,544
Other industries	–15	0	2	404	46	0	46	0	0
Total Corporate	**13**	**6**	**3,139**	**351**	**1,683**	**54**	**1,388**	**295**	**87,765**
Housing loans	–3	–5	368	144	51	14	30	21	25,493
Collateralised lending	–13	–40	327	246	203	62	153	50	13,102
Non-collateralised lending	15	143	55	127	94	171	29	66	4,252
Household	**–1**	**–1**	**750**	**174**	**348**	**46**	**212**	**137**	**42,847**
Public sector	**0**	**–1**	**–**	**0**	**1**	**0**	**0**	**1**	**2,934**
Reverse repurchase agreements	**–**	**0**	**–**	**0**	**–**	**0**	**–**	**–**	**–**
Lending to the public by country	**12**	**4**	**3,889**	**287**	**2,032**	**52**	**1,600**	**433**	**133,546**
Excl. reverse repurchase agreements	**12**	**4**	**3,889**	**287**	**2,032**	**52**	**1,600**	**433**	**133,546**

1) Including provisions for off-balance sheet exposures

P2. Risk and Liquidity management, cont.

Impaired loans and ratios

	2019	2018
Gross impaired loans, EURm	3,734	3,889
- of which servicing	2,108	1,977
- of which non-servicing	1,626	1,912
Impairment rate, (stage 3) gross, basis points	**189**	**198**
Impairment rate, (stage 3) net, basis points	**113**	**123**
Allowances in relation to loans in stage 1 and 2, basis points	**21**	**19**
Total allowance rate (stage 1, 2 and 3), basis points	**97**	**93**
Allowances in relation to impaired loans (stage 3), %	**40**	**38**

Definitions, see Glossary

Net loan losses and loan loss ratios

	2019	2018
Net loan losses, EURm	464	12
Net loan loss ratio, amortised cost, basis points	38	4
- of which (stage 3)	30	15
- of which (stage 1 & 2)	8	–11
Net loan loss ratio, including fair value mortgage loans, basis points	38	3
Net loan loss ratio, including fair value mortgage loans, Personal Banking, basis points	37	–11
Net loan loss ratio, including fair value mortgage loans, Business Banking, basis points	23	44
Net loan loss ratio, including fair value mortgage loans, Large Corporates & Institutions, basis points	57	–11

Loans to corporate customers

Loans to corporate customers at the end of 2019 amounted to EUR 96bn (EUR 94bn). The sector that increased the most in 2019 was Capital goods while Animal Husbandry decreased the most. The contribution of the two largest industries (Commercial real estate and Financial institutions) is approximately 39% of total lending. Real estate (commercial & residential) remains the largest industry in Nordea's lending portfolio, at EUR 24bn (EUR 24bn).

The distribution of loans to corporate customers by size of loans, seen in the table below, shows a high degree of diversification, with approximately 54% (56%) of the corporate volume representing loans up to EUR 50m per customer.

Loans to corporate customers, by size of loans

	31 Dec 2019		31 Dec 2018	
Size of loan in EURm	Loans EURm	%	Loans EURm	%
0–10	24,673	25.6	26,308	28.0
10–50	27,573	28.6	26,643	28.4
50–100	16,693	17.3	15,532	16.5
100–250	16,812	17.5	14,165	15.1
250–500	3,089	3.2	4,321	4.6
500–	7,502	7.8	6,939	7.4
Total	**96,342**	**100.0**	**93,908**	**100.0**

Loans to household customers

In 2019 lending to household customers decreased to EUR 27bn (EUR 43bn). Mortgage lending decreased to EUR 11bn (EUR 25bn) due to loan portfolio transfers to Nordea Mortgage Banks in Finland and Norway. Consumer lending remained at EUR 17bn (EUR 17bn). The proportion of mortgage lending of total household lending decreased to 40% (59%).

Geographical distribution

Lending to the public distributed by borrower domicile shows that customers residing in the Nordic countries account for 97% (97%). The portfolio is geographically diversified with Finland having 35% of total lending.

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 was allocated to 4+ and 4. For the retail rating grade the majority of the rating was found in A+.

Loan classes

The loan portfolio consists of two classes: loans measured at amortised cost of EUR 121bn and loans measured at fair value of EUR 23bn. For further information on loans measured at fair value, see note P42. 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 decreased slightly to EUR 3,734m (EUR 3,889m), corresponding to 189 basis points of total loans. 56% of impaired loans gross are servicing and 44% are non-servicing. Impaired loans net, after allowances for stage 3 loans amount to EUR 2,229m, corresponding to 113 basis points of total loans. Allowances for stage 3 loans amount to EUR 1,505m. Allowances for stages 1&2 loans amount to EUR 416m. The ratio of allowances in relation to impaired loans is 51% and the allowance ratio for loans in stages 1&2 is 21 basis points. The decrease in impaired loans was mainly related to the Financial industry sector. The portfolios with the largest impaired loan amounts were Household, Oil, Gas & Offshore and Maritime (shipping).

Past due loans

Past due loans, 6 days or more, for corporate customers make up EUR 554m (485m), and past due loans to household totalled EUR 687m in 2019 (1,163m).

The table below shows loans past due 6 days or more, broken down into corporate and household customers. Past due is defined as a loan payment that has not been made as of its due date.

	31 Dec 2019		31 Dec 2018	
EURm	Corporate customers	Household customers	Corporate customers	Household customers
6–30 days	173	266	131	701
31–60 days	115	91	44	104
61–90 days	25	28	18	37
>90 days	241	302	292	321
Total	**554**	**687**	**485**	**1,163**
Past due (incl. impaired) loans divided by loans to the public after allowances, %	0.4	2.5	0.3	2.7

P2. Risk and Liquidity management, cont.

Rating/scoring information for loans measured at amortised cost

EURm Rating/scoring grade	Average PD (%)	Gross carrying amount 31 Dec 2019 Stage 1	Stage 2	Stage 3[1]	Total	Provisions
7	0%	7,820	3	–	7,823	2
6 / A	0%	19,735	94	4	19,833	7
5 / B	1%	35,175	300	42	35,517	26
4 / C	1%	44,514	1,031	16	45,562	75
3 / D	5%	9,220	1,782	49	11,051	110
2 / E	15%	1,466	1,122	21	2,609	109
1 / F	41%	572	677	35	1,284	81
Standardised / Unrated	2%	1,466	21	0	1,487	13
0 (default)	100%	176	71	3,567	3,814	1,498
Internal	–	68,479	–	–	68,479	–
Total		**188,624**	**5,101**	**3,734**	**197,459**	**1,921**

EURm Rating/scoring grade	Average PD (%)	Gross carrying amount 31 Dec 2018 Stage 1	Stage 2	Stage 3[1]	Total	Provisions
7	0%	8,772	113	–	8,885	1
6 / A	0%	27,140	269	4	27,413	7
5 / B	0%	36,313	911	5	37,229	47
4 / C	2%	44,189	1,643	9	45,841	59
3 / D	5%	8,675	3,257	36	11,968	85
2 / E	15%	2,062	1,775	86	3,923	94
1 / F	38%	603	763	48	1,414	69
Standardised / Unrated	2%	2,949	28	0	2,977	33
0 (default)	100%	120	98	3,702	3,919	1,435
Internal	–	52,967	–	–	52,967	–
Total		**183,788**	**8,857**	**3,890**	**196,535**	**1,830**

1) The stage classification and calculated provision for each exposure are based on the situation at the end of October 2019, while the exposure amount and rating grades are based on the situation at the end of December 2019. Some of the exposures in default according to the rating grade at the end of December were not in default at the end of October, and hence this is reflected in the stage classification.

Rating/scoring information for off-balance sheet items

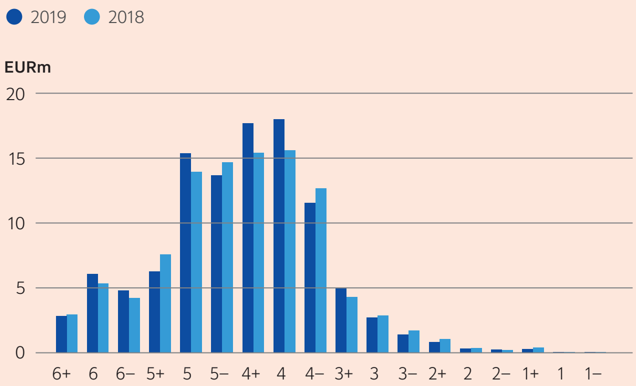
EURm Rating/scoring grade	Nominal amount 31 Dec 2019 Stage 1	Stage 2	Stage 3	Total	Provisions
7	4,344	–	–	4,344	2
6 / A	13,803	5	0	13,808	4
5 / B	27,104	7	1	27,112	12
4 / C	22,823	1,536	2	24,361	23
3 / D	3,720	1,517	6	5,243	39
2 / E	339	368	5	712	18
1 / F	41	185	2	228	12
Standardised / Unrated	262	296	2	560	1
0 (default)	–	–	576	576	97
Internal	47,139	–	–	47,139	–
Total	**119,575**	**3,914**	**594**	**124,083**	**208**

P2. Risk and Liquidity management, cont.

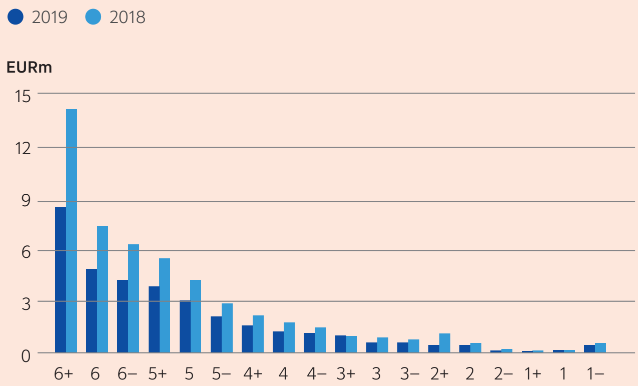
Rating/scoring information for off balance sheet items, cont.

EURm Rating/scoring grade	Nominal amount 31 Dec 2018 Stage 1	Stage 2	Stage 3	Total	Provisions
7	5,182	–	–	5,182	0
6 / A	14,808	17	0	14,825	3
5 / B	27,498	132	0	27,630	17
4 / C	19,546	676	1	20,223	15
3 / D	2,780	1,640	6	4,427	24
2 / E	351	465	4	821	10
1 / F	69	160	1	230	8
Standardised / Unrated	638	337	0	975	0
0 (default)	–	0	599	597	124
Internal	55,218	–	–	55,218	–
Total	**126,090**	**3,427**	**611**	**130,128**	**201**

Rating distribution IRB Corporate customers



Risk grade distribution IRB Retail customers



Net loan losses

Net loan losses increased to EUR 464m (from EUR 12m in 2018), corresponding to an annual net loan loss ratio including fair value mortgage loans of 38bps (3bps). The change in the level of net loan losses compared to 2018 primarily related to net loan losses of EUR 307m made in Q3 2019 after dialogue with the ECB on Asset Quality Review findings, reflecting weaker outlook for certain sectors, and to IFRS9 model updates.

Excluding these items affecting comparability, net loan losses for 2019 were EUR 157m, and 13 bps on total loan exposure, including fair value mortgages.

Of the net loan losses, EUR 368m relates to corporate customers (EUR 13m), and EUR 95m (EUR –1m) to household customers. Within the corporate portfolio the main net loan losses were in the industries Oil, Gas & Offshore and Maritime

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 7.1bn, of which 29% was towards financial institutions.

P2. Risk and Liquidity management, cont.

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 2019	**61,143**	**31**	**–**	**61,174**	**122,646**	**8,826**	**3,889**	**135,361**	**183,789**	**8,857**	**3,889**	**196,535**
Origination and acquisition	17,980	0	–	17,980	24,068	424	301	24,793	42,048	424	301	42,773
Transfers between stage 1 and stage 2, (net)	3	–2	–	1	513	–513	–	0	516	–515	0	1
Transfers between stage 2 and stage 3, (net)	–	–	–	0	–	–102	102	0	0	–102	102	0
Transfers between stage 1 and stage 3, (net)	2	–	–	2	–247	–	248	1	–245	0	248	3
Repayments and disposals	–7,362	–16	–	–7,378	–43,279	–2,824	–515	–46,618	–50,641	–2,840	–515	–53,996
Write-offs	–	–	–	0	–	–	–373	–373	0	0	–373	–373
Other changes	3,052	34	–	3,086	10,105	–756	81	9,430	13,157	–722	81	12,516
Translation differences	–	–	–	0	–	–	0	0	0	0	0	0
Closing balance at 31 Dec 2019	**74,818**	**47**	**–**	**74,865**	**113,806**	**5,055**	**3,733**	**122,594**	**188,624**	**5,102**	**3,733**	**197,459**

	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	0	52
Transfers between stage 2 and stage 3, (net)	–	–	–	–	–	–86	169	83	0	–86	169	83
Transfers between stage 1 and stage 3, (net)	8	–	–	8	113	–	4	117	121	0	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	0	0	–105	–105
Other changes	–	–	–	–	–	–	–	0	0	0	0	0
Translation differences	61	–	–	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**

P2. Risk and Liquidity management, cont.

Movements in 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 1 Jan 2019	–5	–7	–3	–15	–117	–232	–1,466	–1,815	–122	–239	–1,469	–1,830
Origination and acquisition	–1	0	–	–1	–12	–4	–	–16	–13	–4	0	–17
Transfers from stage 1 to stage 2	0	0	–	0	5	–73	–	–68	5	–73	0	–68
Transfers from stage 1 to stage 3	–	–	–	0	1	–	–72	–71	1	0	–72	–71
Transfers from stage 2 to stage 1	0	0	–	0	–4	43	–	39	–4	43	0	39
Transfers from stage 2 to stage 3	–	–	–	0	–	11	–173	–162	0	11	–173	–162
Transfers from stage 3 to stage 1	–	–	–	0	–1	–	12	11	–1	0	12	11
Transfers from stage 3 to stage 2	–	–	–	0	–	–4	23	19	0	–4	23	19
Changes in credit risk without stage transfer	1	0	–5	–4	–3	–6	–114	–123	–2	–6	–119	–127
Repayments and disposals	1	7	0	8	19	26	32	77	20	33	32	85
Write-off through decrease in allowance account	–	–	–	0	–	–	289	289	0	0	289	289
Changes due to update in the institution's methodology for estimation (net)	–	–	–	–	–4	–57	–17	–78	–4	–57	–17	–78
Other changes	–	–	–	0	–	–	–	0	0	0	0	0
Translation differences	**0**	**0**	**–2**	**–2**	**0**	**0**	**–9**	**–9**	**0**	**0**	**–11**	**–11**
Closing balance at 31 Dec 2019	**–4**	**0**	**–10**	**–14**	**–116**	**–296**	**–1,495**	**–1,907**	**–120**	**–296**	**–1,505**	**–1,921**

	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
Other changes	–	–	–	–	–	–	–	–	–	–	–	–
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**

The tables shows the changes in exposure/allowances for each stage during the year. If an exposure moves into stage 2 from stage 1, there will be a reversal for stage 1 and an increase for stage 2.

P2. Risk and Liquidity management, cont.

Movements in provisions for off balance sheet items

EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 1 Jan 2019	19	51	131	201
Origination and acquisition	5	2	0	7
Transfers from stage 1 to stage 2	–1	23	–	22
Transfers from stage 1 to stage 3	0	–	2	2
Transfers from stage 2 to stage 1	1	–9	–	–8
Transfers from stage 2 to stage 3	–	0	3	3
Transfers from stage 3 to stage 1	0	–	–1	–1
Transfers from stage 3 to stage 2	–	0	–4	–4
Changes in credit risk without stage transfer	7	18	–24	1
Repayments and disposals	–3	–3	0	–6
Write-off through decrease in allowance account	–	–	–9	–9
Translation differences	0	0	0	0
Closing balance at 31 Dec 2019	**28**	**82**	**98**	**208**

EURm	Stage 1	Stage 2	Stage 3	Total
Opening balance at 21 Sep 2017	–	–	–	–
Through merger	27	49	156	232
Origination and acquisition	1	1	0	2
Transfers from stage 1 to stage 2	–1	7	–	6
Transfers from stage 1 to stage 3	0	–	1	1
Transfers from stage 2 to stage 1	0	–4	–	–4
Transfers from stage 2 to stage 3	–	0	5	5
Transfers from stage 3 to stage 1	0	–	0	0
Transfers from stage 3 to stage 2	–	0	0	0
Changes in credit risk without stage transfer	–6	–2	–21	–29
Repayments and disposals	–2	0	0	–2
Write-off through decrease in allowance account	–	–	–9	–9
Translation differences	0	0	–1	–1
Closing balance at 31 Dec 2018	**19**	**51**	**131**	**201**

P2. Risk and Liquidity management, cont.

Market risk

Market risk is the risk of loss in Nordea's positions in either the trading book or non-trading book as a result of changes in market rates and parameters that affect the market values or net interest income flows. Market risk exists irrespective of the accounting treatment of the positions.

The market risk appetite for the Group is expressed through risk appetite statements issued by the Board of Directors. 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 Finance and ALM (TALM).

As part of the overall risk appetite framework (RAF), holistic and bespoke stress tests are used to measure the market risk appetite and calibrate 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 Large Corporates & Institutions.

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 to which Nordea Markets is exposed include interest rate risk, credit spread risk, equity risk, foreign exchange risk, commodity 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 to which 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 at a floating rate. Consequently, wholesale funding is also swapped to a floating rate. The resulting repricing gap risk is managed on an aggregated basis by currency and where applicable by the 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.

Measurement of market risk

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

VaR is based on historical scenarios and is the primary market risk measurement metric, complemented by stress testing. Nordea calculates VaR using historical simulation. The current portfolio is revalued based on historical daily changes in market prices, rates and other market risk factors observed during the last 500 business days and translated to changes in the current market risk factors. Nordea uses absolute, relative and mixed translation methods for different risk categories. The revaluation of the current portfolio is performed for each position using either a linear approximation method or a full revaluation method, depending on the nature of the position.

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 Measure model and the Comprehensive Risk Measure model to capture the default and migration risks.

The Value-at-Risk, Stressed Value-at-Risk, Equity Event Risk, Incremental Risk Measure and the Comprehensive Risk Measure models were all approved by the bank's previous regulator, 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.

The Standardised Approach is applied to risk exposure that is not covered by the IMA. It is used for calculating market risk exposures for commodity-related products, specific risk for mortgage and government bonds, commercial papers, credit/rate hybrids and credit spread options, as well as for equity risk related to structured equity and Tier 1 and Tier 2 bonds.

Nordea Bank Abp is the only legal entity for which this model is in use. After the relocation to Finland in October 2018, Nordea is operating under a temporary tolerance decision from the ECB, allowing the bank to continue to use its IMA approved by the Swedish FSA. The ECB's temporary tolerance is conditioned on Nordea applying to the ECB for a new permanent IMA approval, which the bank is currently preparing for.

P2. Risk and Liquidity management, cont.

IRRBB is measured, monitored and managed using three key risk metrics:

- Economic Value (EV),
- Fair Value (FV), and
- Structural Interest Income Risk (SIIR).

The three different risk metrics are used to assess differing aspects of the manifestation of interest rate risk. These are described in more detail below.

Economic value (EV) of Equity stress tests consider the change in the economic value of banking book assets, liabilities and interest-bearing derivative exposures resulting from interest rate movements, independently of accounting classification and ignoring credit spreads and commercial margins. The model assumes a run-off balance sheet and includes behavioural modelling for non-maturing deposits and prepayments. Changes in the Economic Value of Equity of the banking book are measured using the six standardised scenarios defined by the Basel Committee on Banking Supervision (BCBS) plus a range of internal parallel shocks. The exposure limit under EV is measured against the worst outcome out of the six Basel scenarios measured. The EV Basel scenarios are estimated daily for management information purposes, but fully calculated and monitored monthly against the risk appetite limits. The fair value risk stress measure considers the potential revaluation risk relating to positions held under fair value accounting classifications. Fair value sensitivities in the banking book are monitored against five severe but plausible market stress scenarios. The scenarios are calibrated to reflect severe events designed to test specific exposures that are or may be held under the approved mandate. The risk is measured daily, and a risk appetite limit is set against the worst outcome of the five scenarios. The FV scenarios are applied to both the banking book and trading book portfolios, and the Board risk appetite limit considers the combined impact across both. The FV stress metric is monitored daily.

The earnings risk 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, implied forward rates and behavioural modelling for the non-maturing deposits and prepayments. Similar to EV, SIIR is measured using the six standardised scenarios defined by the Basel Committee on Banking Supervision (BCBS) for management information, plus a range of internal parallel shocks. The SIIR risk appetite limit is set against a +/– 50bps parallel shock. The SIIR earnings metric is monitored monthly.

The measurement of IRRBB is dependent on key assumptions applied in the models. The most material assumptions relate to the modelling of embedded behavioural options in both assets and liabilities. The behavioural option held by Nordea's lending customers to execute early loan prepayments is estimated using prepayment models. On the liability side, Nordea has an option to change deposit rates, and customers have an option to withdraw non-maturing deposits (NMD) at any given day. Both embedded options are modelled using NMD models. Both assumptions are calculated based on historical average by core asset and liability class features. Assets and liabilities are grouped according to key metrics including product type, geography and customer segment. Assumptions are based on historically observed values. Regular back-testing and model monitoring are performed for both prepayment models and NMD models to ensure that the models remain accurate.

The Pillar 2 IRRBB capital allocations consist of a Fair Value Risk component and an Earnings Risk component. The Fair Value Risk component covers the impact on the bank's equity due to adverse movements in the MtM values of positions accounted for at Fair Value through Profit and Loss (FVTPL) or Fair Value through other comprehensive income (FVOCI). The Earnings Risk component covers the impact of rate changes on future earnings capacity, and the resulting implications for internal capital buffer levels.

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 below.

The Market risk measured by VaR showed an average utilisation of EUR 14.8m in 2019 (average in 2018 was EUR 13m) and was primarily driven by interest rate VaR. Stressed VaR showed an average utilisation of EUR 46.6m, which is higher compared to 2018 (average in 2018 was EUR 33m) and primarily driven by interest rate stressed VaR with additional contributions from credit spread stressed VaR. The highs in VaR were reached in Q3 and Q4 while highs in stressed VaR were reached in Q1 and Q4. VaR and stressed VaR are primarily driven by market risk in Northern European and Nordic countries.

The Incremental Risk Charge (IRC) at the end of 2019 was significantly lower than at the end of 2018. The decrease was driven by a reduction in both default and migration exposure.

Market risk figures for the trading book[1]

EURm	31 Dec 2019	2019 high	2019 low	2019 avg.	31 Dec 2018
Total VaR	21.1	22.5	10.1	14.8	18.3
Interest rate risk	18.1	20.6	8.4	14.0	16.4
Equity risk	6.1	9.6	1.4	3.4	2.5
Credit spread risk	4.3	10.5	3.1	5.1	6.5
Foreign exchange risk	1.6	6.3	0.7	2.9	1.9
Inflation risk	1.8	2.8	1.4	2.0	2.2
Diversification effect	34.1	58.1	34.1	45.7	37.9
Total Stressed VaR	66.8	86.1	27.9	46.6	61.9
Incremental Risk Charge (IRC)	21.3	41.2	7.3	16.1	34.8
Comprehensive Risk Charge (CRC)	16.5	29.0	9.3	19.6	28.7

1) Equity Event Risk was EUR 0.2m at end of 2019

P2. Risk and Liquidity management, cont.

The lowest exposure occurred during Q3 2019, while IRC peaked in Q1 2019. The average IRC decreased by EUR 8.7m compared to the previous year, driven in particular by a consistently lower default component.

Comprehensive Risk Charge (CRC) at the end of 2019 was lower than at the end of 2018 driven by buy-backs and spread tightening. The lowest exposure occurred during Q4 2019, while CRC peaked during Q1 2019. Average CRC for 2019 dropped by EUR 5.6m compared to 2018.

Structural Interest Income Risk (SIIR)/EV

At the end of the year, the worst loss out of the six Basel scenarios for SIIR was driven by the Steepener Basel scenario, for which the loss was EUR 1,030m (against the worst loss in 2018 of EUR 1,176m, also 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, for which the loss was EUR 263.9m at end of year 2019.

Other market risks/Pension risk

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 be manifested 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 scheme's strategic asset allocation are undertaken to ensure the investment approach reflects Nordea’s risk appetite. See note P35 for more information.

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.

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 mandate and for managing these risks within risk limits and risk appetite in accordance with the operational risk management framework.

Group Operational Risk (GOR) within Group Risk and Compliance (GRC) constitutes the second line of defence (2nd LoD) risk control function 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 first line of defence (1st LoD). GOR performs monitoring and controls to ensure that operational risks are appropriately identified, assessed and mitigated, follows-up on risk exposures towards risk appetite and assesses the adequacy and effectiveness of the operational risk management framework and the implementation of the frameworks.

The focus areas of the monitoring and control work performed by GOR are decided in an annual 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 utilisation and incidents to the Chief Risk Officer (CRO), who reports thereafter to the Chief Executive Officer (CEO) in Group Leadership Team (GLT), the Group Board and relevant committees.

The Risk Appetite Statement (RAS) for operational risk is expressed in terms of:

- residual risk level in breach of risk appetite and requirements for mitigating actions for risks and
- total loss amount from incidents and management of incidents.

Management of operational risk

Management of operational risk includes all activities aimed at identifying, assessing and measuring, responding to and mitigating, controlling and monitoring and reporting on risks. The risk management is supported by various processes such as the Risk and Control Self-Assessment, Change Risk Management and Approval, Incident Management, Scenario Analysis, Business Continuity and Crisis Management, Information Security Management, Third Party Risk Management and Significant Operating Processes.

Some of these processes are described below and additional details on processes for managing and controlling operational risks are included in the Capital and Risk Management Report.

Risk and Control Self-Assessment

The Risk and Control Self-Assessment (RCSA) process provides a risk-based view of operational and compliance risks across Nordea. The process improves risk awareness and enables effective assessment, control, and mitigation of identified risks. For risks identified in the RCSA process, 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.

Change Risk Management and Approval framework

The objective of the Change Risk Management and Approval (CRMA) framework is to ensure that there is a full understanding of both financial and non-financial risks when executing changes. Associated risks shall be adequately managed consistent with Nordea’s risk strategy, risk appetite and corresponding risk limits before a change is approved, executed or implemented.

Changes in scope of the CRMA framework include e.g. new or significant changes to products, services, or IT systems.

Incident Management

The objective of Incident Management is to ensure appropriate handling of detected incidents in order to minimise the impact on Nordea and its customers, to prevent reoccurrence, and to reduce the impact of future incidents. In addition, the Incident Management shall enable timely, accurate and complete information for internal and external reporting and capital modelling, and secure timely notification to relevant supervisory authorities.

Business Continuity and Crisis Management

The objective of Business Continuity and Crisis Management is to protect Nordea’s employees, customers, stakeholders and assets by ensuring that Nordea builds, maintains, and tests the ability to continue and recover prioritised activities and assets, should an extraordinary event or crisis occur. Crisis Management shall ensure that extraordinary events or crisis situations are identified, escalated and managed to minimise impact.

P2. Risk and Liquidity management, cont.

Financial Reporting Risk

Financial reporting risk is defined as the risk of misstatements in external financial reporting and regulatory capital reporting. The risk arises from erroneous interpretation and implementation of accounting standards and regulation, the use of judgement in reporting, as well as from inadequate governance and control frameworks around valuation and financial reporting. The framework for managing financial reporting risk is designated as the AKC framework, based on the COSO framework, which provides the structure and guidance for designing, operating and evaluating the system of internal control over financial reporting across the group. The AKC framework is the mechanism through which management expresses its various assertions over its financial statements. GRC control function for financial reporting risk is responsible for the independent monitoring, assessment and oversight of the risks and the group's implementation of the AKC framework, and reports to Board Audit Committee on a quarterly basis.

Compliance risk

Nordea defines compliance risk as the risk of failure to comply with applicable laws, regulations, standards, supervisory requirements and related internal rules governing Nordea's activities in any jurisdiction where Nordea operates.

Nordea's Code of Conduct and corporate values underpin Nordea's culture and set the parameters for how Nordea's employees should conduct themselves. All Nordea's employees are required to complete annual training in the Code of Conduct to ensure proper awareness and knowledge of the ethical principles.

In 2019, Nordea continued the development to ensure that Nordea's culture and behaviours are consistent with Nordea's values and that Nordea delivers fair outcomes for its customers throughout the entire stage of the customer lifecycle. The quality of investment advice is monitored continuously to ensure customer protection and recent outcomes indicate improvement. The improved results are driven by the changes made in the advisory tool, instructions and training of advisors. It is also important to manage conflicts of interest in relation to products and services. In 2019, enhancements have been implemented in regular product reviews and the approval process. The complaints handling framework has in the recent years been developed and the process is renewed with clear and regular reporting, a strong feedback culture, root cause analysis and mitigating activities.

Nordea's Raising Your Concern (RYC or "whistleblowing") process ensures that Nordea employees, customers and external stakeholders have the right to and feel safe when speaking up if they witness or suspect misconduct or unethical behaviour. The RYC process encompasses ways to report a suspected breach of ethical standards, or breach of internal or external rules. Concerns can be raised openly, confidentially or anonymously by individuals (they can "blow the whistle"). The RYC process also outlines rules and procedures for how RYC investigations are conducted.

Nordea further strengthened its financial crime defences in 2019. Significant compliance enhancements have been achieved within the areas of: i) governance, ii) IT support of customer due diligence processes, iii) participation in the development of a Nordic KYC Utility (an interbank initiative to centrally collect customer due diligence data), iv) transaction monitoring and sanction screening capabilities by e.g. upgrading systems, introducing additional automated processes and improving the timeliness of suspicious activity reporting, v) updating Nordea's policies in light of changes in regulations, and vi) strengthening Nordea's Anti-Bribery and Corruption programme.

Managers throughout Nordea are accountable for the compliance risks related to their areas of responsibility, and are responsible for managing these in accordance with the compliance risk management framework.

Group Compliance (GC) within Group Risk and Compliance (GRC) constitutes the independent compliance function and is responsible for developing and maintaining the risk management framework for compliance risks and for guiding the business in their implementation of and adherence to the framework.

Compliance activities are presented in the form of an annual compliance oversight plan to the Chief Executive Officer (CEO) and the Board of Directors (BoD). The annual compliance oversight plan represents a comprehensive approach to compliance activities of Nordea, combining GC's overall approach to key risk areas. The plan is supported by granular plans in each Business Area, Group Function, Consolidated Group Subsidiaries and Nordea Bank Abp branches and for each risk area.

GC is responsible for regular reporting to the BoD, the CEO in Group Leadership Team (GLT), branch management and relevant committees, at least quarterly.

The Risk Appetite Statement (RAS) for compliance risk is expressed in terms of the residual risk level in breach of risk appetite and requirements for mitigating actions for risks. The RAS for conduct risk includes metrics regarding the Code of Conduct as well as customer outcomes and market integrity.

Details on key processes for managing and controlling compliance risks are included in the Capital and Risk Management Report.

Nordea is subject to various legal regimes and requirements, including but not limited to those of the Nordic countries, the European Union and the United States. Supervisory and governmental authorities that administer and enforce those regimes make regular inquiries and conduct investigations with regards to Nordea's compliance in many areas, such as investment advice, anti-money laundering (AML), trade regulation and sanctions adherence, external tax rules, competition law and governance and control. The outcome and timing of these inquiries and investigations is unclear and pending, and accordingly, it cannot be excluded that these inquiries and investigations could lead to criticism against the bank, reputation loss, fines, sanctions, disputes and/or litigations.

In June 2015, the Danish Financial Supervisory Authority investigated how Nordea Bank Denmark A/S had followed the regulations regarding AML. The outcome has resulted in criticism and the matter was, in accordance with Danish administrative practice, handed over to the police for further handling and possible sanctions. As previously stated, Nordea expects to be fined in Denmark for weak AML processes and procedures in the past and has made a provision for ongoing AML-related matters.

There is a risk that the outcome of possible fines from authorities could be higher (or potentially lower) than the current provision and that this could also impact the bank's financial performance. In addition, some of these proceedings could lead to litigation. Given this uncertainty, we will maintain the level of provision for ongoing AML-related matters while also continuing the dialogue with the Danish Authorities regarding their allegations for historical AML weaknesses.

Nordea has made significant investments to address the deficiencies highlighted by the investigations. For example, in 2015 Nordea established the Financial Crime Change Programme and has strengthened the organisation significantly to enhance the AML and sanction management risk frameworks. Nordea has also established the Business Ethics and Values Committee and a culture transformation programme

P2. Risk and Liquidity management, cont.

to embed stronger ethical standards into our corporate culture. In addition, the Group is investing in enhanced compliance standards, processes and resources in both the first and second lines of defence.

The Danish tax authorities have raised a claim for damages against Nordea of approximately DKK 900m relating to Nordea's assistance to a foreign bank in connection with the latter bank's reclaim of dividend tax on behalf of one of its customers. It is our assessment that Nordea is not liable, and Nordea disputes the claim.

Liquidity risk management
In 2019, 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 6.2bn in long-term debt. Nordea remained compliant with the requirement in the EBA Delegated Act Liquidity Coverage Ratio (LCR) in all currencies on a combined basis.

Liquidity risk definition and identification
Liquidity risk is the risk of Nordea being unable to service its cash flow obligations when they fall due, or being 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, Group Risk and Compliance, is responsible for independently overseeing and challenging the first line of defence.

The Third Line of Defence includes Group Internal Audit (GIA), which is responsible independently overseeing 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 Liquidity Stress Horizon, which defines the risk appetite by setting a minimum survival of 90 days under institution-specific and market-wide stress scenarios with limited mitigation actions.

A framework of limits and monitoring metrics is in place to ensure that 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 essential in the funding market, and Nordea therefore 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 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 Liquidity Stress Horizon metrics stipulating that the liquidity buffer needs to be sufficient to cover peak cumulative stressed outflows experienced over the first 90 days of a combined stress event, whereby Nordea is subject to market-wide stress similar to what many banks experienced in 2007–08, and 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. Funding gap risk is measured and limited for each currency and as a total figure for all currencies combined.

The structural liquidity risk of Nordea is measured via a number of metrics, with the Net Stable Funding Ratio (NSFR) and the internally de-fined Net Balance of Stable Funding (NBSF) being very important. Furthermore, the loan-to-deposit ratio is closely monitored together with the wholesale funding refinancing profile and rating agency metrics.

P2. Risk and Liquidity management, cont.

Liquidity risk analysis

Nordea Abp continues to have a strong and prudent liquidity risk profile with a strong funding base. At year-end 2019, the total volume utilised under short-term programmes was EUR 44.3bn (EUR 46.8bn) with an average maturity of 0.3 (0.3) years. The total volume under long-term programmes was EUR 43.3bn (EUR 44.8bn) with an average maturity of 2.7 (3.5) years. Nordea's funding sources are presented in a table below.

The liquidity risk position throughout 2019 was robust and deemed adequate. The Liquidity Stress Horizon was > 3 years at year-end 2019 (227 days at year-end 2018) with a yearly average of 858 days (268 days).

The yearly average of the funding gap risk was EUR +28.8bn (EUR +26.5bn in 2018). Nordea's liquidity buffer ranged between EUR 76.7bn and 99.4bn throughout 2019 (EUR 78.4bn and 97.4bn) with an average liquidity buffer of EUR 86.6bn (EUR 87.2bn).

The combined LCR according to EBA Delegated Act rules for the Nordea Bank Abp was, at the end of 2019 157% (191%) with a yearly average of 182% (225%). At the end of 2019 the LCR in EUR was 216% (237%) and in USD 146% (214%), with yearly averages of 187% (183%) and 188% (207%), respectively.

Net balance of stable funding

EURbn	31 Dec 2019	31 Dec 2018
Stable liabilities and equity		
Tier 1 and tier 2 capital	38	39
Secured/unsecured borrowing >1 year	26	38
Stable retail deposits	67	65
Less stable retail deposits	8	16
Wholesale deposits <1 year	72	73
Total stable liabilities	**211**	**231**
Stable assets		
Wholesale and retail loans >1 year	74	103
Long-term lending to banks		
and financial companies	45	33
Other illiquid assets	16	16
Total stable assets	**135**	**152**
Off-balance-sheet items	**2**	**2**
Net balance of stable funding (NBSF)	**74**	**77**

Funding sources

Liability type	Interest rate base	Average maturity (years)	EURm
Deposits by credit institutions			
Shorter than 3 months	Euribor etc.	0.1	43,340
Longer than 3 months	Euribor etc.	0.5	1,450
Deposits and borrowings from the public			
Deposits on demand	Administrative	0.0	149,071
Other deposits	Euribor etc.	0.1	26,215
Debt securities in issue			
Certificates of deposits	Euribor etc.	0.4	22,094
Commercial papers	Euribor etc.	0.2	22,192
Mortgage covered bond loans	Fixed rate, market-based	0.0	0
Other bond loans	Fixed rate, market-based	2.5	33,484
Derivatives		not app	43,311
Other non-interest-bearing items		not app	22,008
Subordinated debt			
Tier 2 subordinated bond loans	Fixed rate, market-based	4.6	7,380
Additional Tier 1 subordinated bond loans (undated)	Fixed rate, market-based	not app	2,409
Equity			28,025
Total			**400,979**

P3. Segment reporting

Operating segments

Measurement of Operating segments' performance

Nordea Bank Abp reviews its business activities based on operating segments as in the Group. The measurement principles and allocation between the operating segments follow the information reported to Group Leadership Team.

Basis of segmentation

Compared with the financial statements for 2018, there are no changes to the segments. However, the business area Commercial & Business Banking has changed names to Business Banking and the business area Wholesale Banking has changed to be names Large Corporates & Institutions. Financial results are presented for the three main business areas Personal Banking, Business Banking, Large Corporates & Institutions and for the operating segment Group Finance. 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.

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. These units service both personal and corporate customers across the Nordea Group.

Large Corporates & Institutions 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. Capital Markets unallocated includes the result in Capital Markets which is not allocated to the main business areas.

The main objective of Group Finance is to manage the Group's funding n the Nordea Group and to support the management and control of the Nordea Group. The main income in Group Finance originates from Group Treasury & ALM (TALM).

Income statement

Jan-Dec 2019, EURm	Personal Banking	Business Banking	Large Corporates & Institutions	Group Finance	Total Operating Segments	Other and reconciliation	Total Parent company
Net interest income	788	731	742	–121	2,140	235	2,375
Net fee and commission income	1,220	560	439	–1	2,218	–409	1,809
Net result from items at fair value	172	203	296	161	832	12	844
Other income	156	56	1	1,830	2,043	329	2,372
Total operating income	**2,336**	**1,550**	**1,478**	**1,869**	**7,233**	**167**	**7,400**
Staff costs	–588	–336	–332	–125	–1,381	–1,163	–2,544
Other expenses	–1,224	–614	–479	56	–2,261	576	–1,685
Depreciation, amortisation and impairment charges of tangible and intangible assets	–68	11	–11	–59	–127	–1,001	–1,128
Total operating expenses	**–1,880**	**–939**	**–822**	**–128**	**–3,769**	**–1,588**	**–5,357**
Profit before loan losses	**456**	**611**	**656**	**1,741**	**3,464**	**–1,421**	**2,043**
Net loan losses	–139	–60	–258	1	–456	–8	–464
Impairment on other financial assets				–8	–8	–8	–16
Operating profit	**317**	**551**	**398**	**1,734**	**3,000**	**–1,437**	**1,563**
Income tax expense					0	–125	–125
Net profit for the year	**317**	**551**	**398**	**1,734**	**3,000**	**–1,562**	**1,438**
Balance sheet 31 Dec 2019, EURbn							
Loans to the public	24	46	68	6	144	0	144
Deposits and borrowings from the public	76	40	36	8	160	15	175

Oct-Dec 2018, EURm	Personal Banking	Business Banking	Large Corporates & Institutions	Group Finance	Total Operating Segments	Other and 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
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

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

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
	Jan–Dec 2019	Jan–Dec 2019	31 Dec 2019	31 Dec 2019
Total Operating segments	7,233	3,000	144	160
Eliminations	167	–1,437	0	15
Total	**7,400**	**1,563**	**144**	**175**

	Total operating income, EURm	Operating profit, EURm	Loans to the public, EURbn	Deposits and borrowings from the public, EURbn
	Oct–Dec 2018[1]	Oct–Dec 2018[1]	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**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018

Total operating income split into product groups

	Total operating Income, EURm	
EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Banking products	6,672	2,341
Capital Markets products	728	141
Total	**7,400**	**2,482**

Geographical information

	Total operating income, EURm		Assets, EURbn	
	Jan–Dec 2019	Oct–Dec 2018[1]	31 Dec 2019	31 Dec 2018
Sweden	2,013	1,109	107	102
Finland	1,895	562	51	110
Norway	1,243	342	69	64
Denmark	1,877	388	137	114
Other	372	81	37	19
Total	**7,400**	**2,482**	**401**	**409**

Banking products consists of two 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. Capital Markets products contain 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.

P4. Net interest income

Interest income

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Interest income calculated using the effective interest rate method	4,756	1,140
Other interest income	174	62
Interest income	**4,930**	**1,202**

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Cash and balances with central banks	64	8
Debt securities eligible for refinancing with central banks	358	125
Loans to credit institutions	978	185
Loans to the public	3,190	840
Interest-bearing securities	91	6
Derivatives	-11	–12
Other interest income	260	50
Interest income	**4,930**	**1,202**
- of which negative interest adjustment	601	86

Interest expense

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Deposits by credit institutions and central banks	–570	–131
Deposits and borrowings from the public	–433	–85
Debt securities in issue	–1,463	–374
Derivatives	351	129
Subordinated liabilities	–416	–92
Other interest expenses[2]	–24	–7
Interest expense	**–2,555**	**–560**
- of which negative interest on adjustment	–601	–86
Net interest income	**2,375**	**642**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018. The comparative period has been restated to correspond the presentation of negative interests in 2019.

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 policies".

Interest from categories of financial instruments

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Financial assets at fair value through other comprehensive income	240	67
Financial assets at amortised cost	4,527	1,085
Financial assets at fair value through profit and loss (related to hedging instruments)	–11	–12
Interest income calculated using the effective interest rate method	**4,756**	**1,140**
Financial assets at fair value through profit and loss	174	62
Other interest income	**174**	**62**
Interest income	**4,930**	**1,202**
Financial liabilities at amortised cost	–2,812	–672
Financial liabilities at fair value through profit and loss	257	112
Interest expenses	**–2,555**	**–560**

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.

P5. Net fee and commission income

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Asset management commissions	429	105
- of which income	435	107
- of which expense	–6	–2
Life & Pension	24	5
- of which income	24	5
- of which expense	–	–
Deposit Products	23	6
- of which income	23	6
- of which expense	–	–
Brokerage, securities issues and corporate finance	158	52
- of which income	368	101
- of which expense	–210	–49
Custody and issuer services	49	17
- of which income	79	27
- of which expense	–30	–10
Payments	315	75
- of which income	416	108
- of which expense	–101	–33
Cards	183	41
- of which income	309	70
- of which expense	–126	–29
Lending Products	330	85
- of which income	336	87
- of which expense	–6	–2
Guarantees	256	46
- of which income	268	56
- of which expense	–12	–10
Other	42	–5
- of which income	95	17
- of which expense	–53	–22
Total	**1,809**	**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 359m (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 827m (EUR 214m). The corresponding amount for fee expenses is EUR –247m (EUR –61m).

P6. Net result from items at fair value, hedge accounting and foreign exchange dealing

This note includes the specifications for the income statement line items "Net result from securities trading and foreign exchange dealing", "Net result from securities at fair value through fair value reserve" and "Net result from hedge accounting".

Jan–Dec 2019, EURm	Total	of which unrealised	of which realised	of which through fair value reserve
Net result from items at fair value, hedge accounting and foreign exchange dealing				
Equity related instruments[1]	730	110	620	1
Interest related instruments	-90	–460	370	77
Foreign exchange gains/losses	147	–1,218	1,365	–
Other financial instruments (including credit and commodities)	102	133	–31	–
Total	**889**	**–1,435**	**2,324**	**78**
- of which financial instruments held for trading	615	–63	678	
Net result from hedging instruments				
Financial instruments under fair value hedge accounting	2	16	–14	–14
- of which net result on hedging instruments	582	596	-14	–14
- of which net result on hedged items	–580	–580	0	–
Net result from categories of financial instruments	**Total**	**of which unrealised**	**of which realised**	
Financial assets at fair value through other comprehensive income	78	–	78	
Financial liabilities designated at fair value through profit or loss	–988	–435	–553	
Financial assets and liabilities mandatorily at fair value through profit or loss	2,211	834	1, 377	
Financial assets at amortised cost	34	–23	57	
Financial liabilities at amortised cost	–557	–557	0	
Foreign exchange gains/losses excluding currency hedges	100	–1,265	1,365	
Non-financial assets and liabilities	11	11	–	
Total	**889**	**–1,435**	**2,324**	

1) Of which EUR 148m (EUR 10m) is dividends from shares held for trading. Dividends from shares measured at fair value through fair value reserve is EUR 0m.

Oct–Dec 2018[1], EURm	Total	of which unrealised	of which realised	of which through fair value reserve
Net result from items at fair value, hedge accounting and foreign exchange dealing				
Equity related instruments[2]	57	321	–264	0
Interest related instruments and foreign exchange gains/losses	–9	–12	3	8
Foreign exchange gains/losses	119	–199	318	
Other financial instruments (including credit and commodities)	–15	–75	59	0
Total	**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	**Total**	**of which unrealised**	**of which realised**	
Financial assets at fair value through other comprehensive income	8	–	8	
Financial liabilites designated at fair value throuh profit 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 liabilities	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 held for trading. Dividends from shares measured at fair value through OCI is EUR 0m.

P7. Income from equity investments

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
JSC Nordea Bank	2	–
LLC Promyshlennaya Kompaniya Vestkon	31	–
Nordea Asset Management Holding	157	–
Nordea Kredit Realkreditaktieselskab	186	213
Nordea Eiendomskreditt AS	36	–
Nordea Finans Danmark A/S	20	–
Nordea Finance Finland Ltd	72	64
Nordea Finans Norge AS	0	21
Nordea Funds Ltd	11	159
Nordea Investment Funds S.A	160	–
Nordea Life Holding	375	–
Nordea Mortgage Bank Plc	200	–
Nordea Privatmeglerne AS	1	–
Tomteutvikling Norge AS	0	–
Dividends from group undertakings	**1,251**	**457**
Visa Sweden	0	30
Dividends from associated undertakings and joint ventures	**0**	**30**
Nordea Hypotek AB	377	305
Nordea Investment Management AB	0	185
Nordea Finans Sverige AB (Publ)	118	178
Currency translation differences from Group Contributions	–	–2
Group Contributions	**495**	**666**
Total	**1,746**	**1,153**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

P8. Other operating income

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Gains on sales of group and associated undertakings	198	14
Income from real estate	22	0
Other operational services	62	12
Other	299	82
Total	**581**	**108**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

P9. Staff costs

Nordea Bank Abp's financial period started on 21 September 2017 but with no business activities until 1 October 2018. The comparative figures in Note P9 "Staff costs" refer to the period 1 October 2018–31 December 2018. The key management personnel of the former parent company in the Group stayed on as key management personnel of Nordea Bank Abp.

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Salaries and remuneration (specification below)[2]	–2,061	–508
Pension costs (specification below)	–236	–58
Social security contributions	–405	–95
Other staff costs[3]	158	45
Total	**–2,544**	**–616**
Salaries and remuneration		
To executives[4]		
- Fixed compensation and benefits	–10	–2
- Performance-related compensation	–2	–2
- Allocation to profit sharing	0	0
Total	–12	–4
To other employees	–2,049	–504
Total	**–2,061**	**–508**

1) Nordea Bank Abp's financial period started on 21 September 2017, but with no business activities until 1 October 2018.
2) Of which allocation to profit sharing for Jan–Dec 2019: EUR 8m (Oct–Dec 2018: EUR 10m).
3) Comprising of capitalisation of IT projects in the amount of EUR 166m (Oct–Dec 2018: EUR 45m).
4) Executives include the Board of Directors (including deputies), CEO, deputy CEO, executive vice presidents and Group Leadership Team 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 21 individuals.

Pension costs[2]

EURm	Jan–Dec 2019	Oct–Dec 2018
Defined benefits plans[3] (Note P35)	–30	–4
Defined contribution plans	–206	–54
Total	–236	–58

1) Nordea Bank Abp's financial period started on 21 September 2017, but with no business activities until 1 October 2018.
2) Pension cost for executives, as defined in footnote 4 above, amounts to EUR 2m (EUR 0m) and pension obligations to EUR 17m (EUR 6m).
3) Excluding social security contributions. Including social security contributions EUR –38m (EUR –6m).

Remuneration to the Board of Directors, the CEO and Group Leadership Team

Board remuneration

The Annual General Meeting (AGM) 2019 decided on annual remuneration for the Board of Directors (the Board) amounting to EUR 300,000 for the Chairman, EUR 145,000 for the Deputy Chairman and EUR 95,000 for other members. In addition, annual remuneration paid for board committee work on the Board Operations and Sustainability Committee, the Board Audit Committee and the Board Risk Committee amounts to EUR 60,000 for the committee chairmen and EUR 30,000 for the other members. Remu-neration for board committee work on the Board Remuneration Committee amounts to EUR 42,000 for the committee chairman and EUR 26,000 for the other members.

Separate remuneration is not paid to members who are employees of the Nordea Group.

Nordea covers or reimburses all direct expenses of the members of the Board of Directors, including travel, logistics and accommodation, related to board work.

There are no commitments for severance pay, pension or other remuneration for members of the Board at 31 December 2019.

Remuneration to the Board of Directors[1]

EUR	Jan–Dec 2019	Oct–Dec 2018[2]
Chairman of the Board:		
Torbjörn Magnusson[6]	267,000	–
Björn Wahlroos[4]	80,088	80,088
Vice Chairman of the Board:		
Kari Jordan[5]	128,250	–
Lars G Nordström[4]	42,725	42,725
Other Board members[2]:		
Pernille Erenbjerg	146,638	30,388
Nigel Hinshelwood	181,300	42,550
Petra van Hoeken[5]	116,250	–
Robin Lawther	134,750	32,000
Torbjörn Magnusson[6]	30,388	30,388
John Maltby[5]	116,250	–
Sarah Russell	151,400	35,150
Silvija Seres[4]	30,388	30,388
Birger Steen	173,900	35,150
Maria Varsellona	124,138	30,388
Total	**1,723,465**	**389,215**

1) 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) Nordea Bank Abp's financial period started on 21 September 2017, but with no business activities until 1 October 2018.
3) Employee representatives excluded.
4) Resigned as member of the Board as from the AGM 2019.
5) New member of the Board as from the AGM 2019.
6) Elected as Chairman of the Board as from the AGM 2019.

Long-term Incentive Programme (LTIP) 2012

LTIP 2012 was fully expensed in May 2015. All shares in LTIP 2012 are fully vested and consequently not conditional. 60% of the vested shares were deferred with forfeiture clauses in line with regulatory requirements and allotted over a five-year period, for LTIP 2012 starting in May 2015. See also the separate Remuneration section on page 56 for more details. The numbers of outstanding shares is presented as of 31 December 2019.

For more information on LTIP, see the separate section on remuneration in the Board of Directors' report.

Long Term Incentive Programmes (LTIP) 2012

Number of outstanding shares	LTIP 2012
Former Chief Executive Officers (Former CEOs):	
Christian Clausen	15,075
Casper von Koskull	10,620
Former Group Chief Operating Officer and Deputy Chief Executive Officer (Former Group COO and Deputy CEO):	
Torsten Hagen Jørgensen	9,848
Total	**35,543**

P9. Staff costs, cont.

Salary and benefits

The BRC prepares alterations in salary levels and outcome of the GLT Executive Incentive Programme (GLT EIP) as well as the other changes in the remuneration package for the Chief Executive Officer (CEO), the Interim Deputy Managing Director and the other members of Group Leadership Team (GLT), for resolution by the Board.

GLT EIP 2019, which is based on specific targets, could be a maximum of 100% of fixed base salary. In accordance with remuneration regulations, 40% of GLT EIP 2019 will be paid out in 2020, 30% will be deferred to 2023 and 30% to 2025. In line with regulatory requirements, 50% of the GLT EIP 2019 outcome is delivered in Nordea shares, which are subject to retention for 12 months when the deferral period ends.

Benefits included primarily car benefits, tax consultation and housing.

Members of the GLT are indemnified against legal expenses incurred in relation to legal advice in defending or disputing certain claims or investigations from third parties, excluding crimes or actions made with intent or gross negligence. For each GLT member, the indemnity is capped at an aggregate amount of EUR 37.5m, unless the Board of Directors decides otherwise on a case-by-case basis. The indemnity is secondary to any other insurance coverage.

Chief Executive Officer (CEO) from 5 September 2019

Frank Vang-Jensen was appointed CEO on 5 September 2019. Remuneration to the CEO consists of three components: Fixed salary, the GLT Executive Incentive Programme (GLT EIP) and benefits.

Annual fixed base salary as CEO was decided to be EUR 1,250,000 as from 5 September 2019.

The GLT EIP 2019 was based on specific targets and could amount to a maximum of 100% of fixed base salary. For 2019, as CEO, the outcome of the GLT EIP amounted to EUR 158,416.

The benefits for 2019 amounted to EUR 7,844 and include primarily car benefits.

The total earned remuneration for 2019, as CEO, based on the three components (excluding pension) amounted to EUR 574,574.

Chief Executive Officer (CEO) until 5 September 2019

Casper von Koskull was appointed CEO on 1 November 2015 and stepped down on 5 September 2019. Remuneration until 5 September 2019 the CEO consisted of three components: Fixed salary, the GLT Executive Incentive Programme (GLT EIP) and benefits.

Annual fixed base salary as CEO was decided to be EUR 1,354,462 as from 1 January 2019.

Remuneration to the Chief Executive Officer (CEO) and Group Leadership Team (GLT)

	Fixed salary[1]		GLT Executive Incentive Programme[2]		Benefits[1]		Total	
EUR	Jan–Dec 2019	Oct–Dec 2018	Jan–Dec 2019	Oct–Dec 2018	Jan–Dec 2019	Oct–Dec 2018	Jan–Dec 2019	Oct–Dec 2018
Chief Executive Officer:								
Frank Vang-Jensen[3]	408,314	–	158,416	–	7,844	–	574,574	–
Casper von Koskull[4]	958,339	380,510	229,145	191,982	50,509	67,085	1,237,993	639,577
Interim Deputy Managing Director:								
Jussi Koskinen[5]	131,729	–	59,905	–	4,414	–	196,048	–
Group Chief Operating Officer and Deputy Chief Executive Officer:								
Torsten Hagen Jørgensen[6]	877,633	313,882	214,972	325,887	43,921	14,566	1,136,526	654,335
Group Leadership Team:								
9 (9) individuals excluding CEO and Interim Deputy Managing Director[7]	5,232,982	1,425,680	1,454,983	1,175,071	86,786	18,878	6,774,751	2,619,629
Total	**7,608,997**	**2,120,072**	**2,117,421**	**1,692,940**	**193,474**	**100,529**	**9,919,892**	**3,913,541**
Former Chief Executive Officer:								
Casper von Koskull	417,852	–	109,470	–	18,649	–	545,971	–
Former Group Chief Operating Officer and Deputy Chief Executive Officer:								
Torsten Hagen Jørgensen	302,702	–	–	–	833	–	303,535	–
Total[8]	**8,329,551**	**2,120,072**	**2,226,891**	**1,692,940**	**212,956**	**100,529**	**10,769,398**	**3,913,541**

1) Fixed salary is paid in local currencies and converted to EUR based on the average exchange rate each year. Fixed salary includes holiday pay and car allowance where applicable. Benefits are included at taxable values after salary deductions (if any).

2) Until 2012 the CEO and members of GLT were offered a Variable Salary Part (VSP) and a share-based Long-Term Incentive Programme (LTIP). Since 2013, a GLT Executive Incentive Programme (GLT EIP) has been offered. The outcome from GLT EIP 2019 was expensed in full in 2019 but will be paid out over a five-year deferral period with forfeiture clauses in compliance with remuneration regulations. Part of the GLT EIP 2019 deferred outcome is delivered in Nordea shares (excluding dividends), with a post-deferral one-year retention period.

3) The annual fixed base salary of Frank Vang-Jensen as CEO was EUR 1,250,000 in 2019. Benefits included primarily car benefits, amounting to EUR 7,293. Frank Vang-Jensen took up the position of CEO on 5 September 2019.

4) The annual fixed base salary of Casper von Koskull as CEO was EUR 1,354,462 in 2019. Benefits included primarily housing benefits and tax consultation, amounting to EUR 45,370. Casper von Koskull stepped down as CEO on 5 September 2019.

5) The annual fixed base salary of Jussi Koskinen as Interim Deputy Managing Director was EUR 450,000 in 2019. Benefits included primarily car benefits, amounting to EUR 4,059. Jussi Koskinen took up the position of Interim Deputy Managing Director on 10 September 2019.

6) The annual fixed base salary of Torsten Hagen Jørgensen as Group COO and Deputy CEO was DKK 8,560,000 (EUR 1,146,516) in 2019. In addition, car and holiday allowance paid amount to DKK 608,053 (EUR 81,442). Benefits included primarily housing benefits, amounting to EUR 41,846. Torsten Hagen Jørgensen stepped down as Group COO and Deputy CEO on 10 September 2019.

7) Remuneration for other GLT members is included for the period in which they have been appointed and eligible for GLT EIP 2019. Two GLT members left Nordea in 2019 - one on 8 May 2019 and one on 10 September 2019. Two new GLT members were appointed on 17 December 2019.

8) Severance pay committed during 2019 to the five executives leaving Nordea amounts to EUR 2,427,212, of which EUR 0 is to the former CEO. Total remuneration to be paid in 2020 during the notice period to the five executives after leaving Nordea amounts to 3,547,455, of which EUR 1,540,425 is to the former CEO and includes fixed salary, pension cost and benefits. These provisions are not included in the table above.

P9. Staff costs, cont.

The GLT EIP 2019 was based on specific targets and can amount to a maximum of 100% of fixed base salary. For 2019, the outcome of the GLT EIP amounted to EUR 229,145. The outcome is pro-rata, reflecting the period until 5 September 2019.

The benefits for 2019 amounted to EUR 50,509 and include primarily housing benefits and tax consultation.

Total earned remuneration for 2019, as CEO, based on the three components (excluding pension) amounted to EUR 1,237,993.

The CEO took part of the LTIPs from 2010 to 2012.

Interim Deputy Managing Director from 10 September 2019

Jussi Koskinen was appointed Interim Deputy Managing Director on 10 September 2019. Remuneration to the Interim Deputy Managing Director consisted of three components: Fixed salary, the GLT Executive Incentive Programme (GLT EIP) and benefits.

Annual fixed base salary as Interim Deputy Managing Director was EUR 450,000 including holiday allowance as from 10 September 2019.

The GLT EIP 2019 was based on specific targets and can amount to a maximum of 100% of fixed base salary. For 2019, the outcome of the GLT EIP amounted to EUR 59,905.

The benefits for 2019 amounted to EUR 4,414 and included primarily car benefits.

Total earned remuneration for 2019, as Interim Deputy Managing Director, based on the three components (excluding pension) amounted to EUR 196,048.

Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO) until 10 September 2019

Torsten Hagen Jørgensen was appointed Group COO and Deputy CEO on 1 November 2015 and stepped down on 10 September 2019. Remuneration to the former Group COO and Deputy CEO consists of three components: Fixed salary, the GLT EIP and benefits.

Annual fixed base salary as Group COO and Deputy CEO for 2019 was decided to be DKK 8,560,000 (EUR 1,146,516).

The GLT EIP 2019 was based on specific targets and can amount to a maximum of 100% of fixed base salary. For 2019, the outcome of the GLT EIP amounted to EUR 214,972. The outcome is pro-rata, reflecting the period until 10 September 2019.

The benefits for 2019 amounted to EUR 43,921 and included primarily housing benefits.

Total earned remuneration for 2019, as Group COO and Deputy CEO, based on the three components (excluding pension) amounted to EUR 1,136,526.

The Group COO and Deputy CEO took part in past LTIPs until 2012.

Former Chief Executive Officer (former CEO) from 5 September 2019

Remuneration to the former CEO consisted of three components: Fixed salary, the GLT Executive Incentive Programme (GLT EIP) and benefits. Total earned remuneration for 2019, as

Pension expense and pension obligation

	Jan–Dec 2019	31 Dec 2019	Oct–Dec 2018	31 Dec 2018
EUR	Pension expense[1]	Pension obligation[2]	Pension expense[1]	Pension obligation[2]
Chief Executive Officer (CEO):				
Frank Vang-Jensen	122,494	–	–	–
Casper von Koskull	74,620	–	27,411	357,936
Former Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO):				
Torsten Hagen Jørgensen	238,857	–	86,137	–
Group Leadership Team (GLT):				
9 individuals excluding CEO and Interim Deputy Managing Director[3]	905,302	1,004,303	239,464	777,583
Board members[4]:				
Lars G Nordström	–	–	–	312,465
Total	**1,341,273**	**1,004,303**	**353,012**	**1,447,984**
Former Chairman of the Board and CEOs:				
Vesa Vainio[5]	–	5,118,594	–	4,844,682
Lars G Nordström[6]	–	313,010	–	–
Casper von Koskull[6]	35,026	399,536	–	–
Torsten Hagen Jørgensen[7]	96,893	–	–	–
Total	**1,473,192**	**6,835,443**	**353,012**	**6,292,666**

1) The pension expense is related to pension premiums paid under defined contribution agreements and pension rights earned during the year under 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 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, so 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 levels of obligations 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 GLT are included for the period in which they are appointed. The pension obligation is the value of pension liabilities towards three Swedish GLT members on 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 is mainly due to defined benefit pension rights earned at, and funded by, banks forming Nordea. The increase compared to 2018 is mainly due to lower interest rates applied in the valuation.

6) The pension obligation is in accordance with the collective pension agreement BTP2 in Sweden and earned from 5 September to 31 December 2019.

7) The pension contribution is in accordance with the agreed terms and conditions for the period from 10 September to 31 December 2019.

P9. Staff costs, cont.

former CEO, based on the three components (excluding pension) amounted to EUR 545,971.

Former Group Chief Operating Officer and Deputy Chief Executive Officer (former Group COO and Deputy CEO) from 10 September 2019
Remuneration to the former Group COO and deputy CEO consisted of three components: Fixed salary, the GLT Executive Incentive Programme (GLT EIP) and benefits. Total earned remuneration for 2019, as Former Group COO and Deputy CEO, based on the three components (excluding pension) amounted to EUR 303,535.

Pension
Chief Executive Officer (CEO) from 5 September 2019
The CEO is covered by a defined contribution plan from 5 September 2019. The pension contribution was 30% of fixed base salary.

Chief Executive Officer (CEO) until 5 September 2019
During the period 1 January 2019 to 5 September 2019, the CEO was covered by the Finnish statutory pension scheme and, in addition, had a defined contribution plan corresponding to 8.5% of fixed salary. According to statutory pension rules, the part of the GLT EIP 2019 outcome paid or retained in 2020, is included in pensionable income.

Interim Deputy Managing Director from 10 September 2019
The Interim Deputy Managing Director is covered by the Finnish statutory pension scheme. According to statutory pension rules, the part of the GLT EIP 2019 outcome paid or retained in 2020, is included in the pensionable income.

Group Chief Operating Officer and Deputy Chief Executive Officer (Group COO and Deputy CEO) until 10 September 2019
The Group COO and Deputy CEO had a defined contribution plan. The pension contribution was 30% of fixed base salary.

Former Chief Executive Officer (former CEO) from 5 September 2019
During the period 5 September 2019 to 31 December 2019, the former CEO was covered by the Finnish statutory pension scheme and in addition had a defined contribution plan corresponding to 8.5% of fixed salary.

Former Group Chief Operating Officer and Deputy Chief Executive Officer (Former Group COO and Deputy CEO) from 10 September 2019
During the notice period, the Former Group COO and Deputy CEO had a defined contribution plan. The pension contribution was 30% of fixed base salary.

Group Leadership Team (GLT)
The pension agreements for the other six GLT members vary according to local country practices. Pension agreements are defined contribution plans or a combination of defined contribution and defined benefit plans.

As of 31 December 2019, three members had 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 was in total 30% of fixed salary.

One member had a defined contribution plan in accor-

Long Term Incentive Programmes

	2019			2018		
	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 period	49,608	148,824	49,608	–	–	–
Through merger	–	–	–	49,608	148,824	49,608
Granted[1]	4,954	14,862	4,954	–	–	–
Forfeited	–	–	–	–	–	–
Allotted	–27,281	–81,843	–27,281	–	–	–
Outstanding at end of year[2]	**27,281**	**81,843**	**27,281**	**49,608**	**148,824**	**49,608**
- of which currently exercisable	–	–	–	–	–	–
Rights LTIP 2011						
Outstanding at the beginning of the period	31,563	52,736	14,203	–	–	–
Through merger	–	–	–	31,563	52,736	14,203
Granted[1]	3,150	5,264	1,418	–	–	–
Forfeited	–	–	–	–	–	–
Allotted	–34,713	–58,000	–15,621	–	–	–
Outstanding at end of year[1]	**0**	**0**	**0**	**31,563**	**52,736**	**14,203**
- of which currently exercisable	–	–	–	–	–	–

1) Granted rights are compensation for dividend on the underlying Nordea share during the year.
2) Allotment of rights has been deferred following retention requirements by the Nordic FSAs. There is no exercise price for the deferred rights.

P9. Staff costs, cont.

dance with local practices in Denmark. The pension contribution was in total 30% of fixed base salary.

Two members do not have a pension agreement with Nordea.

Notice period and severance pay

In accordance with his employment contract, the CEO has a notice period of 12 months and Nordea a notice period of 12 months. The CEO has severance pay equal to 12 months' salary, to be reduced by any salary he receives from other employment during these 12 months.

The Interim Deputy Managing Director and six GLT members have a notice period of six months and Nordea a notice period of 12 months. Sever-ance pay of up to 12 months' salary is provided, to be reduced by any salary the executive receives from other employment during the severance pay period.

Additional disclosures on remuneration

The Board of Directors report includes a separate section on remuneration, page 56. 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 on 25 March 2020.

Loans to key management personnel

Loans to key management personnel, as defined in Note P1 section 27, amount to EUR 2m (EUR 5m). 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 Finland, the employee interest rate for loans corresponds to Nordea''s funding cost with a margin of 30 basis points. In Denmark, the employee interest rate for loans is variable and was 2.25 % at 31 December 2019. In Norway, the employee interest rate for loans is variable and was 2.30% at 31 December 2019. 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. The same principles for collective impairments apply to loans to key management personnel as for other loans.

Guarantees and other off-balance-sheet commitments

Members of the GLT are indemnified for legal expenses incurred in relation to legal advice in defending or disputing certain claims or investigations from third parties, excluding crimes or actions made with intent or gross negligence. For each GLT member, the indemnity is capped to an aggregate amount of EUR 37.5m, unless the Board of Directors decides otherwise on a case-by-case basis. The indemnity is secondary to any other insurance coverage.

Nordea Bank Abp has not pledged any assets or other collateral on behalf of any key management personnel.

Nordea shares held by the Board of Directors, CEO and Group Leadership Team

At the end of 2019, the number of Nordea shares held by the Board of Directors amounted to 173,984 (177,855) and shares held by the CEO and Group Leadership Team amounted to 110,380 (299,518), in total 284,364 (477,373), 0.007% (0.011%) of total shares. Key management personnel has no holdings of equity warrants or convertible bonds issued by Nordea Bank Abp.

Share-based payment transactions

From 2019, Nordea operates deferrals in financial instruments on parts of variable remuneration for certain employee categories. Parts of variable remuneration are deferred for delivery after three years or deferred for delivery in equal instalments over a three- to five-year period. Once financial instruments are no longer in deferral, a retention period for certain employee categories is applied. Since 2011 and until 2018, Nordea operated share-linked deferrals as well as retention on parts of variable remunera-tion through the use indexation with Nordea's Total Shareholder Return (TSR) for certain employee categories. Because 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 in the previous year.

In addition, in 2013 Nordea introduced the Executive Incentive Programme ("EIP") which aims to strengthen Nordea's capability to recruit, motivate and retain selected people leaders and key employees outside of GLT, and aims to reward strong performance. The aim is also to further stimulate these people whose efforts have a direct impact on Nordea's result, profitability and long-term value growth. The EIP rewards performance meeting agreed predetermined targets on Group, business unit and individual level. The effect on the long-term result is to be considered when determining the targets. The EIP shall not exceed fixed salary. The EIP for 2019 shall be paid in the form of cash and financial instruments and be subject to deferral, forfeiture clauses and retention in line with relevant remuneration regulations. Deferred EIP awards are normally delivered pro-rata during the deferral period. There are no vesting conditions for the programme, but forfeitures and clawbacks are possible under certain conditions. Participation in the programme is offered to up to 400 selected people leaders and key employees, except for members of GLT who were instead offered a GLT EIP (further information about the GLT EIP can be found in the Remuneration section in the Board of Directors' Report), within the Nordea Group. The EIP is offered instead of Nordea's LTIP and VSP for invited employees. A provision of EUR 19m excl. social costs was made in 2019 for the cash-settled part. The same amount was recognised as an expense in the income statement for the equity-settled part and as an increase in equity in the balance sheet.

The table below only includes deferred amounts indexed with Nordea TSR. The 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 website (www.nordea.com).

	Share linked deferrals	
EURm	31 Dec 2019	31 Dec 2018[1]
Opening balance	77	–
Through merger	–	138
Deferred/earned during the period	37	–
TSR indexation during the period	–10	–20
Payments during the period	–39	–40
Translation differences	0	–1
Closing balance	**65**	**77**

1) Nordea Bank Abp's financial period started on 21 September 2017, but with no business activities until 1 October 2018.

P9. Staff costs, cont.

Average number of employees

Full-time equivalents	Total Jan–Dec 2019	Total Oct–Dec 2018	Men Jan–Dec 2019	Men Oct–Dec 2018	Women Jan–Dec 2019	Women Oct–Dec 2018
Finland	5,743	5,712	2,187	2,141	3,556	3,571
Sweden	6,112	6,254	3,006	3,098	3,106	3,156
Denmark	7,198	7,478	4,127	4,253	3,071	3,225
Norway	2,390	2,493	1,286	1,348	1,104	1,145
Poland	4,006	3,363	2,274	1,875	1,732	1,488
Other countries	715	596	277	230	438	366
Total average	**26,164**	**25,896**	**13,157**	**12,945**	**13,007**	**12,951**

Number of employees

Dec 2018	31 Dec 2019	31 Dec 2018	Change
Permanent Full time	23,164	23,071	93
Permanent Part time	1,342	1,224	118
Fixed Term	1,455	1,656	–201
Total number of employees (FTEs), end of period	**25,961**	**25,951**	**10**

Gender distribution

On the parent company's Board of Directors 50% were men and 50% were women. The corresponding numbers for Other executives were 78% men and 22% women. Employee representatives have been excluded.

P10. Other administrative expenses

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Other personnel expenses	–85	–24
Travel	–59	–19
Information technology	–502	–121
Marketing and representation	–45	–21
Postage, transportation, telephone and office expenses	–54	–16
Other[2]	–211	–73
Total	**–956**	**–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	Jan–Dec 2019	Oct–Dec 2018
PricewaterhouseCoopers		
Auditing assignments	–6	–3
Audit-related services[1]	0	0
Tax advisory services	–	0
Other assignments[1]	–1	0
Total	**–7**	**–3**

1) Of which Audit related services EUR 0,1m (EUR 0,1m) and Other assignments EUR 0,4m (EUR 0,4m) to PricewaterhouseCoopers Oy.

P11. Other operating expenses

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Rents, premises and real estate	–327	–79
Fees to authorities[2]	–261	–10
Other	–141	–11
Total	**–729**	**–100**

1) Nordea Bank Abp's financial period started on 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 the Finance Finland (FFI).

P12. Depreciation, amortisation and impairment charges of tangible and intangible assets

Depreciation/amortisation

EURm	Jan–Dec 2019	Oct–Dec 2018
Properties and equipment (Note P24)		
Equipment	–61	–22
Properties	–1	–
Total	**–62**	**–22**
Intangible assets (Note P23)		
Goodwill	–67	–17
Computer software	–238	–44
Other intangible assets	–31	–7
Total	**–336**	**–68**

Impairment charges

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Properties and equipment (Note P24)		
Equipment	–10	0
Properties	0	0
Total	**–10**	**0**

1) Nordea Bank Abp's financial period started on 21 September 2017, but with no business activities until 1 October 2018.

Impairment charges

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Intangible assets (Note P23)		
Computer software	–720	–23
Other intangible assets	0	–2
Total	**–720**	**–25**
Total depreciation/amortisation and impairment charges	**–1128**	**–115**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

P13. Net loan losses

Jan–Dec 2019, EURm	Loans to credit institutions[2]	Loans to the public[2]	Off balance sheet items[3]	Total
Net loan losses, stage 1	2	0	–8	–6
Net loan losses, stage 2	5	–64	–31	–90
Net loan losses, non-defaulted	**7**	**–64**	**–39**	**–96**
Stage 3, defaulted				
Net loan losses, individually assessed, model based[1]	1	–8	2	–5
Realised loan losses	–	–372	–9	–381
Decrease of provisions to cover realised loan losses	–	289	9	298
Recoveries on previous realised loan losses	1	15	–	16
New/increase in provisions	–	–513	–42	–555
Reversals of provisions	–	197	62	259
Net loan losses, defaulted	**2**	**–392**	**22**	**–368**
Net loan losses	**9**	**–456**	**–17**	**–464**

Oct–Dec 2018[4], EURm	Loans to credit institutions[2]	Loans to the public[2]	Off balance sheet items[3]	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 assessed, model based[1]	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**

1) Includes individually identified assets where the provision has been calculated based on statistical models.
2) Provisions included in Note P17 "Loans and impairment".
3) Provisions included in Note P2 "Risk and Liquidity management".
4) Nordea Bank Abp's financial period started 21 September 2017 but with no business activities until 1 October 2018.

Jan–Dec 2019, EURm	Net loan losses, individually assessed	Net loan losses, collectively assessed	Reversals of provisions	Recoveries on previous realised loan losses	Write-offs	Total
Net loan losses						
Loans to credit institutions	1	7	–	1	–	9
Loans to the public	–232	–64	197	15	–372	–456
Guarantees and other off balance sheet items	–31	–39	62	–	–9	–17
Other	–	–	–	–	–	–
Total	**–262**	**–96**	**259**	**16**	**–381**	**–464**
Impairment on other financial assets						
Net loan losses from loans classified as fair value through fair value reserve	–	0	–	–	–	0
Impairments on shares and interests in group undertakings and associated undertakings	–	–	–	–	–16	–16
Total	**–**	**0**	**–**	**–**	**–16**	**–16**

P13. Net loan losses, cont.

Oct–Dec 2018[1], EURm	Net loan losses, individually assessed	Net loan losses, collectively assessed	Reversals of provisions	Recoveries on previous realised loan losses	Write-offs	Total in Income Statement
Net loan losses						
Loans to 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	–	–	–	–	–	–
Total	**–56**	**38**	**114**	**8**	**–116**	**–12**
Impairment on other financial assets						
Net loan losses from loans classified as fair value through fair value reserve	–	0	–	–	–	0
Impairments on shares and interests in group undertakings and associated undertakings	–	–	–	–	–21	–21
Total	**–**	**0**	**–**	**–**	**–21**	**–21**

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

P14. Taxes

Income tax expense

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Current tax	–614	–134
Deferred tax	489	–77
Total	**–125**	**–211**

The tax on the operating profit differs from the theoretical amount that would arise using the tax rate in Finland as follows:

EURm	Jan–Dec 2019	Oct–Dec 2018[1]
Profit before tax	1,563	1,344
Tax calculated at a tax rate of 20.0%	–313	–269
Effect of different tax rates in other countries	–22	–27
Tax-exempt income	301	94
Non-deductible expenses	–65	7
Adjustment relating to prior years	–10	–11
Utilisation and origination of unrecognised tax assets	–58	0
Effect of outside basis differences	49	0
Other	–7	–5
Tax charge	**–125**	**–211**
Average effective tax rate	8%	16%

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

Deferred tax

	Deferred tax assets		Deferred tax liabilities	
EURm	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Tax loss carried forward	105	90	–	–
Loans to the public	57	20	12	–
Derivatives	125	–2	14	319
Properties and equipment	9	7	8	8
Intangible assets	–	–	69	40
Hedge of net investment in foreign subsidiaries	–	–	–	1
Retirement benefit assets/obligations	119	32	40	25
Liabilities/provisions	146	63	–	–
Foreign tax credits	225	101	193	–
Other	2	1	13	12
Netting between deferred tax assets and liabilites	–335	–182	–335	–182
Total [2]	**453**	**130**	**14**	**223**

2) Deferred tax assets booked through fair value reserve totals to EUR 75m (EUR 51m). Deferred tax liabilities booked through fair value reserve total to EUR 36m (EUR 57m).

P15. Debt securities eligible for refinancing with central banks

EURm	31 Dec 2019	31 Dec 2018
Treasury bonds, notes and bills	17,305	16,719
Other	43,913	55,958
Total	**61,218**	**72,677**

P16. Loans to credit Institutions

	Carrying amount		On-Demand		Non-Demand	
EURm	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Central Banks	9,159	7,272	4,826	2,429	4,333	4,843
Credit Institutions	71,802	57,500	1,336	1,759	70,466	55,741
Total	**80,961**	**64,772**	**6,162**	**4,188**	**74,799**	**60,584**

P17. Loans and impairment

EURm	31 Dec 2019	31 Dec 2018
Loans measured at fair value through profit and loss	29,500	24,486
Loans measured at amortised cost, not impaired (stage 1 and 2)	193,725	192,646
Impaired loans (stage 3)	3,734	3,889
- of which servicing	2,108	1,977
- of which non-servicing	1,626	1,912
Loans before allowances	**226,959**	**221,021**
- of which central banks	9,159	7,272
- of which credit institutions	71,816	57,515
Allowances for impaired loans (stage 3)	–1,505	–1,469
- of which servicing	–766	–657
- of which non-servicing	–739	–812
Allowances for not-impaired loans (stage 1 and 2)	–416	–361
Allowances	**–1,921**	**–1,830**
- of which central banks	0	0
- of which credit institutions	–14	–15
Loans, carrying amount	**225,038**	**219,191**

Allowances and provisions

	Credit institutions		The public		Total	
EURm	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Allowances for items on the balance sheet	–14	–15	–1,907	–1,815	–1,921	–1,830
Provisions for off balance sheet items[1]	–	–	–208	–201	–208	–201
Total allowances and provisions	**–14**	**–15**	**–2,115**	**–2,016**	**–2,129**	**–2,031**

1) Included in Note P34 “Provisions” as “Guarantees/Commitments”.

P17. Loans and impairment, cont.

Key ratios[1]

EURm	31 Dec 2019	31 Dec 2018
Impairment rate, (stage 3) gross, basis points	189	198
Impairment rate, (stage 3) net, basis points	113	123
Total allowance rate (stage 1, 2 and 3), basis points	97	93
Allowances in relation to credit impaired loans (stage 3), %	40	38
Allowances in relation to loans in stage 1 and 2, basis points	21	19

1) For definitions see Glossary in the Board of Directors report.

Loans to the public

EURm	31 Dec 2019	31 Dec 2018
On-demand	7,531	8,105
Non-demand	136,546	146,314
Total	**144,077**	**154,419**
- of which subordinated loans	1,266	1,106

31 Dec 2019, EURm	Loans before allowances	Allowances	Loans carrying amount
Non financial corporations	16,483	−259	16,224
Financial and insurance corporations	1,247	−1	1,246
General government	1,038	−1	1,037
Households	10,684	−39	10,645
Non-profit institutions serving households	299	−2	297
Foreign Countries	116,233	−1,605	114,628
Total	**145,984**	**−1,907**	**144,077**

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	–	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**

P18. Interest-bearing securities

This note includes the specifications of the balance sheet line items "Interest-bearing securities" and "Debt securities eligible for refinancing with central banks".

	Carrying amount	
EURm	31 Dec 2019	31 Dec 2018
Interest-bearing securities, issued by public sector entities	14,589	16,054
- of which measured at fair value through profit and loss	13,024	15,621
- of which held for trading	2,812	2,765
Interest-bearing securities, issued by public sector entities, measured at fair value through fair value reserve[2]	1,565	432
Interest-bearing securities, issued by other borrowers	51,324	58,513
- of which measured at fair value through profit and loss	23,938	26,583
- of which held for trading	12,581	12,618
Interest-bearing securities, issued by other borrowers measured at fair value through fair value reserve[2]	27,147	31,680
Interest-bearing securities, issued by other borrowers measured at amortised cost through profit and loss[1]	238	250
Total	**65,913**	**74,567**
- of which listed	20,151	27,923
- of which unlisted	45,762	46,644
- of which debt securities eligible for refinancing with central banks	61,218	72,677
- of which subordinated receivables	207	296

1) Interest-bearing securities measured at amortised cost, not impaired (stage1) EUR 238m (EUR 250m).
2) Interest-bearing securities measured at fair value through fair value reserve, not impaired (stage1) EUR 23,302m (EUR 31,572m) and allowances EUR 1m (EUR 2m).

P19. Shares and participations

31 Dec 2019, EURm	Listed	Unlisted	Carrying amount
Shares	4,318	1,172	5,490
- of which measured at fair value through profit and loss	4,318	1,172	5,490
- of which held for trading	2,394	–	2,394
Total	**4,318**	**1,172**	**5,490**
- of which under securities lending	–	–	166
- of which in credit institutions	–	–	181

31 Dec 2018, EURm	Listed	Unlisted	Carrying amount
Shares	4,034	779	4,813
- of which measured at fair value through profit and loss	4,034	779	4,813
- of which held for trading	2,402	–	2,402
Total	**4,034**	**779**	**4,813**
- of which under securities lending	–		–
- of which in credit institutions	–	–	177

Shares borrowed amounting to EUR 1,522m (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 2019, EURm	
Opening balance	1,049
Acquisitions/capital contributions during the year	26
Sales during the year	–979
Translation differences	0
Impairment changes during the year	–9
Acquisition value at end of year	**87**
- of which listed shares	–
- of which in credit institutions	42

31 Dec 2018[1], EURm	
Opening balance	–
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	–
- of which in credit institutions	48

1) Nordea Bank Abp's financial period started 21 September 2017 but with no business activities until 1 October 2018.

Associated undertakings

			Carrying amount		Shareholding, %
	Registration number	Domicile	2019, EURm	2018, EURm	
Eksportfinans ASA	816521432	Oslo	42	42	23
Eiendomsverdi AS	881971682	Oslo	12	12	25
Suomen Luotto-osuuskunta	0201646-0	Helsinki	3	3	27
LR Realkredit A/S	26045304	Copenhagen	–	6	–
Automatia Pankkiautomaatit Oy	0974651-1	Helsinki	5	5	33
Bankomat AB	556817-9716	Stockholm	6	6	20
Mondido Payments AB	556960-7129	Stockholm	4	–	14
P27 Nordic Payments Platform AB	559198-9610	Stockholm	11	–	17
Nordic KYC Utility AB	559210-0779	Stockholm	2	–	17
Subaio Aps	37766585	Aalborg	2	–	25
Other			0	2	
Total			**87**	**76**	

Joint ventures

			Carrying amount		Shareholding, %
	Registration number	Domicile	2019, EURm	2018, EURm	
Luminor Group AB	559072-8316	Stockholm	–	973	–

P21. Investments in group undertakings

EURm	31 Dec 2019	31 Dec 2018[1]
Acquisition value at beginning of year	13,425	–
Through merger	–	13,544
Acquisitions/capital contributions during the year [2]	2,190	–
Revaluations under hedge accounting	69	–96
Sales during the year	–236	–29
Reclassifications	–218	7
Acquisition value at end of year	**15,230**	**13,425**
Accumulated impairment at beginning of year	–1,250	–
Through merger	–	–1,229
Reclassifications	218	–
Impairment charges during the year	–8	–21
Accumulated impairment charges at end of year	**–1,040**	**–1,250**
Total	**–14,190**	**12,175**
- of which listed shares	–	–
- of which in credit insititutions	9,369	8,630

1) Nordea Bank Abp's financial period started 21 September 2017, but with no business activities until 1 October 2018.

2) Comprise of the acquisition of Gjensidige Bank ASA as well as other changes in ownerships in Nordea and capital contributions. For the acquisition of Gjensidige Bank ASA, see the Board of Directors' report for more information.

P21. Investments in group undertakings, cont.

Specification

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

	Registration number	Domicile	Number of shares	Carrying amount 31 Dec 2019, EURm	Carrying amount 31 Dec 2018, EURm	Shareholding, %	Voting power of holding, %
Nordea Kredit RealKreditaktieselskab	15134275	Copenhagen	17,172,500	2,950	2,946	100.0	100.0
Nordea Hypotek AB (publ)	556091-5448	Stockholm	100,000	2,293	2,305	100.0	100.0
Nordea Eiendomskreditt AS	971227222	Oslo	15,336,269	1,809	1,232	100.0	100.0
Fionia Asset Company A/S	31934745	Copenhagen	148,742,586	1,185	1,184	100.0	100.0
Nordea Finance Finland Ltd	0112305-3	Helsinki	1,000,000	1,067	1,066	100.0	100.0
Nordic Baltic AB	559220-4688	Stockholm	1,000	1,001	–	100.0	100.0
Nordea Mortgage Bank Plc	2743219-6	Helsinki	257,700,000	731	731	100.0	100.0
Nordea Life Holding AB	556742-3305	Stockholm	1,000	720	719	100.0	100.0
Gjensidige Bank ASA	990323429	Oslo	876,000	406	–	100,0	100.0
LLC Promyshlennaya Kompaniya Vestkon[1]	1027700034185	Moscow	4,601,942,680	317	311	100.0	100.0
Nordea Bank S.A.[2]	B-14157	Luxembourg	–	–	237	–	–
Nordea Finans Norge AS	924507500	Oslo	63,000	686	424	100.0	100.0
Nordea Funds Ltd	1737785-9	Helsinki	3,350	385	385	100.0	100.0
Nordea Asset Management Holding AB	559104-3301	Stockholm	500	243	234	100.0	100.0
Nordea Finans Danmark A/S	89805910	Høje Taastrup	20,006	188	188	100.0	100.0
Nordea Finans Sverige AB (publ)	556021-1475	Stockholm	1,000,000	114	113	100.0	100.0
Nordea Essendropsgate Eiendomsforvaltning AS	986610472	Oslo	7,500	38	39	100.0	100.0
Nordea Markets Holding Company INC	36-468-1723	New York	1,000	22	20	100.0	100.0
Nordic Baltic Holding (NBH) AB	556592-7950	Stockholm	1,000	20	21	100.0	100.0
Privatmegleren	986386661	Oslo	12,000,000	10	10	100.0	100.0
Tomteutvikling Norge AS	999222862	Oslo	300	2	2	100.0	100.0
Danbolig A/S	13186502	Copenhagen	1	0	0	100.0	100.0
Structured Finance Servicer A/S	24606910	Copenhagen	2	1	1	100.0	100.0
Nordea Hästen Fastighetsförvaltning AB	556653-6800	Stockholm	1,000	0	0	100.0	100.0
Nordea Putten Fastighetsförvaltning AB	556653-5257	Stockholm	1,000	0	0	100.0	100.0
Nordea do Brasil Representações Ltda	51.696.268/0001-40	São Paulo	116,215	0	0	100.0	100.0
First Card AS	963215371	Oslo	200	0	0	100.0	100.0
Bohemian Wrappsody AB	556847-8399	Stockholm	14,658,539	2	7	47.9	55.4
Tordarius AB[3]	559107-6871	Stockholm	100	–	0	–	–
Nordea Vallila Fastighets Förvaltning Ab	1880368-8	Helsinki	1,000	0	0	100.0	100.0
Total				**14,190**	**12,175**		

1) Combined ownership, Nordea Bank Abp directly 7.2% and indirectly 92.8% through Join Stock Company Nordea Bank.
2) Under liquidation and no longer classified as group undertaking.
3) Sold in 2019.

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 that 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 year-end and are not indicative of either the market or credit risk.

	Fair value		Total nom.
31 Dec 2019, EURm	Positive	Negative	amount
Derivatives not used for hedge accounting	37,213	42,956	6,723,544
Fair value hedges[1]	1,139	235	88,880
Cash flow hedge[1]	1,019	120	22,253
Total derivatives	**39,371**	**43,311**	**6,834,677**

	Fair value		Total nom.
31 Dec 2018, EURm	Positive	Negative	amount
Derivatives not used for hedge accounting	35,146	40,008	6,743,740
Fair value hedges[1]	947	259	91,096
Cash flow hedge[1]	1,128	324	18,433
Total derivatives	**37,221**	**40,591**	**6,853,269**

1) Some cross currency interest rate swaps (CIRS) and interest rate swaps (IRS) are split into fair value hedges and cash flow hedges, and the nominal amounts are then reported on both lines. The table above based on the relative fair value of these hedging instruments. The total nominal amount of cross currency interest rate swaps amounts at 31 December 2019 to EUR 22,656m.

Derivatives not used for hedge accounting

	Fair value		Total nom.
31 Dec 2019, EURm	Positive	Negative	amount
Interest rate derivatives			
Interest rate swaps	20,270	21,409	3,673,059
FRAs	7	17	1,352,921
Futures and forwards	21	21	128,115
Options	5,484	6,069	405,963
Other	–	–	–
Total	**25,782**	**27,516**	**5,560,058**
- of which internal transactions	258	1,088	107,383
Equity derivatives			
Equity swaps	68	93	6,399
Futures and forwards	1	2	725
Options	221	459	10,325
Total	**290**	**554**	**17,449**
- of which internal transactions	0	–	–
Foreign exchange derivatives			
Currency and interest rate swaps	5,757	8,216	420,943
Currency forwards	4,272	5,518	561,716
Options	96	106	16,939
Total	**10,125**	**13,840**	**999,598**
- of which internal transactions	15	186	2,778
Other derivatives			
Credit default swaps (CDS)	1,011	1,026	140,992
Commodity derivatives	0	0	5,284
Other derivatives	5	20	163
Total	**1,016**	**1,046**	**146,439**
- of which internal transactions	–	–	–
Total derivatives not used for hedge accounting	**37,213**	**42,956**	**6,723,544**
- of which internal transactions	273	1,274	110,161

	Fair value		Total nom.
31 Dec 2018, EURm	Positive	Negative	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
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

P22. Derivatives and hedge accounting, cont.

Risk management

Nordea manages its identified market risks according to the risk management framework and strategy described in the Market risk section in the Note P2 "Risk and Liquidity management".

Nordea classifies its exposures to market risk into either trading (the Trading Book) or non-trading (the Banking Book) portfolios which 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 further described below, per risk and hedge accounting relationship.

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 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 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 principal of the hedged item.

The benchmark rate is determined as a change in present value of 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 paid fixed/received floating interest rate swaps to hedge its fixed rate debt instruments and loans and paid floating/received 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 hedging instrument match the terms of the hedged item (i.e. notional amount, maturity and reset dates).

The table below presents 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

	Interest rate risk	
EURm	31 Dec 2019	31 Dec 2018
Fair value hedges		
Carrying amount of hedged assets[1]	31,248	29,422
- of which accumulated amount of fair value hedge adjustment[3]	70	72
Carrying amount of hedged liabilties[2]	61,624	38,819
- of which accumulated amount of fair value hedge adjustment[3]	1,140	536

1) Presented on the balance sheet rows Cash and balances with central banks, Debt securities eligible for refinancing with central banks, Loans 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 Deposits by credit institutions and central banks, Deposits and borrowing from the public, Debt securities in issue and Fair value changes of portfolio hedge of interest rate risk.
3) Of which all relate 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:

Hedging instruments

	Fair value		
31 Dec 2019, EURm	Positive	Negative	Total nom. amount
Fair value hedges			
Interest rate risk	1,139	235	88,880
- of which internal transactions	7	48	3,544

	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 table below presents the changes in the fair value of the hedged items and changes in the 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

	Interest rate risk	
EURm	2019	2018
Fair value hedges		
Changes in fair value of hedging instruments	595	71
Changes in fair value of hedged items used as basis for recognising hedge ineffectiveness	–580	–78
Hedge ineffectiveness recognised in the income statement[1]	15	–7

1) Recognised on the row Net result from hedge accounting.

P22. Derivatives and hedge accounting, cont.

Cash flow hedges

For Nordea's cash flow hedge accounting relationships, the hedged risk is the variability in future cash flows due to fluctuations in market interest rates. In order to reduce or eliminate variability in future cash flow 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.

There is an economic relationship between the hedged items and the hedging instruments as the terms of the hedging instruments match the terms of the future cash flows (i.e. notional amount and expected payment date).

The tables below provide information about the hedging instruments as well as the outcome of the cash flow hedges addressing interest rate risk including 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.

Hedging instruments

	Fair value		
31 Dec 2019, EURm	Positive	Negative	Total nom. amount
Cash flow hedges			
Interest rate risk	304	0	10,767
- of which internal transactions	–	–	–

	Fair value		
31 Dec 2018, EURm	Positive	Negative	Total nom. amount
Cash flow hedges			
Interest rate risk	10	2	190
- of which internal transactions	–	–	–

The table balow specifies the fair value adjustments arising from continuing hedging relationships, irrespective of whether there has been a change in hedge designation during the year.

Hedge ineffectiveness

	Interest rate risk	
EURm	2019	2018
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, 2]	–	0
Hedging gains or losses recognised in fair value reserve	–	1

1) Recognised on the row Net result from securities at fair value through fair value reserve.

2) When disclosing hedge ineffectiveness, the valuation adjustments (CVA, DVA, FVA) have not been considered.

Cash flow hedge reserve

	Interest rate risk	
EURm	2019	2018[1]
Balance at 1 Jan	1	–
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	–1
- Tax on transfers to the income statement during the year	0	0
Fair value reserve, net of tax	–1	0
Total through cash-flow hedge reserve	–1	0
Balance at 31 Dec	**0**	**1**
- of which relates to continuing hedges for which hedge accounting is applied	0	0
- of which relates to hedging relationships for which hedge accounting is no longer applied	–	0

1) Nordea Bank Abp's financial period started 21 September 2017 but with no business activities until 1 October 2018.

The maturity profile of Nordea Abp's hedging instruments used to interest rate risk (both fair value and cash flow hedge accounting) follows below:

Maturity profile of the nominal amount of hedging instruments

31 Dec 2019, EURm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instrument hedging interest rate risk	–	3,976	13,199	47,620	25,396	90,191
Total	**–**	**3,976**	**13,199**	**47,620**	**25,396**	**90,191**

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

Average rates of instruments hedging foreign exchange risk

The average interest rate on the fixed leg of instruments hedging interest rate risk per 31 December 2019 is 0,92%

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 is limited through a stress loss limit for the CET1-ratio impact from FX fluctuations in a severe but plausible stress scenario. 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, thus exposing Nordea to a foreign exchange risk. Differences in exposures to individual currencies that exist between different transactions predominantly matched by 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 FX translation risk). Fluctuation of the spot FX 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 that have a functional currency other than EUR.

For hedge accounting relationships related to currency risk, the hedged item is 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 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 tables below 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.

Hedging instruments

	Fair value		
31 Dec 2019, EURm	Positive	Negative	Total nom. amount
Cash flow hedges			
Foreign exchange risk	715	120	11,486
Total derivatives used for hedge accounting	**715**	**120**	**11,486**
- of which internal transactions	–	–	–

	Fair value		
31 Dec 2018, EURm	Positive	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	–	–	–

The table below, 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

	Foreign exchange risk	
EURm	2019	2018
Cash flow hedges		
Changes in fair value of hedging instruments	–26	549
Changes in fair value of hedged items used as a basis for recognising hedge ineffectiveness	26	–549
Hedge ineffectiveness recognised in the income statement[1, 2]	–	–
Hedging gains or losses recognised in fair value reserve	–26	549

1) Recognised on the row Net result from securities at fair value through fair value reserve.
2) When disclosing the hedge ineffectiveness, the valuation adjustments CVA, DVA and FVA are not considered.

Cash flow hedge reserve

	Foreign exchange risk	
EURm	2019	2018[1]
Balance at 1 Jan	**–9**	**–**
Adjustments to opening balance	–	–
Cash flow hedges		
Valuation gains/losses during the year	–26	549
Tax on valuation gains/losses during the year	6	–130
Transferred to the income statement during the year	–9	–523
Tax on transfers to the income statement during the year	2	124
Fair value reserve, net of tax	–27	20
Total through cash flow hedge reserve	**–27**	**20**
Balance at 31 Dec	**–36**	**–9**
- of which relates to continuing hedges for which hedge accounting is applied	–36	–9
- of which relates to hedging relationships for which hedge accounting is no longer applied	–	–

1) Nordea Bank Abp's financial period started 21 September 2017 but with no business activities until 1 October 2018

P22. Derivatives and hedge accounting, cont.

Maturity profile of the nominal amount of hedging instruments

31 Dec 2019, EURm	Payable on demand	Maximum 3 months	3–12 months	1–5 years	More than 5 years	Total
Instrument hedging foreign exchange risk	–	108	4,478	13,115	3,243	20,944
Total	**–**	**108**	**4,478**	**13,115**	**3,243**	**20,944**

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**

Average rate of instruments hedging interest rate risk

The average forward exchange rates of instruments hedging foreign exchange risk at 31 December 2019 are presented in the table below.

31 Dec 2019, EUR	NOK	SEK	USD	RUB
Instrument hedging foreign exchange risk	10,08	10,68	1,10	71,53

The IBOR reform

The IBOR transition is a global reform with a significant impact on the financial industry. It will affect a large variety of financial services and thus individuals, companies, and institutions. The transition will influence products, market liquidity, risk management, data and technology infrastructure as well as financials and the balance sheet. IBORs are embedded in a vast range of financial instruments including loans, mortgages, bonds, trading product and derivative contracts.

Current expectations are that some IBORs will be replaced, while others may continue to exist but with a reformed methodology. There is currently uncertainty as to the timing and the methods of transition for the different IBORs and whether some existing benchmarks will continue to be supported. EONIA (for EUR) as well as LIBOR for e.g. USD, GBP and CHF will cease to exist after 2021, while EURIBOR and the Nordic IBORs at the moment are expected to be published beyond 2021 in reformed format. The uncertainties are expected to remain until the relevant contracts are all transitioned into new IBORs.

Nordea has established an IBOR Transition Programme sponsored by the CFO and Group Treasurer, to prepare and coordinate Groupwide efforts to manage operational impacts and financial risks caused by the transition from existing IBOR rates to alternative near risk-free rates. An IBOR Transition Office is responsible for the Group-wide coordination of transition activities and reports to a Steering Committee with participation from senior management in Business Areas and Group Functions to ensure a centralised Nordea strategy and senior management steering and oversight. Business Areas and Group Functions are responsible for, and drive, the execution of changes required for a successful transition to alternative near risk-free rates.

As explained in Note 1, Nordea has early adopted the amendments to IFRS 7 and IAS 39 and is applying the relief for the year-end reporting in the table below, nominal amounts of the hedging derivatives in scope for the relief are disclosed.

Hedging derivatives with floating leg

31 Dec 2019, EURm	Total nominal amount
CIBOR	7,972
STIBOR	18,299
NIBOR	12,788
EURIBOR	54,831
LIBOR	16,098
Other	1,146
Total	**111,134**

P23. Intangible assets

EURm	31 Dec 2019	31 Dec 2018[1]
Intangible assets		
Goodwill	125	194
Computer software	1,535	2,099
Other intangible assets	89	38
Total	**1,749**	**2,331**
Movements in goodwill		
Acquisition value at beginning of year	318	–
Through merger	–	318
Translation differences	–2	–
Acquisition value beginning of year	**316**	**318**
Accumulated amortisation at beginning of year	–124	–
Through merger	–	–107
Amortisation according to plan for the year	–67	–17
Accumulated amortisation at end of year	**–191**	**–124**
Total	**125**	**194**
Movements in computer software		
Acquisition value at beginning of year	2,652	–
Through merger	–	2,505
Acquisitions during the year	422	154
Sales/disposals during the year	–440	–1
Reclassifications	–8	0
Translation differences	–18	–6
Acquisition value at end of year	**2,608**	**2,652**
Accumulated amortisation at beginning of year	–502	–
Through merger	–	–460
Amortisation according to plan for the year	–238	–44
Accumulated amortisation on sales/disposals during the year	198	1
Reclassifications	1	–
Translation differences	7	1
Accumulated amortisation at end of year	**–534**	**–502**
Accumulated impairment charges at beginning of year	–51	–
Through merger	–	–26
Accumulated impairment charges on sales/disposals during the year	242	–2
Impairment charges during the year	–720	–23
Translation differences	–10	
Accumulated impairment charges at end of year	**–539**	**–51**
Total	**1,535**	**2,099**
Movements in other intangible assets		
Acquisition value at beginning of year	228	–
Through merger	–	227
Acquisitions during the year	81	2
Sales/disposals during the year	–1	–
Translation differences	–1	–1
Acquisition value at end of year	**307**	**228**
Accumulated amortisation at beginning of year	–189	–
Through merger	–	–182
Accumulated amortisation on sales/disposals during the year	1	–
Amortisation according to plan for the year	–31	–7
Translation differences	2	0
Accumulated amortisation at end of year	**–217**	**–189**
Accumulated impairment charges at beginning of year	–1	–
Accumulated impairment charges on disposals during the of year	–	0
Impairment charges during the year	–	–1
Accumulated impairment charges at end of year	**–1**	**–1**
Total	**89**	**38**

1) Nordea Bank Abp's financial period started on 21 September 2017 but with no business activities until 1 October 2018.

In the third quarter of 2019, when updating the new Group business plan including new financial targets it was concluded that an impairment of IT systems was required. The expected lifetime of some IT systems is significantly shorter than earlier expected and, consequently, full benefits cannot be realised. In some cases, it has been decided to stop the current development or use of the functionality. As a result, an impairment loss of EUR 709m on IT systems is recognised in the income statement of Nordea Bank Abp. The impairment loss is presented in Other and reconciliation in the segment reporting of Nordea Bank Abp in Note P3.

P24. Properties and equipment

EURm	31 Dec 2019	31 Dec 2018[1]
Properties and equipment	296	338
- of which buildings for own use	3	2
Total	**296**	**338**
Movements in equipment		
Acquisition value at beginning of year	978	–
Acquisitions during the year	45	3
Through merger	0	983
Sales/disposals during the year	–31	–4
Reclassifications	–12	0
Translation differences	–3	–4
Acquisition value at end of year	**977**	**978**
Accumulated depreciation at beginning of year	–639	–
Accumulated depreciation on sales /disposals during the year	17	5
Depreciations according to plan for the year	–61	–23
Through merger	0	–623
Reclassifications	10	0
Translation differences	2	2
Accumulated depreciation at end of year	**–671**	**–639**
Accumulated impairment charges at the beginning of year	–3	–
Accumulated impairment charges on disposals during the of year	–	0
Through merger	–	–3
Impairment charges during the year	–10	0
Accumulated impairment charges at end of year	**–13**	**–3**
Total	**293**	**336**
Movements in land and building		
Acquisition value at beginning of the year	3	0
Acquisitions during the year	3	2
Through merger	0	3
Sales/disposals during the year	0	–2
Reclassifications	–	0
Translation differences	0	–
Acquisition value at end of year	**6**	**3**
Accumulated depreciation at beginning of year	–1	–
Accumulated depreciation on sales/disposals during the year	0	0
Depreciations according to plan for the year	–1	0
Through merger	–	–1
Reclassifications	–	0
Translation differences	–1	–
Accumulated depreciation at end of year	**–3**	**–1**
Accumulated impairment charges at beginning of year	0	0
Impairment charges during the year	–	–
Accumulated impairment charges at end of year	**0**	**–**
Total land and building	**3**	**2**
Total equipment, land and building	**296**	**338**

1) Nordea Bank Abp's financial period started 21 September 2017 but with no business activities until 1 October 2018.

P25. Investment properties

EURm	31 Dec 2019	31 Dec 2018
Carrying amount at beginning of year	4	–
Through merger	–	4
Acquisitions during the year	1	1
Sales/disposals during the year	–4	–1
Fair value adjustments	1	0
Transfers/reclassifications during the year	–	0
Translation differences	0	0
Carrying amount at end of year	**2**	**4**

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.

Amounts regonised in the income statement are insignificant.

P26. Leasing

Nordea Bank Abp as a lessee

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

EURm	31 Dec 2019
2020	184
2021	147
2022	121
2023	100
2024	62
Later years	770
Total	**1,384**

Total sublease payments expected to be received under non-cancellable subleases amounts to EUR 10m.

EURm	31 Dec 2018
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 amounted to EUR 12m.

Nordea operates in leased premise. The premises are mainly divided into head-office contracts, banking branches and other contracts. The head-office contracts in the different Nordic countries generally have a fixed lease term and they are 10–25 years. Usually these contracts have either continuation options or they are automatically continued unless separately terminated at the end of the lease term.

Banking branch contracts do generally either have fixed lease term of 1–10 years or then they are without an end date with the right to terminate. The termination clauses are generally 6–24 months. The main principle is that the premises contracts do not contain purchase options. The company car contracts generally have a fixed lease term of less than 5 years.

P27. Other assets

EURm	31 Dec 2019	31 Dec 2018
Cash items in process of collection	364	144
Claims on securities settlement proceeds	1,282	2,753
Cash/margin receivables related to derivatives	10,014	10,220
Other	1,480	2,564
Total	**13,140**	**15,681**

P28. Prepaid expenses and accrued income

EURm	31 Dec 2019	31 Dec 2018
Accrued interest income	302	222
Other accrued income	260	175
Prepaid expenses	640	714
Total	**1,202**	**1,111**

P29. Deposits by credit institutions and central banks

EURm	31 Dec 2019	31 Dec 2018
Central banks	11,409	16,456
Credit institutions	33,381	34,971
- of which on-demand	7,572	7,878
- of which non-demand	25,810	27,093
Total	**44,790**	**51,427**

P30. Deposits and borrowings from the public

	Carrying amount		On-Demand		Non-Demand	
EURm	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Deposits[1]	172,988	166,372	149,071	144,431	23,917	21,940
Other debts	2,298	4,730	–	–	2,298	4,730
Total	**175,286**	**171,102**	**149,071**	**144,431**	**26,215**	**26,670**

1) Deposits related to individual pension savings (IPS) are also included.

P31. Debt securities in issue

	Carrying amount		Nominal value	
EURm	31 Dec 2019	31 Dec 2018	31 Dec 2019	31 Dec 2018
Certificates of deposit	22,094	29,693	21,970	29,692
Commercial papers	22,192	17,078	22,217	17,110
Bonds	33,445	35,849	33,044	35,699
Other	39	47	39	47
Total	**77,770**	**82,667**	**77,270**	**82,548**
- of which eligible liabilities under Act on the Resolution of Credit Institutions and Investment Firms	2,732	2,440	2,726	2,473

Definitions of Debt securities in issue by instrument type

Bonds are transferable debt securities which normally are issued off an issuance programme. A bond's term can range from about one month to several years. A bond manifests a debt owed by the issuer as borrower to the investor as lender. The investor is normally entitled to a cash payment from the issuer on the maturity date. During the term of the bond there are, normally, coupon payments at fixed intervals but a bond can be issued as a "zero-coupon security" or with other terms as agreed between the issuer and the investor. Bonds are often listed for trading on a stock exchange. There are senior bonds and subordinated bonds. In the event of an issuer's default; the issuer will be required to pay the investors of senior bonds and meet its obligations to all its other creditors in full before it can make any payments on the subordinated bonds. A bond can be issued as secured or unsecured.

Certificates of Deposit ("CD") are transferable debt securities that manifests a debt owed by the issuer to the investor and the investor is entitled to a cash payment from the issuer on the maturity date. CD's are not issued off an issuance programme and are not listed on a stock exchange. The CD's term can range from 1 week to three years or longer. The CD's can be issued with coupon payments or without coupon payments. CD's are issued as unsecured.

Commercial Papers ("CP") are transferable debt securities and issued off an issuance programme. CPs can be issued from overnight to about 1 year. The CP manifests debt owed by the issuer to the investor and the investor is entitled to a cash payment from the issuer on the maturity date. Normally a CP is issued as a "zero-coupon security" with no coupon payments during the term of the CP. Typically CP's are not listed for trading on a stock exchange. A CP is usually issued as unsecured.

P32. Other liabilities

EURm	31 Dec 2019	31 Dec 2018
Liabilities on securities settlement proceeds	817	1,557
Sold, not held, securities	9,111	13,223
Cash items in process of collection	2,362	2,312
Accounts payable	71	67
Cash/margin payables related to derivatives	4,676	4,290
Other	1,057	–192
Total	**18,094**	**21,257**

P33. Accrued expenses and prepaid income

EURm	31 Dec 2019	31 Dec 2018
Accrued interest	8	6
Other accrued expenses	988	1,122
Prepaid income	148	202
Total	**1,144**	**1,330**

P34. Provisions

EURm	31 Dec 2019	31 Dec 2018
Restructuring	317	150
Guarantees/commitments[1]	208	201
Other	120	1
- of which AML-related matters	95	–
Total	**645**	**352**

1) See Note 2 for futher information.

	Restructuring		Other	
EURm	2019	2018	2019	2018
At beginning of year	150	–	2	–
Through merger	–	144	–	4
New provisions made	262	24	119	–1
Provisions utilised	–100	–27	–1	–1
Reversals	0	9	0	0
Reclassifications	7	–	0	–
Translation differences	–2	0	0	0
At end of year	**317**	**150**	**120**	**2**

New provisions for restructuring costs were recognised to EUR 262m (EUR 24m). The restructuring provision is related to the new Group business plan, including new financial targets. The majority of the provision is expected to be used during 2020 but as for any other provision there is uncertainty around timing and amount. The uncertainty is expected to decrease as the plans are being executed. For further information see Board of Directors' report.

Loan loss provisions on off-balance sheet items amount to EUR 208m (EUR 201m). More information on these provisions can be found in Note P2 “Risk and Liquidity management”.

Excluding AML-related matters, other provisions related mainly to maintenance obligations in head office premises.

P35. Retirement benefit obligations

EURm	31 Dec 2019	31 Dec 2018
Retirement benefit assets	172	243
Retirement benefit liabilities	375	349
Net liability(–)/asset(+)	**–203**	**–106**

Nordea Bank Abp sponsors both defined contribution plans (DCP) and defined benefit plans (DBP). 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 or 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 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.

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 2019	Swe	Nor	Fin	Den	UK
Discount rate[2]	1.39%	2.20%	0.60%	0.76%	1.82%
Salary increase	2.75%	2.75%	1.75%	2.25%	–
Inflation	1.75%	1.75%	1.25%	–[3]	2.50%
Mortality	DUS14	FNH-K2013	Gompertz	FSA	S2PMA-L/S2PFA[4]
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%	1.75%	1.25%	–[3]	2.50%
Mortality	DUS14	FNH-K2013	Gompertz	FSA	S2PMA-L/S2PFA[4]
1 Oct 2018	**Swe**	**Nor**	**Fin**	**Den**	**UK**
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 2019 have an impact on the liability calculation by year-end 2019, while the assumptions disclosed for 31 Dec 2018 are used for calculating the pension expense in 2019. The assumptions disclosed for 31 Dec 2018 had an impact on the liability calculation by year-end 2018, while the assumptions disclosed for 1 Oct 2018 were 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 22. 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_projections for 2019 calculations and with CMI_2017 projections for 2018 calculations.

P35. Retirement benefit obligations, cont.

Sensitivities – Impact on Defined Benefit Obligation (DBO) %

	Swe	Nor	Fin	Den	UK
Discount rate – Increase 50bps	–11.0	–8.0	–6.4	–5.1	–9.0
Discount rate – Decrease 50bps	12.8	9.0	7.1	5.5	10.3
Salary increase – Increase 50bps	3.7	0.3	0.4	4.9	–
Salary increase – Decrease 50bps	–2.7	–0.3	–0.4	–4.6	–
Inflation – Increase 50bps	11.0	8.4	5.3	–	1.7
Inflation – Decrease 50bps	–9.8	–8.0	–4.9	–	–1.6
Mortality – Increase 1 year	5.2	3.7	–4.8	6.3	4.8
Mortality – Decrease 1 year	–5.1	–4.9	–4.7	–6.1	–4.6

The sensitivity analyses are prepared by changing one actuarial assumption while keeping the other assumptions unchanged. This is a simplified approach since the actuarial assumptions usually are correlated. However, it 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 analyses include the impact on the liabilities held for future SWT (special wage tax) or SSC (social security contributions) in Sweden and Norway, respectively .

As all pensions in Denmark are salary indexed the inflation has no impact on the DBO in Denmark.

Net retirement benefit liabilities/assets

	Swe	Nor	Fin	Den	UK	Total	Total
EURm	2019	2019	2019	2019	2019	2019	2018
Obligations	1,836	730	765	102	108	3,541	3,275
Plan assets	1,591	667	821	126	133	3,338	3,169
Net liability(–)/asset(+)	**–245**	**–63**	**56**	**24**	**25**	**–203**	**–106**
- of which retirement benefit liabilities	–245	–124	-3	–3	–	–375	–349
- of which retirement benefit assets	–	61	59	27	25	172	243

Movements in the obligation

EURm	Swe	Nor	Fin	Den	UK	Total
Opening balance 1 Jan 2019	1,703	685	700	95	92	3,275
Current service cost	26	3	3	0	0	32
Interest cost	35	19	11	2	2	69
Pensions paid	–65	–35	–39	–6	–4	–149
Past service cost and settlements	2	–7	1	0	0	–4
Remeasurement from changes in demographic assumptions	0	0	0	–1	–1	–2
Remeasurement from changes in financial assumptions	170	60	90	10	14	344
Remeasurement from experience adjustments	–37	–10	–2	2	–1	–48
Translation differences	–6	15	1	0	6	16
Change in provision for SWT/SSC[1]	8	0	–	–	–	8
Closing balance 31 Dec 2019	**1,836**	**730**	**765**	**102**	**108**	**3,541**
- of which relates to the active population	14%	24%	9%	–	–	14%

1) Change in provision for special wage tax (SWT) in Sweden and social security contribution (SSC) in Norway.

P35. Retirement benefit obligations, cont.

Net retirement benefit liabilities/assets, cont.

EURm	Swe	Nor	Fin	Den	UK	Total
Opening balance at 21 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 20 (18) years in Sweden, 15 (14) years in Norway, 14 (12) years in Finland, 11 (11) years in Denmark and 20 (22) 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.

Movements in the fair value of plan assets

EURm	Swe	Nor	Fin	Den	UK	Total
Opening balance at 1 Jan 2019	1,494	640	802	122	111	3,169
Interest income (calculated using the discount rate)	31	18	13	2	3	67
Pensions paid	–	–22	–39	–5	–4	–70
Contributions by employer	–	3	–29	1	–	–25
Remeasurement (actual return less interest income)	82	14	74	6	17	193
Translation differences	–16	14	–	0	6	4
Closing balance 31 Dec 2019	**1,591**	**667**	**821**	**126**	**133**	**3,338**

EURm	Swe	Nor	Fin	Den	UK	Total
Opening balance at 21 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 Jan–Dec 2019 was 7.8%. The year was characterised by strong returns across all asset classes, primarily in equities and spread bonds. At the end of the year the equity exposure in Nordea´s Bank Abp's pension funds/foundations represented 19% (24%) of total assets.

P35. Retirement benefit obligations, cont.

Asset composition in funded schemes, %

%	Swe 2019	Nor 2019	Fin 2019	Den 2019	UK 2019	Total 2019	Total 2018
Bonds	83	68	58	85	84	74	66
- sovereign	43	43	29	53	84	41	36
- covered bonds	23	19	9	32	–	18	18
- corporate bonds	16	6	20	–	–	14	11
- of which issued by Nordea entities	*2*	*4*	–	–	–	*2*	*1*
- of which with quoted market price in an active market	*83*	*68*	*58*	*85*	*84*	*74*	*66*
Equity	16	17	26	15	16	19	24
- domestic	4	4	8	15	5	5	7
- European	4	4	6	–	2	4	6
- US	4	5	6	–	6	5	7
- emerging	4	4	6	–	3	4	5
- Nordea shares	–	–	–	–	–	–	–
- of which with quoted market price in an active market	*16*	*17*	*26*	*15*	*16*	*19*	*24*
Real estate[1]	–	15	15	–	–	6	7
- of which occupied by Nordea	–	–	5	–	–	1	1
Cash and cash equivalents	1	0	1	–	–	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 EUR 3m to its defined benefit plans in 2020.

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 38m (EUR 6m). Total pension costs comprise defined benefit pension costs as well as costs related to defined contribution plans (see specification in Note P9 “Staff costs”).

Recognised in the income statement

Jan–Dec 2019, EURm	Swe	Nor	Fin	Den	UK	Total
Current service cost	26	3	3	–	–	32
Net interest	4	1	–2	0	–1	2
Past service cost and settlements	2	–7	1	–	–	–4
SWT/SSC[2]	8	0	–	–	–	8
Pension cost on defined benefit plans (expense+/income–)	**40**	**–3**	**2**	**0**	**–1**	**38**

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**

P35. Retirement benefit obligations, cont.

Recognised in the fair value reserve in equity

Jan–Dec 2019, EURm	Swe	Nor	Fin	Den	UK	Total
Remeasurement from changes in demographic assumptions	–	–	–	–1	–1	–2
Remeasurement from changes in financial assumptions	170	60	90	10	14	344
Remeasurement from experience adjustments	–37	–10	–2	2	–1	–48
Remeasurement of plan assets (actual return less interest income)	–82	–14	–74	–6	–17	–193
SWT/SSC[2]	11	7	–	–	–	18
Pension cost on defined benefit plans (expense+/income–)	**62**	**43**	**14**	**5**	**–5**	**119**

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	–	–	–	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, but 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.

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 2019 was 2.5% of the employees' wages between 1 and 7.1 times the average base amount according to 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 2019 amounts to EUR 3m. Payments to the plan during 2019 covered 2,500 employees. The premium rate for 2020 will be 2.5% of the employees' wages between 1 and 7.1 times the average base amount according to the Norwegian National Insurance Act. The expected premiums in 2020 amounts to EUR 3m.

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 7m (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 2019 were EUR 0m. Complete information concerning key management personnel is disclosed in Note P9 "Staff costs".

P36. Subordinated liabilities

EURm	31 Dec 2019	31 Dec 2018
Tier 2 subordinated loans	7,380	6,773
Additional Tier 1 subordinated loans	2,409	2,384
Total	**9,789**	**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 274m (EUR 463m).

The key terms of subordinated liabilities are specified below.

31 Dec 2019, EURm

Classification in capital adequacy	Nominal value	Carrying amount	Of which used for capital adequacy	Interest rate (coupon)	Interest Rate%	Currency	Original maturity date	First optional call date
Tier 2 loan	1,000	1,034	47	Fixed	4.50%	EUR	26 Mar 2020	N/A
Tier 2 loan	1,000	1,000	997	Fixed	Fixed 1.00%. until first call date. thereafter fixed 5-year mid swap +1.25%	EUR	7 Sep 2026	7 Sep 2021
Tier 2 loan	750	772	186	Fixed	4.00%	EUR	29 Mar 2021	N/A
Tier 2 loan	750	751	749	Fixed	Fixed 1.88%. until first call date. thereafter fixed 5-year mid swap +1.70%.	EUR	10 Nov 2025	10 Nov 2020
Tier 2 loan	300	300	299	Fixed	Fixed 1.00%. until first call date. thereafter fixed 5-year mid swap +1.30%	EUR	27 Jun 2029	27 Jun 2024
Tier 2 loan	20,000	166	164	Fixed to floating	Fixed USD 3.75%. until first call date. there-after floating 6-month JPY deposit +1.20%	JPY	04 Mar 2040	04 Mar 2035
Tier 2 loan	15,000	123	123	Fixed	1.16%	JPY	06 Oct 2025	N/A
Tier 2 loan	10,000	83	82	Fixed to floating	Fixed USD 3.84%. until first call date. thereafter floating 6-month JPY deposit +1.20%	JPY	12 Oct 2040	12 Oct 2035
Tier 2 loan	10,000	82	82	Fixed to floating	Fixed USD 4.51% to call date. thereafter floating rate equivalent to 6-month JPY Deposit +1.10%	JPY	26 Feb 2034	26 Feb 2029
Tier 2 loan	500	51	51	Floating	Floating 3-month NIBOR +1.40%	NOK	26 Sep 2028	26 Sep 2023
Tier 2 loan	2,300	221	220	Fixed	Fixed 1.935%. until first call date. thereafter fixed 5-year mid swap +1.50%	SEK	17 Sep 2025	17 Sep 2020
Tier 2 loan	1,750	167	167	Floating	Floating 3-month STIBOR +1.40%	SEK	26 Sep 2028	26 Sep 2023
Tier 2 loan	1,700	163	162	Floating	Floating 3-month STIBOR +1.50%	SEK	17 Sep 2025	17 Sep 2020
Tier 2 loan	1,250	1,119	304	Fixed	4.88%	USD	13 May 2021	N/A
Tier 2 loan	1,000	899	484	Fixed	4.25%	USD	21 Sep 2022	N/A
Tier 2 loan	500	450	444	Fixed	Fixed 4.625%. until first call date. thereafter fixed 5-year mid swap +1.69%	USD	13 Sep 2033	13 Sep 2028
Additional Tier 1 loan	1,250	127	127	Floating	Floating 3-month NIBOR +3.10%	NOK	No maturity	12 Mar 2020
Additional Tier 1 loan	2,250	215	215	Floating	Floating 3-month STIBOR +3.10%	SEK	No maturity	12 Mar 2020
Additional Tier 1 loan	1,250	1,121	1,105	Fixed	Fixed 6.625%. until first call date. thereafter fixed 5-year US Treasury +4.11%	USD	No maturity	26 Mar 2026
Additional Tier 1 loan	550	494	489	Fixed	Fixed 5.25%. until first call date. thereafter fixed 5-year mid swap +3.244%	USD	No maturity	13 Sep 2021
Additional Tier 1 loan	500	451	444	Fixed	Fixed 6.125%. until first call date. thereafter fixed 5-year mid swap +3.388%	USD	No maturity	23 Sep 2024

A Tier1 loan which can be converted to shares has been issued during 2019. The nominal value of the loan is USD 1,250m.

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 measurement of financial assets at FVOCI	Defined benefit plans	Changes in own credit risk related to liabilities at fair value option
Balance at 1 Jan 2019	4,050	–154	–15	–9	58	–38	8
Net profit for the year	–	–	–	–	–	–	–
Currency translation differences during the year	–	–1	1	–	–	–	–
Net investments in foreign operations:							
Valuation gains/losses during the year	–	–	6	–	–	–	–
Tax on valuation gains/losses during the year	–	–	1	–	–	–	–
Fair value measurement of financial assets at FVOCI:							
Valuation gains/losses during the year	–	–	–	–	19	–	–
Tax on valuation gains/losses during the year	–	–	–	–	–4	–	–
Transferred to the income statement during the year	–	–	–	–	–35	–	–
Tax on transfers to the income statement during the year	–	–	–	–	7	–	–
Cash flow hedges:							
Valuation gains/losses during the year	–	–	–	–26	–	–	–
Tax on valuation gains/losses during the year	–	–	–	6	–	–	–
Transferred to the income statement during the year	–	–	–	–9	–	–	–
Tax on transfers to the income statement during the year	–	–	–	2	–	–	–
Changes in own credit risk related to liabilities classified as fair value option:							
Valuation gains/losses during the year	–	–	–	–	–	–	–15
Tax on valuation gains/losses during the year	–	–	–	–	–	–	2
Defined benefit plans:							
Remeasurement of defined benefit plans during the year	–	–	–	–	–	–132	–
Tax on remeasurement of defined benefit plans during the year	–	–	–	–	–	31	–
Share-based payments	–	–	–	–	–	–	–
Paid Interest on additional Tier 1 capital	–	–	–	–	–	–	–
Dividend for 2018	–	–	–	–	–	–	–
Disposal/Purchase of own shares[2]	–	–	–	–	–	–	–
Other changes	–	–24	–	–	–	–	–
Balance at 31 Dec 2019	**4,050**	**–179**	**–7**	**–36**	**45**	**–139**	**–5**

1) The share capital amounts to EUR 4,049,951,919, which equals the total number of shares in Nordea Bank Abp. The Nordea share does not have any nominal value. All ordinary shares in Nordea carry voting rights with one vote at General Meetings. Nordea is not entitled to vote for own shares at General Meetings.
The AT1 conversion notes issued in 2019 automatically convert into shares if the CET1 ratio of either the issuer on a solo basis or the Nordea Group on a consolidated basis falls below a specific trigger level. There are no convertible bonds issued by Nordea that give option exercise rights for holders to acquire shares in Nordea. The Annual General Meeting 2019 resolved that Nordea, before the end of the Annual General Meeting 2020, may transfer own shares in the ordinary course of its securities trading business, with deviation from the shareholders' pre-emptive rights, by way of a directed share issuance. The number of own shares to be transferred may not exceed 175,000,000 shares, which corresponds to approximately 4.32 per cent of Nordea shares. For information on share-based incentive programmes see Note P9 "Staff costs" and for information on authorisations held by the Board of Directors see "Authorisations held by the Board of Directors" in the Board of Directiors report.
Nordea had approximately 580,000 registered shareholders in the end of 2019. For further information see "The Nordea share and ratings" in the Board of Directors 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 number of own shares was 10.8 million and the acquisition price was EUR 20.7m. The total holding of own shares related to LTIP was 9.2 million. See more information on own shares in section "Nordea 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
Balance at 1 Jan 2019	**1,080**	**2,762**	**20,990**	**28,732**	**750**	**29,482**
Net profit for the year	–	–	1,438	1,438	–	1,438
Currency translation differences during the year	–	–	13	13	–	13
Net investments in foreign operations:						
Valuation gains/losses during the year	–	–	–	6	–	6
Tax on valuation gains/losses during the year	–	–	–	1	–	1
Fair value measurement of financial assets of FVOCI						
Valuation gains/losses during the year	–	–	–	19	–	19
Tax on valuation gains/losses during the year	–	–	–	–4	–	–4
Transferred to the income statement during the year	–	–	–	–35	–	–35
Tax on transfers to the income statement during the year	–	–	–	7	–	7
Cash flow hedges:						
Valuation gains/losses during the year	–	–	–	–26	–	–26
Tax on valuation gains/losses during the year	–	–	–	6	–	6
Transferred to the income statement during the year	–	–	–	–9	–	–9
Tax on transfers to the income statement during the year	–	–	–	2	–	2
Changes in own credit risk related to liabilities classified as fair value option:						
Valuation gains/losses during the year	–	–	10	–5	–	–5
Tax on valuation gains/losses during the year	–	–	–2	0	–	0
Defined benefit plans:						
Remeasurement of defined benefit plans during the year	–	–	–	–132	–	–132
Tax on remeasurement of defined benefit plans during the year	–	–	–	31	–	31
Share-based payments	–	–	19	19		19
Paid Interest on additional Tier 1 capital	–	–	–26	–26		–26
Dividend for 2018	–	–	–2,788	–2,788	–	–2,788
Disposal/Purchase of own shares[2]	–	–	29	29	–	29
Other changes	–	–	23	–1	–2	–3
Balance at 31 Dec 2019	**1,080**	**2,762**	**19,706**	**27,277**	**748**	**28,025**

1) The share capital amounts to EUR 4,049,951,919, which equals the total number of shares in Nordea Bank Abp. The Nordea share does not have any nominal value. All ordinary shares in Nordea carry voting rights with one vote at General Meetings. Nordea is not entitled to vote for own shares at General Meetings.
The AT1 conversion notes issued in 2019 automatically convert into shares if the CET1 ratio of either the issuer on a solo basis or the Nordea Group on a consolidated basis falls below a specific trigger level. There are no convertible bonds issued by Nordea that give option exercise rights for holders to acquire shares in Nordea. The Annual General Meeting 2019 resolved that Nordea, before the end of the Annual General Meeting 2020, may transfer own shares in the ordinary course of its securities trading business, with deviation from the shareholders' pre-emptive rights, by way of a directed share issuance. The number of own shares to be transferred may not exceed 175,000,000 shares, which corresponds to approximately 4.32 per cent of Nordea shares. For information on share-based incentive programmes see Note P9 "Staff costs" and for information on authorisations held by the Board of Directors see "Authorisations held by the Board of Directors" in the Board of Directors report.
Nordea had approximately 580,000 registered shareholders in the end of 2019. For further information see "The Nordea share and ratings" in the Board of Directors 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 number of own shares was 10.8 million and the acquisition price was EUR 20.7m. The total holding of own shares related to LTIP was 9.2 million. See more information on own shares in section "Nordea shares" below.

3) For more detailed information, see Note P22.

P37. Equity, cont.

	Restricted equity						
			Other restricted reserves				
			Fair value reserve				
EURm	Share capital[1]	Revaluation reserves	Translation of foreign operations	Cash flow hedges[3]	Fair value measurement of financial assets at FVOCI	Defined benefit plans	Changes in own credit risk related to liabilities at fair value option
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 measurement of financial assets at FVOCI							
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	–
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 number of own shares was 15.2 million. The total holding of own shares related to LTIP was 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	Unrestricted equity: Other unrestricted reserves	Unrestricted equity: Retained earnings	Total	Additonal Tier 1 capital holders	Total equity
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 measurement of financial assets at FVOCI						
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
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 number of own shares was 15.2 million. The total holding of own shares related to LTIP was 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]

2019 Month	Quantity	Average, price, EUR	Amount, tEUR
January	3,487,706	7.60	26,501
February	39,285,904	7.96	312,907
March	12,772,686	7.76	99,105
April	3,098,196	7.24	22,424
May	6,787,443	6.79	46,088
June	6,898,312	6.47	44,649
July	10,603,125	6.39	67,705
August	10,642,434	5.64	59,973
September	14,409,721	6.42	92,518
October	9,782,867	6.63	64,882
November	10,592,249	6.62	70,087
December	5,824,278	6.76	39,362
Total	**134,184,921**		**946,201**

Sales[1]

2019 Month	Quantity	Average, price, EUR	Amount, tEUR
January	–7,832,384	7.84	–61,403
February	–35,224,570	7.96	–280,388
March	–7,896,024	7.82	–61,754
April	–5,644,932	7.28	–41,109
May	–4,462,158	6.78	–30,244
June	–9,530,638	6.50	–61,987
July	–13,094,740	6.35	–83,213
August	–10,639,438	5.74	–61,071
September	–16,055,708	6.30	–101,101
October	–11,234,381	6.57	–73,860
November	–10,708,543	6.59	–70,554
December	–5,875,508	6.81	–39,990
Total	**–138,199,024**		**–966,674**

1) Excluding Nordea shares related to securities lending.

Acquisitions[1]

2018 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]

2018 Month	Quantity	Average, price, tEUR	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 trades had an insignificant effect on the shareholding and voting-power in Nordea Bank Abp. At year-end 2019 Nordea Bank Abp held 10.8 (15.2)million own shares (including own shares related to LTIP).

P38. Assets pledged as security for own liabilities

EURm	31 Dec 2019	31 Dec 2018
Assets pledged for own liabilities		
Securities etc[1]	26,114	24,611
Loans to the public	0	10,418
Other assets pledged	9,987	329
Total	**36,101**	**35,358**
The above pledges pertain to the following liabilities		
Deposits by credit institutions	13,839	14,519
Deposits and borrowings from the public	5,569	2,402
Derivatives	4,676	4,290
Other liabilities and commitments	277	304
Total	**24,361**	**21,515**

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 P45 "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.

Nordea Bank Abp has not given any pledges or mortgages on behalf of Nordea's customers.

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 and amounted to EUR 3,919m (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.

Collateral pledged on behalf of subdiaries amounted to EUR 0m (EUR 0m) and on behalf of associated companies to EUR 0m (EUR 0m).

Nordea Bank Abp has not pledged any assets or other collateral on behalf of any key manangement personnel or auditors.

P40. Contingent liabilities

EURm	31 Dec 2019	of which on behalf of group companies	31 Dec 2018	of which on behalf of group companies
Guarantees				
– Loan guarantees	33,758	31,009	35,948	33,677
– Other guarantees	14,776	967	14,079	181
Documentary credits	1,119	2	1,403	0
Other contingent liabilities	1	–	3	–
Total	**49,654**	**31,978**	**51,433**	**33,858**
– Of which on behalf of associated companies	–		1	

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 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 P9 "Staff costs".

Nordea Bank Abp has indemnified the members of the GLT against legal expenses incurred in relation to legal advice in defending or disputing certain claims or investigations from third parties, excluding crimes or actions made with intent or gross negligence. For each GLT member, the indemnity is capped to an amount of EUR 37.5m in aggregate, unless the Board of Directors decides otherwise on a case-by-case basis. The indemnity is secondary to any other insurance coverage.

Claims in civil lawsuits and possible fines

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, as well as possible fines due to e.g. weak anti-money laundering processes and procedures in the past. Presently, none of the current disputes are considered likely to have any significant adverse effect on Nordea Bank Abp or its financial position. As previously stated, Nordea expects to be fined in Denmark for weak AML processes and procedures in the past and has made aprovision for ongoing AML-related matters. Nordea cannotexclude the possibility of fines, which could impact the bank'sfinancial performance. In addition, some of these proceedings could lead to litigation. See also Note P2 "Risk and Liquidity management" and Note P34 "Provisions".

P41. Commitments

EURm	31 Dec 2019	of which to group companies	31 Dec 2018	of which to group companies
Credit commitments	40,692	5,495	44,628	11,929
Unutilised overdraft facilities	34,857	9,364	35,474	9,403
Total	**75,549**	**14,859**	**80,102**	**21,332**
- of which to associated companies	21		241	

Reverse repurchase agreements are recognised on and derecognised from the balance sheet on settlement date. Nordea has as per 31 December 2019 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 2019. 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 25, about derivatives, see Note P22 "Derivates and Hedge accounting" and about reverse repurchase agreements, see Note P45 "Transferred assets and obtained collaterals".

Nordea Bank Abp has in addition entered into an agreement to acquire SG Finans for an agreed purchase price of EUR 575m, contingent on customary regulatory approvals. See Board of Directors' report for additional details.

P42. Classification of financial instruments

Assets

		Financial assets at fair value through profit or loss (FVPL)		Fair value through other comprehensive income (FVOCI)		
31 Dec 2019, EURm	Amortised cost (AC)	Mandatorily	Derivatives used for hedging	Mandatorily	Non-financial assets	Total
Cash and balances with central banks	33,483	–	–	–	–	33,483
Loans to credit institutions	74,851	6,110	0	–	–	80,961
Loans to the public	120,687	23,390	–	–	–	144,077
Interest-bearing securities[1]	238	36,962	0	28,713	–	65,913
Shares and parcitipations	–	5,490	0	–	0	5,490
Investments in associated undertakings and joint ventures	–	–	–	–	87	87
Investments in group undertakings	–	–	–	–	14,190	14,190
Derivatives	–	37,213	2,158	0	–	39,371
Fair value changes of the hedged items in portfolio hedge of interest rate risk	71	–	–	–	–	71
Intangible assets	–	–	–	–	1,749	1,749
Properties and equipment	–	–	–	–	296	296
Investment properties	–	–	–	–	2	2
Deferred tax assets	–	–	–	–	453	453
Current tax assets	–	–	–	–	322	322
Retirement benefit assets	–	–	–	–	172	172
Other assets	936	10,795	–	–	1,410	13,140
Prepaid expenses and accrued income	942	0	0	0	260	1,202
Total	**231,208**	**119,960**	**2,158**	**28,713**	**18,941**	**400,979**

P42. Classification of financial instruments, cont.

Liabilities

		Fair value through profit and loss				
31 Dec 2019, EURm	**Amortised cost (AC)**	**Mandatorily**	**Designated at fair value through profit or loss**	**Derivatives used for hedging**	**Non-financial liabilities**	**Total**
Deposits by credit institutions and central banks	35,817	8,974	0	0	–	44,790
Deposits and borrowings from the public	166,210	4,698	4,378	0	0	175,286
Debt securities in issue	74,989	0	2,781	0	0	77,770
Derivatives	–	42,956	0	355	–	43,311
Fair value changes of the hedged items in portfolio hedge of interest rate risk	1,140	–	–	–	0	1,140
Current tax liabilities	–	–	–	–	596	596
Other liabilities	3,263	14,154	0	–	677	18,094
Accrued expenses and prepaid income	156	–	–	–	988	1,144
Deferred tax liabilities	–	–	–	–	14	14
Provisions	–	–	–	–	645	645
Retirement benefit liabilities	–	–	–	–	375	375
Subordinated liabilities	9,789	–	–	–	0	9,789
Total	**291,364**	**70,782**	**7,158**	**355**	**3,294**	**372,954**

1) Including the balance sheet line item "Debt securities eligible for refinancing with central banks" amounting to EUR 61,218m.

Assets

		Financial assets at fair value through profit or loss (FVPL)		Fair value through other comprehensive income (FVOCI)		
31 Dec 2018, EURm	**Amortised cost (AC)**	**Mandatorily**	**Derivatives used for hedging**	**Mandatorily**	**Non-financial assets**	**Total**
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[1]	250	42,205	–	32,112	–	74,567
Shares and parcipitations	–	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**

P42. Classification of financial instruments, cont.

Liabilities

31 Dec 2018, EURm	Amortised cost (AC)	Fair value through profit and loss: Mandatorily	Fair value through profit and loss: Designated at fair value through profit or loss	Derivatives used for hedging	Non-financial liabilities	Total
Deposits by credit institutions and central banks	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**

1) Including the balance sheet line item "Debt securities eligible for refinancing with central banks" amounting to EUR 72,677m.

Financial liabilities designated at fair value through profit or loss

31 Dec 2019, EURm	Liabilities where changes in credit risk is presented in fair value reserve	Liabilites where changes in credit risk is presented in profit or loss	Total
Carrying amount per end of the year	2,781	4,378	7,158
Amount to be paid at maturity[1]	2,781	4,378	7,158
Changes in fair value due to changes in own credit risk, during the year	-15	–	-15
Changes in fair value due to changes in own credit risk, accumulated	-5	–	-5

31 Dec 2018, EURm	Liabilities where changes in credit risk is presented in fair value reserve	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	10	–	10
Changes in fair value due to changes in own credit risk, accumulated	10	–	10

Financial liabilities designated at fair value through profit or loss per 31 December 2019 consist of issued structured bonds in Markets operation, EUR 2,781m (EUR 3,204m) and deposits linked to the investment return of separate assets, EUR 4,378m (EUR 3,964m). For issued structured bonds in Markets, changes in fair value due to changes in own credit risk is recognised in fair value reserve 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.

P43. Assets and liabilities at fair value

Fair value of financial assets and liabilities

EURm	31 Dec 2019		31 Dec 2018	
Financial assets	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Cash and balances with central banks	33,483	33,483	39,562	39,562
Loans[1]	225,109	224,209	219,263	220,214
Interest-bearing securities[2]	65,913	65,913	74,567	74,567
Shares and participations	5,490	5,490	4,813	4,813
Derivatives	39,371	39,371	37,221	37,221
Other assets	12,673	12,673	14,175	14,175
Total	**382,038**	**381,139**	**389,601**	**390,552**

EURm	31 Dec 2019		31 Dec 2018	
Financial liabilities	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Deposits by credit institutions and central banks	44,790	44,790	51,427	51,427
Deposits and borrowings from the public	176,426	176,714	171,638	171,960
Debt securities in issue	77,770	77,770	82,667	82,667
Derivatives	43,311	43,311	40,591	40,591
Other liabilities	17,573	17,573	19,623	19,623
Subordinated liabilities	9,789	9,789	9,157	9,157
Total	**369,659**	**369,947**	**375,103**	**375,423**

1) Comprises of the balance sheet line items "Loans to credit institutions", "Loans to the public" and "Fair value changes of the hedged items in portfolio hedge of interest rate risk".
2) Including the balance sheet line item "Debt securities eligible for refinancing with central banks" amounting to EUR 61,218m (EUR 72,677m).

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.

Assets and liabilities held at fair value on the balance sheet

Categorisation into the fair value hierarchy

31 Dec 2019, 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[2]	–	29,499	–	29,499
Interest-bearing securities[3, 4]	20,152	45,340	184	65,675
Shares and participations	4,318	3	1,169	5,490
Derivatives	37	37,970	1,363	39,371
Other assets	5	10,791	0	10,796
Total	**24,512**	**123,603**	**2,716**	**150,831**
Liabilities at fair value on the balance sheet[1]				
Deposits by credit institutions	0	8,974	–	8,974
Deposits and borrowings from the public	–	9,076	–	9,076
Debt securities in issue	–	512	2,269	2,781
Derivatives	59	42,026	1,226	43,311
Other liabilities	3,587	10,566	2	14,154
Total	**3,646**	**71,153**	**3,496**	**78,295**

1) All items are measured at fair value on a recurring basis at the end of each reporting period.
2) Including the balance sheet line items "Loans to credit institutions", "Loans to the public" and "Fair value changes of the hedged items in portfolio hedge of interest rate risk".
3) Of which EUR 17,570m (EUR 13,870m) relates to financial instruments pledged as collateral.
4) Including the balance sheet line item "Debt securities eligible for refinancing with central banks" amounting to EUR 61,218 m (EUR 72,677m).

P43. Assets and liabilities at fair value, cont.

Categorisation into the fair value hierarchy, cont.

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[2]	–	24,485	–	24,485
Interest-bearing securities[3, 4]	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) Including the balance sheet line items "Loans to credit institutions", "Loans to the public" and "Fair value changes of the hedged items in portfolio hedge of interest rate risk".
3) Of which EUR 17,570m (EUR 13,870m) relates to financial instruments pledged as collateral.
4) Including the balance sheet line item "Debt securities eligible for refinancing with central banks" amounting to EUR 61,218 m (EUR 72,677m).

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 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 ongoing 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 has 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. The sensitivity for each instrument towards unobservable parameters is measured for each instrument. 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 is 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). If the impact from unobservable parameters on the valuation of the bond is significant the bond is categorised as Level 3 in the fair value hierarchy.

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

P43. Assets and liabilities at fair value, cont.

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.

Fair value of financial assets and liabilities is 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 2019 changed the principle for calculating the impact of funding costs and funding benefits on the valuation of uncollateralised and imperfectly collateralised derivatives (FFVA) in order to address an identified double counting versus the CVA.

Transfers between Level 1 and 2

During the year, Nordea Bank Abp transferred interest-bearing securities (including such financial instruments pledged as collateral) of EUR 4,197m (EUR 5,954m) from Level 1 to Level 2 and EUR 701m (EUR 2,799m) from Level 2 to Level 1 of the fair value hierarchy. Nordea has transferred derivative liabilities EUR 3m from Level 2 to Level 1. In addition Nordea has also transferred other liabilities EUR 1,426m from Level 1 to Level 2 and EUR 1m 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

		Fair value gains/losses recognised in the income statement and fair value reserve during the year									
31 Dec 2019, EURm	Opening balance at 1 Jan 2019	Realised	Unrealised	Purchases/ Issues	Sales	Settle-ments	Issues	Transfers into level 3	Transfers out of level 3	Translation differences	31 Dec 2019
Interest-bearing securities	324	–1	0	30	–179	1	–	8	–	0	184
Shares and participations	775	80	78	322	–199	0	–	94	–	18	1,169
Derivatives (net)	–8	–121	153	0	0	121	–	0	–7	0	138
Other assets	28	–	0	–	–	–28	–	–	–	0	0
Debt securities in issue	2,627	46	–232	–	–	–634	461	–	–	–	2,269
Other liabilities	15	–	0	0	–14	–	–	–	–	–	2

			Fair value gains/losses recognised in the income statement and fair value reserve during the year									
31 Dec 2018, EURm	Opening balance at 21 Sep 2017	Through merger	Realised	Unrealised	Purchases /Issues	Sales	Settle-ments	Issues	Transfers into level 3	Transfers out of level 3	Translation differences	31 Dec 2018
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 income statement during the year are included in "Net result from securities trading and foreign exchange dealing" (see Note P6). 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 cor-

P43. Assets and liabilities at fair value, cont.

nerstone 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 a 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 Chief Risk Officer and the Board Audit Committee.

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

31 Dec 2019, EURm	Fair value	Valuation techniques	Unobservable input	Range of fair value
Interest-bearing securities				
Credit institutions[1]	180	Discounted cash flows	Credit spread	–18/18
Corporates	4	Discounted cash flows	Credit spread	–0/0
Total	**184**			
Shares including participating interest in other companies				
Unlisted shares	391	Net asset value[2]		–24/24
Private equity funds	344	Net asset value[2]		–34/34
Hedge funds	5	Net asset value[2]		–0/0
Credit Funds	254	Net asset value[2]		–25/25
Other funds	174	Net asset value[2]		–17/17
Other	1	–		–0/0
Total	**1,169**			
Derivatives				
Interest rate derivatives	196	Option model	Correlations, Volatilities	–31/35
Equity derivatives	23	Option model	Correlations, Volatilities, Dividend	–9/6
Foreign exchange derivatives	–16	Option model	Correlations, Volatilities, Recovery rates	–0/0
Credit derivatives	–69	Credit derivative model	Correlations, Volatilities	–24/26
Other	4	Option model	Correlations, Volatilities	–0/0
Total	**138**			
Other assets				
Credit institutions	0	–	Credit spread	–0/0
Total	**0**			
Debt securities in issue				
Issued structured bonds	2,269	Credit derivative model	Correlation, Volatilities, Recovery rates	–11/11
Total	**2,269**			
Other liabilities	2	–		–0/0
Total	**2**			

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 asset 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 of 5% to 100% compared to the values received from suppliers/custodians.

P43. Assets and liabilities at fair value, cont.

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 of 5% to 100% compared to the values received from suppliers/custodians.

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

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

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

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

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 the transaction price not being established in an active market. If there are significant unobservable inputs used in the valuation technique

P43. 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

	2019	2018[1]
Amount at beginning of year	81	–
Through merger	–	58
Deferred profit/loss on new transactions	85	62
Recognised in the income statement during the year	–41	–39
Amount at end of year	**125**	**81**

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

EURm	31 Dec 2019		31 Dec 2018		
Assets not held at fair value on the balance sheet	Carrying amount	Fair value	Carrying amount	Fair value	Level in fair value hierarchy
Cash and balances with central banks	33,483	33,483	39,562	39,562	3
Loans	195,609	194,737	194,777	195,728	3
Interest-bearing securities	238	238	250	250	2
Other assets	936	936	751	751	3
Prepaid expenses and accrued income	942	942	936	936	3
Total	**231,208**	**230,336**	**236,275**	**237,227**	
Liabilities not held at fair value on the balance sheet					
Deposits and debt instruments	278,156	278,444	283,553	283,875	3
Other liabilities	3,263	3,263	858	858	3
Subordinated debt	9,789	9,789	9,157	9,157	3
Accrued expenses and prepaid income	156	156	209	209	3
Total	**291,364**	**291,652**	**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 credit institutions" and "Loans to the public" has been estimated by discounting the expected future cash flows with an assumed customer interest rate that would have been used on the market if the loans had been issued at the time of the measurement. The assumed customer interest rate is calculated as the benchmark interest rate plus the average margin on new lending in Personal Banking, Business Banking and Large Corporates and Institutions, 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 and central banks", "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 are based on changes in relevant interest rates compared with corresponding nominal interest rate in the portfolios. The fair value changes in the credit risk are 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 central banks" and "Deposits and borrowing from the public" the changes in Nordea´s own credit risk related to these items are 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.

P44. Assets and liabilities in EUR and other currencies

31 Dec 2019, EURm	EUR	Foreign currency	Total	of which group undertakings	of which associated undertakings
Loans to credit institutions	44,013	70,431	114,444	63,966	0
Loans to the public	46,744	97,333	144,077	4,513	95
Interest-bearing securities[1]	7,737	58,176	65,913	3,535	0
Derivatives	21,609	17,762	39,371	280	3
Other assets	27,596	9,578	37,174	1,971	64
Total	**147,699**	**253,280**	**400,979**	**74,266**	**162**
Deposits by credit institutions and central banks	14,731	30,059	44,790	12,550	0
Deposits and borrowings from the public	57,032	118,254	175,286	4,454	8
Debt securities in issue	25,666	52,104	77,770	215	0
Derivatives	23,611	19,700	43,311	1,322	8
Other liabilities	17,667	14,130	31,797	110	0
Total	**138,707**	**234,247**	**372,954**	**18,651**	**16**

31 Dec 2018, EURm	EUR	Foreign currency	Total	of which group undertakings	of which associated undertakings
Loans to credit institutions	79,428	24,906	104,334	47,190	1,856
Loans to the public	19,863	134,556	154,419	3,874	0
Interest-bearing securities[1]	7,421	67,146	74,567	3,076	0
Derivatives	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**
Deposits by credit institutions and central banks	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
Derivatives	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**

1) Including Debt securities eligible for refinancing with central banks of EUR 61,218m (EUR 72,677).

P45. Transferred assets and obtained collaterals

Transferred assets that are not derecognised in their entirety and associated liabilities

Assets are considered to be transferred from Nordea if Nordea either transfer the contractual right to receive the cash flows from the asset or retain that right but has a contractual obligation to pay the cash flows to one or more entities.

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.

EURm	31 Dec 2019	31 Dec 2018
Repurchase agreements[1]		
Debt securities eligible for refinancing with central banks	1,704	3,430
Interest-bearing securities	15,866	10,439
Total	17,570	13,869

1) In repurchase transactions and in securities lending transactions, non-cash assets are transferred as collateral. The counterpart receiving the collateral has the right to sell or repledge the assets.

Liabilities associated with the assets

EURm	31 Dec 2019	31 Dec 2018
Repurchase agreements		
Deposits by credit institutions and central banks	1,704	3,427
Deposits and borrowings from the public	12,492	8,540
Total	14,196	11,967
Net	3,374	1,902

P45. 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 2019	31 Dec 2018
Reverse repurchase agreements		
Received collaterals which can be repledged or sold	36,218	35,515
- of which repledged or sold	15,791	19,662
Securities borrowing agreements		
Received collaterals which can be repledged or sold	5,680	5,648
- of which repledged or sold	2,612	2,980
Total	**41,898**	**41,163**

EURm	31 Dec 2019	31 Dec 2018
Receivables related to reverse repurchase agreements		
Loans to credit institutions	10,038	8,866
Loans to the public	19,055	16,711
Total	**29,093**	**25,577**

P46. Maturity analysis for assets and liabilities

31 Dec 2019, EURm	Under 3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for refinancing with central banks	2,726	9,857	40,086	6,462	2,087	61,218
Loans to credit institutions	55,318	11,978	46,405	743	0	114,444
Loans to the public	46,820	14,243	53,987	11,850	17,177	144,077
Interest-bearing securities	466	497	2,425	447	860	4,695
Derivatives	4,460	2,652	6,519	7,847	17,893	39,371
Other assets	19,237	39	3,062	31	14,805	37,174
Total	**129,027**	**39,266**	**152,484**	**27,380**	**52,822**	**400,979**
Deposits by credit institutions and central banks	43,572	521	137	560	0	44,790
Deposits and borrowings from the public	163,491	2,505	4,828	1,085	3,377	175,286
Debt securities in issue	23,921	27,789	20,399	5,510	151	77,770
Subordinated liabilities	1,377	1,135	5,251	1,780	246	9,789
Derivatives	6,000	3,017	10,654	7,611	16,029	43,311
Other liabilities	20,935	233	440	25	375	22,008
Total	**259,296**	**35,200**	**41,709**	**16,571**	**20,178**	**372,954**

P46. Maturity analysis for assets and liabilities, cont.

31 Dec 2018, EURm	Under 3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Debt securities eligible for refinancing with central banks	4,272	11,804	50,345	4,247	2,009	72,677
Loans to credit institutions	62,148	9,879	31,538	718	51	104,334
Loans 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	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**
Deposits by credit institutions and central banks	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
Derivatives	4,441	3,802	31,830	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**

P47. Related-party transactions

The information below is presented from Nordea Bank Abp's perspective, meaning that the information shows the effect from related party transactions on Nordea Bank Abp's figures. For more information on definitions, see Note P1 "Accounting policies" section 27.

	31 Dec 2019			31 Dec 2018		
EURm	Group undertakings	Associated undertakings and joint ventures	Other related parties[2]	Group undertakings	Associated undertakings and joint ventures	Other related parties[2]
Assets						
Debt securities eligible for refinancing with central banks	3,463	–	41	3,007	–	98
Loans to credit institutions	63,966	–	–	47,190	1,876	16
Loans to the public	4,513	95	4	3,874	136	4
Interest-bearing securities	72	–	50	69	57	0
Shares and participations	–	–	4	–	–	4
Investments in associated undertakings and joint ventures	–	87	–	–	1,049	–
Investments in group undertakings	14,190	–	–	12,175	–	–
Derivatives	280	3	51	278	149	116
Other assets	1,354	64	3	1,981	127	7
Prepaid expenses and accrued income	617	–	0	522	0	–
Total assets	**88,455**	**249**	**153**	**69,096**	**3,394**	**245**

P47. Related-party transaction, cont.

EURm	31 Dec 2019 Group undertakings	31 Dec 2019 Associated undertakings and joint ventures	31 Dec 2019 Other related parties[2]	31 Dec 2018 Group undertakings	31 Dec 2018 Associated undertakings and joint ventures	31 Dec 2018 Other related parties[2]
Deposits by credit institutions and central banks	12,550	0	495	9,065	101	697
Deposits and borrowings from the public	4,454	8	29	2,904	21	63
Debt securities in issue	215	–	–	223	25	–
Derivatives	1,322	8	10	1,144	188	19
Other liabilities	71	–	1	988	0	1
Accrued expenses and deferred income	39	–	–	24	0	–
Provisions	0	0	–	0	0	–
Total liabilities	**18,651**	**16**	**535**	**14,348**	**335**	**780**
Off balance sheet items[1]	**267,922**	**336**	**1,284**	**155,821**	**19,594**	**4,638**

EURm	Jan-Dec 2019 Group undertakings	Jan-Dec 2019 Associated undertakings and joint ventures	Jan-Dec 2019 Other related parties[2]	Oct-Dec 2018 Group undertakings	Oct-Dec 2018 Associated undertakings and joint ventures	Oct-Dec 2018 Other related parties[2]
Income statement						
Interest income	395	2	2	29	2	3
Interest expense	–433	–1	0	–133	0	0
Net fee and commission income	523	2	0	131	1	0
Net result from items at fair value	–58	8	–12	–164	3	51
Other operating income	351	6	0	83	2	0
Total operating expenses	–71	0	–	–21	0	–
Profit before loan losses	**707**	**17**	**–10**	**–75**	**8**	**54**

1) Including nominal values on derivatives.

2) Shareholders with significant influence and close family members to key management personnel in Nordea Bank Abp as well as companies controlled by key management personnel or by close family members to key management personnel in Nordea Bank Abp are considered to be related parties to Nordea Bank Abp. This group of related parties includes Sampo Plc, which has a significant influence over Nordea Bank Abp, and the subsidiaries of Sampo Plc. Liabilities to Sampo Plc and its subsidiaries comprises mainly of deposits and long-term investments in bonds issued by Nordea. The transactions with Sampo Plc and its subsidiaries includes also several on going derivative contracts. Other related parties includes Nordea's pension foundations.

All transactions with related parties are made on an arm's length basis, apart from loans granted to employees as well as certain other commitments to key management personnel, see Note P9 "Staff costs" and Note P40 "Contingent liabilities".

Key management personnel

Compensation and loans to key management personnel as well as certain other commitments to key management personnel are disclosed in Note P9 "Staff costs" and Note P40 "Contingent liabilities".

P48. Customer assets under management

EURm	31 Dec 2019	31 Dec 2018
Asset management	96,345	84,468
Custody assets	711,134	685,255
Total	**807,479**	**769,723**

Customers' Long term savings accounts (PS-accounts) were minor amounting to EUR 4m (EUR 4m) as at 31 December 2019.

Total of customers PS investments are EUR 60m (EUR 47m).

Signing

Board of Directors' proposal for the distribution of profits

On 31 December 2019, Nordea Bank Abp's distributable earnings, including profit for the financial year, were EUR 18,166,606,378.45 and the unrestricted equity reserve was EUR 4,590,425,994.62. The Board of Directors proposes to the Annual General Meeting of Nordea Bank Abp to be held on 25 March 2020 that a dividend of EUR 0.40 per share be paid based on the balance sheet to be adopted for the financial year ending 31 December 2019.

The Company's number of shares is 4,049,951,919. The total dividend payment for 2019, excluding dividend for treasury shares, would then be EUR 1,615,656,843.60* and it would be paid from retained earnings. After the dividend pay-out, EUR 16,550,949,534.85* is to be carried forward as distributable retained earnings.

No material changes have taken place in the financial position of the Company since the end of the financial period and the proposed dividend does not compromise the Company's solvency.

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 statements are available at Aleksis Kiven katu 7, 00500 Helsinki and on Nordea's website at www.nordea.com.

Signatures to the Financial Statements and the Board of Directors report

Helsinki, 20 February 2020

Torbjörn Magnusson
Chair

Kari Jordan *Vice Chair*	Dorrit Groth Brandt *Board member*[1]	Pernille Erenbjerg *Board member*
Nigel Hinshelwood *Board member*	Petra van Hoeken *Board member*	Robin Lawther *Board member*
John Maltby *Board member*	Gerhard Olsson *Board member*[1]	Hans Christian Riise *Board member*[1]
Sarah Russell *Board member*	Birger Steen *Board member*	Maria Varsellona *Board member*

Frank Vang-Jensen
President and Group CEO

Auditor's note

A report on the audit has been issued today.

Helsinki, 26 February 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant (KHT)

1) Employee representative.

* The total amount of the dividend payment and the amount carried forward as distributable retained earnings after the dividend pay-out, will be adjusted based on the amount of treasury shares held by Nordea Bank Abp at the record date for the dividend payment.

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 2019. 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.

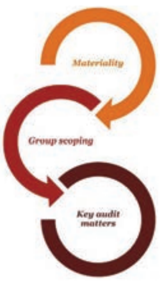
Independence

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 G9 Other expenses/Auditors' fees to the consolidated financial statements.

Our Audit Approach

Overview



- Overall group materiality: € 200 million, which represents 0,65 % of equity.

- The group audit scope encompassed all significant group companies, as well a number of smaller group companies in Nordic countries, 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	0,65 % of equity
Rationale for the materiality benchmark applied	We chose equity as the benchmark because, in our view, it is the benchmark against which the capital resources of the bank are most commonly measured by users and is a generally accepted benchmark. We chose 0,65% 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 G11 – Net loan losses and Note G14 – Loans and impairment to the consolidated financial statements. A high level of judgement is involved in determining the appropriate impairment loss to be recognised. For individually assessed loans, judgement is involved in determining whether a loan has a loss event and in assessing the loan loss amount. Expected credit losses (ECL) 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. Nordea 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. Nordea uses adjustments to the model-driven ECL results to address impairment model limitations and market trends. This is also a key audit matter 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. We obtained an understanding of the loan origination process, credit risk management and the impairment allowances for loans and advances to customers. We had a special focus on ECL model updates and the credit risk development for large customers. Based on risk, we selected individual loans and performed detailed credit file reviews and assessed its credit risk. For ECL models, we involved our modelling specialists to assess the methodology, challenge the underlying assumptions and to independently reperform the calculation for a sample of loans. We evaluated adjustments to the model driven ECL and reviewed that governance procedures have been performed. We assessed the disclosures related to impairment of loans.
Valuation of financial instruments held at fair value	
Refer to the Note G1 - Accounting policies (Critical judgements and estimation uncertainty), Note G19 – Derivatives and Hedge accounting, Note G40 – Classification of financial instruments and Note G41 – 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 unobservable inputs respectively, 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 matter 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 G29 – Liabilities to policyholders to the consolidated financial statements. Technical provisions involve 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 matter 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
Our appointment represents a total period of uninterrupted engagement of two financial years.

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 2020

PricewaterhouseCoopers Oy
Authorised Public Accountants

Juha Wahlroos
Authorised Public Accountant (KHT)

Board of Directors

Torbjörn Magnusson, *Chair*

MSc and Lis Eng.
Board member since 2018[1] and Chair since 2019
Born 1963
Nationality: Swedish
Other assignments: Group CEO and President of Sampo Group since 1 January 2020
Managing Director and Member of Group Executive Committee, Sampo Plc
Board Chairman of If P&C Insurance Holding Ltd (publ)

Previous positions:

2002–2019	President and CEO, If P&C Insurance Holding Ltd (publ)
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: 13,984.[2]

Pernille Erenbjerg

MSc (Business Economics and Auditing)
Board member since 2017[1]
Born 1967
Nationality: Danish
Other assignments: Deputy Chair of Millicom International Cellular SA
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
2003–2010	Various management positions, TDC A/S
2002–2003	Partner, Deloitte Touche Tohmatsu
1987–2002	Auditor, Arthur Andersen

Shareholding in Nordea: 0.[2]

Nigel Hinshelwood

HCIMA (Management)
Board member since 2018[1]
Born 1966
Nationality: British
Other assignments: Franchise Board member of Lloyd's of London
Board member of Lloyds Bank plc
Board member of 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	Group Head of Programme Management and Business Transformation, HSBC Group
2003–2005	Vice President & General Manager, Head of Global Banking and Insurance Services, Asia Pacific, Unisys Corporation
2000–2003	Chief Executive Officer, South East Asia & Board Member for Asia Pacific, Capgemini
1997–2000	Partner, Ernst & Young
1996–1997	National Sales Director Australia, Sequent Computer Systems
1990–1996	Chief Operating Officer Asia Pacific and Head of Sales and Marketing, Policy Management Systems Corporation

Shareholding in Nordea: 0.[2]

Kari Jordan, *Vice Chair*

MSc (Economics)
Board member and Vice Chair since 2019[1]
Born 1956
Nationality: Finnish
Other assignments: Board Chairman of Outokumpu Oyj
Board member of Nokian Tyres Plc
Board member of several non-profit organisations, including the Finnish Business and Policy Forum EVA/ETLA

Previous positions:

2006–2018	President and CEO, Metsä Group, former Metsäliitto Group
2004–2017	President and CEO Metsäliitto Cooperative
1998–2004	Various executive management positions within Nordea Group
1995–2000	Various executive management positions within Merita Bank Plc
1994–1995	Executive Vice President, Kansallis-Osake-Pankki
1987–1994	Member of the Board of Management, OKOBANK
1986–1987	Vice President, Citicorp Investment Bank Limited
1981–1985	Various positions within Citibank Plc

Shareholding in Nordea: 100,000.[2]

Petra van Hoeken

Master in Civil Law
Board member since 2019[1]
Born 1961
Nationality: Dutch
Other assignments: Chief Risk Officer of Intertrust Group
Board member of Oranje Fonds
Board member of Nederlandse Waterschapsbank NV

Previous positions:

2018–2019	Board member, De Lage Landen, DLL
2016–2019	Board member, Utrecht-America Holdings, Inc
2016–2019	Chief Risk Officer, Coöperatieve Rabobank U.A.
2012–2016	Chief Risk Officer, NIBC Bank NV
2008–2012	Chief Risk Officer EMEA, The Royal Bank of Scotland Plc
1986–2008	Various management and other positions, ABN Amro Bank NV

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
Other assignments: Board member of Oras Invest Ltd, Ashurst LLP, and M&G Plc
Board member of UK Government Investments

Previous positions:

2007–2011	Head, Nordics Investment Bank, UK, J.P. Morgan
2005–2007	Head, Mergers & Acquisitions Execution, European Financial Institutions, UK, J.P. Morgan
2003–2005	Head, Commercial Banking Group, UK, J.P. Morgan
1994–2005	Managing Director, Financial Institutions Investment Banking, UK, J.P. Morgan
1990–1993	Vice President, Mergers & Acquisitions, UK, J.P. Morgan
1985–1990	International Capital Markets, USA, J.P. Morgan

Shareholding in Nordea: 50,000.[2]

John Maltby

BSc Honours (Engineering Science)
Board member since 2019[1]
Born 1962
Nationality: British
Other assignments: Chairman of Allica, and Pepper Money (designate)
Board member of Simplyhealth Group
Board member of National Citizens Service (NCS) Trust

Previous positions:

2015–2019	Board member, Bank of Ireland UK
2012–2019	Chairman, Good Energy Group Plc
2015–2018	Board member, Tandem Bank
2015–2017	Chairman, BlueStep Bank AS
2014–2014	Chief Executive Officer, Williams & Glyn
2012–2013	Senior Advisor, Corsair Capital
2007–2012	Group Director, Commercial, Lloyds Banking Group
2000–2007	Chief Executive Officer, Kensington Group Plc
1998–2000	Executive Director, First National Group, Abbey National Plc
1994–1998	CEO, Lombard Tricity, Natwest Group Plc
1992–1994	Deputy Director, Barclays Bank Plc
1989–1992	Management Consultant, Price Waterhouse Consultancy
1983–1989	Manager, Andersen Consulting

Shareholding in Nordea: 0.[2]

Sarah Russell

Master of Applied Finance
Board member since 2010[1]
Born 1962
Nationality: Australian
Other assignments: Member of the Supervisory Board of The Currency Exchange Fund NV

Previous positions:

2015–2019	Member, Supervisory Board, Nederlandse Investeringsintelling NV
2015–2019	Vice Chairman, Supervisory Board; member, Appointment and Compensation Committee, La Banque Postale Asset Management SA
2010–2019	Chief Executive Officer, Aegon Asset Management Holdings BV
2006–2008	Senior Executive Vice President and CEO, ABN AMRO Asset Management Holdings NV
2004–2005	Managing Director and CFO, Wholesale Clients Business Unit, ABN AMRO
2002–2004	Global Head of Financial Markets Research and Financial Markets Infrastructure Support, member of Financial Markets Executive Committee, ABN AMRO
2000–2002	Business Manager to Senior Executive Vice President of Global Financial Markets, ABN AMRO
1998–2000	Director, Head of Corporate Sales Australia and New Zealand, ABN AMRO
1997–1998	Director, Head of Commodities in Sydney, ABN AMRO
1994–1997	Associate Director and Director, Treasury Sales in Sydney, ABN AMRO
1981–1994	Various positions within Toronto Dominion Australia Limited in several trading, sales and management roles in Financial Markets

Shareholding in Nordea: 0.[2]

Birger Steen

MBA and MSc (Industrial Engineering, Computer Science)
Board member since 2015[1]
Born 1966
Nationality: Norwegian
Other assignments: Principal of Summa Equity AB
Board Chair of Nordic Semiconductor ASA and Pagero AB
Board member of Schibsted ASA and Cognite AS
Member of the Board of Trustees, The National Nordic Museum in Seattle, USA

Previous positions:

2010–2016	CEO, Parallels, Inc
2009–2010	Vice President, Worldwide SMB & Distribution, Microsoft Corporation
2004–2009	General Manager, Microsoft Russia
2002–2004	General Manager, Microsoft Norge
2000–2002	CEO, Scandinavia Online AS
1996–1999	Vice President, Business Development, Schibsted ASA
1993–1996	Consultant, McKinsey & Company
1992–1993	Oil Trader and Managing Director, Norwegian Oil Trading AS

Shareholding in Nordea: 10,000.[2]

Maria Varsellona

Law degree (Juris Doctor)
Board member since 2017[1]
Born 1970
Nationality: Italian
Other assignments: Group General Counsel and member of the Executive Committee of ABB Ltd

Previous positions:

2018–2019	President, Nokia Technologies
2015–2019	Chief Legal Officer, Nokia Corporation
2016–2018	Board Member, Nokia Shanghai Bell – formerly Alcatel Lucent Shanghai Bell
2013–2014	General Counsel, Networks - formerly Nokia Siemens Networks
2011–2013	Group General Counsel, member of the Global Leadership Team, Tetra Pak, Tetra Laval Group
2009–2010	Group General Counsel, member of the Global Leadership Team, Sidel, Tetra Laval Group
2008–2009	Adjunct Professor and Lecturer, Università degli Studie di Firenze, Italy
2006–2009	Senior Counsel Commercial Operations, GE Oil & Gas Italy
2005–2006	Senior Counsel Europe, Hertz Europe, UK
2001–2004	Senior Counsel Global Services, GE Oil & Gas, Italy
1998–2001	Solicitor – Italian Lawyer, Pini, Bingham & Partners
1994–1998	Lawyer, The Greco Law Firm, Italy

Shareholding in Nordea: 0.[2]

1) Refers to when a 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 2019, also includes shares held by family members and closely affiliated legal entities.

Employee representatives

Kari Ahola
Datanome (Institute of Information Technology)
Board member since 2006[1] (deputy until 25 March 2020)
Born 1960
Shareholding in Nordea: 0.[2]

Dorrit Groth Brandt
Finance Diploma Programme, 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 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 Leadership Team

Group Leadership Team (from left to right): **Jussi Koskinen**, Erik Ekman, Christina Gadeberg, Martin Persson, Frank Vang-Jensen, Christopher Rees, Sara Mella, Snorre Storset and Matthew Elderfield.

Frank Vang-Jensen

President and Group CEO
Born 1967

Member of Group Leadership Team since 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: 46,354.[1]

Previous positions:

2018–2019	Head of Personal Banking, Nordea Bank Abp
2017–2018	Head of Personal Banking Denmark, Country Senior Executive & Branch Manager Denmark, Nordea Bank Abp
2015–2016	President and Group CEO, Svenska Handelsbanken AB
2014–2015	Head of Handelsbanken Sweden, Svenska Handelsbanken AB
2007–2014	CEO Handelsbanken Denmark, Svenska Handelsbanken AB
2005–2007	CEO Stadshypotek AB
2001–2005	Regional Area Manager, Handelsbanken Denmark
2001–2005	Branch Manager, Handelsbanken Copenhagen City

Jussi Koskinen

Chief Legal Officer
Born 1973
Member of Group Leadership Team since 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: 1,000.[1]

Christopher Rees

Group CFO and Head of Group Finance
Born 1972
Member of Group Leadership Team since 2018

Education: MSc in Accounting and Finance, and BSc in Economics from London School of Economics, United Kingdom. Université Paul Valéry, Montpellier, France.

Shareholding in Nordea: 20,000.[1]

Sara Mella

Head of Personal Banking
Born 1967
Member of Group Leadership Team since 2019

Education: Master of Science, Economics, University of Tampere, Finland.
Strategic Leader, Nordea Leadership Pipeline, London Business School, United Kingdom. Inter Alpha Programme, INSEAD Fontainebleau, France. Orchestrating Winning Performance, IMD Lausanne, Switzerland. Finnish National Defence Course.
Shareholding in Nordea: 18,606.[1]

Erik Ekman

Head of Business Banking until 31 December 2019 and
Head of Group Business Support as of 1 January 2020
Born 1969
Member of Group Leadership Team since 2015

Education: PhD in Economics, Uppsala University, Sweden.

Shareholding in Nordea: 0.[1]

Martin A Persson

Head of Large Corporates & Institutions
Born 1975
Member of Group Leadership Team since 2016

Education: Bachelor of Business Administration, Accounting & Finance, University of Stockholm, Sweden. Bachelor of Business Administration, Accounting & Finance, Blekinge Tekniska Högskole, Sweden. Bachelor of Business Administration, Economics, Lund University, Sweden.

Shareholding in Nordea: 10,000.[1]

Snorre Storset

Head of Asset & Wealth Management
Born 1972
Member of Group Leadership Team since 2015

Education: MSc in Economics and Business Administration, Norwegian School of Economics, Bergen, Norway.

Shareholding in Nordea: 12,300.[1]

Christina Gadeberg

Chief People Officer
Born 1970
Member of Group Leadership Team since 2019

Education: Diploma in Finance (Finanssektorens Uddannelsescenter).

Graduate diploma (HD) in Business Administration, Organization & Leadership, Copenhagen Business School, Denmark.

Shareholding in Nordea: 2,120.[1]

Matthew Elderfield

Chief Risk Officer and Head of Group Risk and Compliance
Born 1966
Member of Group Leadership Team since 2016

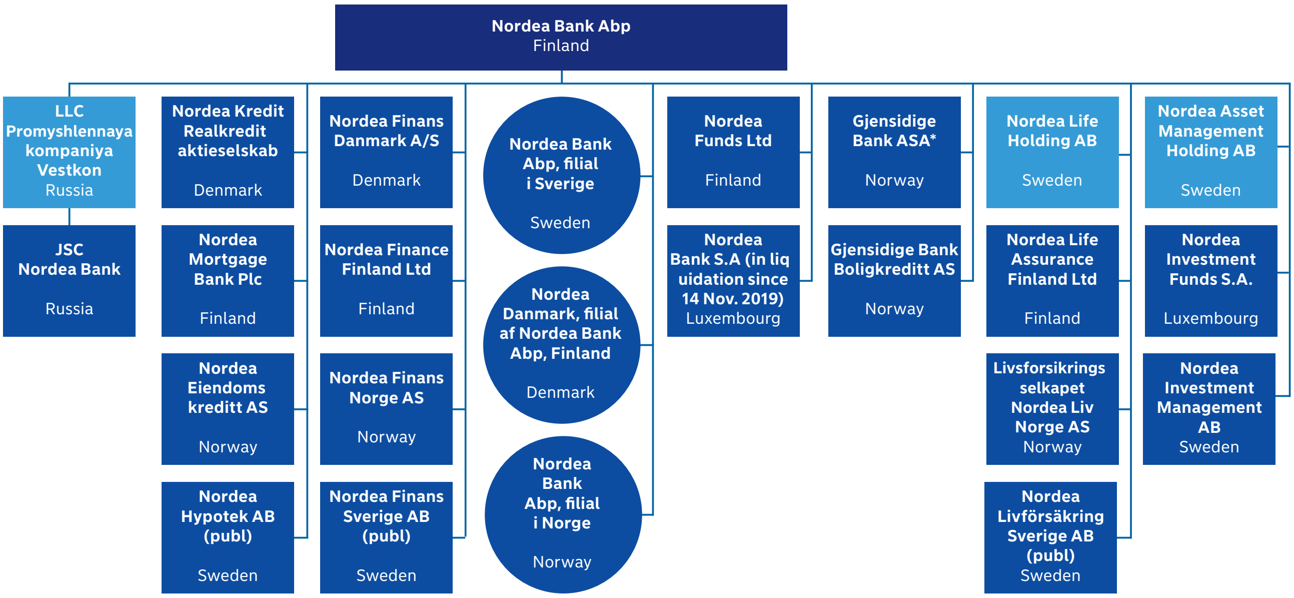
Education: Corporate Finance Programme, London Business School, United Kingdom. M Phil in International Relations, Trinity Hall, Cambridge University, United Kingdom. B.S. in Foreign Service, School of Foreign Service, Georgetown University, United States.

Shareholding in Nordea: 0.[1]

1) Shareholdings, as of 31 December 2019, also include shares held by family members and closely affiliated legal entities.

Main legal structure

As of 31 December 2019



● Branch – Nordea Bank Abp also operates branches in Estonia, Poland, Frankfurt, London, New York, Shanghai and Singapore

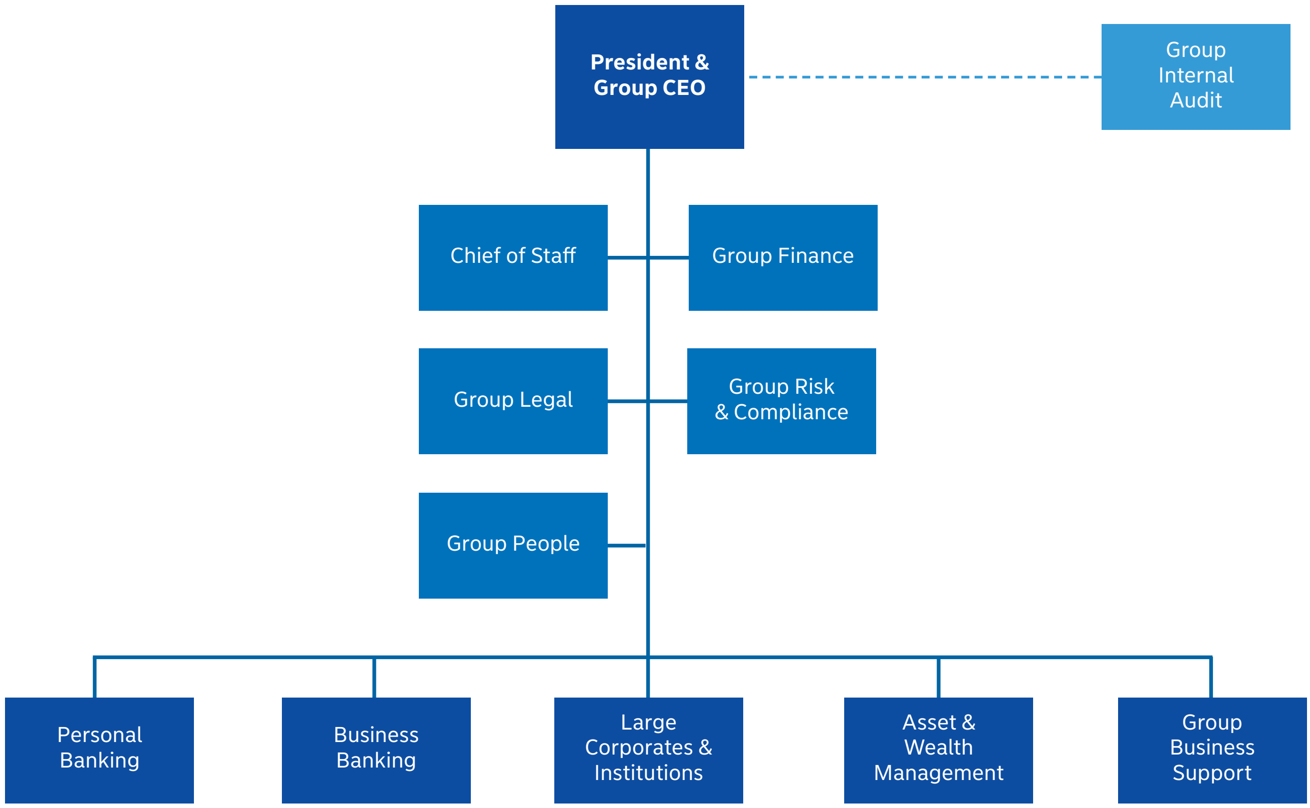
■ Legal entity

■ Holding company

*) Nordea Bank Abp and Gjensidige Bank ASA signed a merger plan on 12 June 2019. The merger of Gjensidige Bank ASA into Nordea Bank Abp is expected to be executed in the first half of 2021. The execution of the merger is subject to the necessary authority approvals.

Group organisation

As of 1 January 2020



Annual General Meeting 25 March 2020

Nordea's Annual General Meeting (AGM) 2020 will be held at Messukeskus Helsinki, Expo and Convention Centre, Messuaukio 1, 00520 Helsinki on Wednesday 25 March 2020 at 13.00 EET.

Notification of participation, etc.

Shareholders who wish to participate in the Annual General Meeting shall be registered as shareholders in the shareholders' register maintained by Euroclear Finland Oy in Finland, Euroclear Sweden AB in Sweden or VP Securities A/S in Denmark on 13 March 2020 and register their participation in accordance with the instructions, including the relevant deadlines, set out in the notice to the Annual General Meeting of Nordea.

Participants holding shares registered with Euroclear Finland Oy in Finland

Notification of participation in the Annual General Meeting shall be made at the latest on 19 March 2020 by regular mail to: Computershare AB, "Nordea's AGM 2020", Aleksanterinkatu 15B, 6. krs, 00100 Helsinki, Finland, or by telephone +358 942 721 429 (weekdays between 9.00 and 16.00 local time), or on the Company's website at www.nordea.com.

Participants holding shares registered with Euroclear Sweden AB in Sweden

Notification of participation in the Annual General Meeting shall be made at the latest on 16 March 2020 by regular mail to: Computershare AB, "Nordea's AGM 2020", Box 5267, SE-102 46 Stockholm, Sweden, or by telephone +46 8 518 01 553 (weekdays between 9.00 and 16.00 local time), or on the Company's website at www.nordea.com.

Participants holding shares registered with VP Securities A/S in Denmark

Notification of participation in the Annual General Meeting shall be made at the latest on 16 March 2020 by regular mail to: Computershare A/S, "Nordea's AGM 2020", Lottenborgvej 26 D, DK-2800 Kgs. Lyngby, Denmark or by telephone +45 45 46 09 97 (weekdays between 9.00 and 16.00 local time).

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 in Finland at the latest on 20 March 2020 at 10.00 EET. Shareholders whose shares are held in trust in Sweden must instruct the trustee to re-register their shares in the shareholders' own names in the shareholders' register held by Euroclear Sweden AB in good time prior to 13 March 2020. Shareholders whose shares are held in trust in Denmark must instruct the trustee to re-register their shares in the shareholders' own names in the shareholders' register held by VP Securities A/S in good time prior to 13 March 2020.

Financial calendar

Financial calendar 2020

Annual General Meeting	25 March
Ex-dividend date	26 March
Record date	27 March
Dividend payments[1]	3 April
1st quarter results	29 April
2nd quarter results	17 July
3rd quarter results	23 October

Contacts

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Group CFO

Investor Relations
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SE-105 71 Stockholm, Sweden
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1) At the earliest

Website

All reports, press and stock exchange 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 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 292. 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 former shall prevail. 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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