Nordea

Annual Report 2016

Nordea Bank S.A.

Contents

Nordea Bank S.A. is headquartered in Luxembourg and focuses on international private banking and global fund distribution. Nordea Bank S.A. is part of Nordea, which is among the ten largest universal banks in Europe in terms of total market capitalisation and has around 11 million customers, more than 30,000 employees and approximately 650 branch office locations. Nordea is listed on the Nasdaq Stockholm, Nasdaq Helsinki and Nasdaq Copenhagen exchanges.

Consolidated management report

2016 once again proved to be a volatile ride for the financial markets, with a number of significant events marking the year. Uncertainty surrounding China at the beginning of the year, in combination with low oil prices and an increasingly tight US monetary policy direction, created a challenging market environment. Adding to the range of concerns was the growing realisation that political uncertainties are here to stay.

Despite these risks, the fundamental picture proved resilient throughout. Emerging markets began to recover, largely due to a stabilisation in commodity prices and encouraging reforms. The recovery also continued in the US, enough for the Federal Reserve to raise rates once again, while Europe coped with the pressures of Brexit remarkably well.

The regulatory environment and the impact of new regulations on the financial sector continued to be of high importance. The OECD common reporting standards (CRS) and the related automatic exchange of information were implemented, while the financial industry has also started to prepare for MiFID II, the revised Markets in Financial Instruments Directive, which will come into force 3 January 2018.

Substantial efforts have also been made to ensure compliance with new due diligence procedures as a result of both the intergovernmental agreement between the US and Luxembourg to improve international tax compliance, but also due to the implementation of FATCA and other important regulations such as the FCCP, Financial Crime Change Programme.

Nordea Bank S.A. (the Bank) has, in these challenging market conditions, managed to provide a solid result, further strengthening its capitalisation, and taken important steps in developing its business to the benefit of its clients, employees and shareholders.

At the end of June 2016, Thorben Sander stepped down as CEO to assume the position as global head of Nordea Private Banking. The remaining members of the Bank's Executive Managers, with Cecilia Vernerson as designated Country Manager, are now managing the Bank.

Nordea Private Banking

During 2016, we have continued to transform our business model in Private Banking, as well as the banking experience for our clients. We have further defined and prioritised among those markets we operate in, in order to reach a growth model through which we can both reduce risk, by focusing on a selected number of markets, and add significant value for our clients.

Central to transforming our business is our new core banking platform, which was implemented at the beginning of 2016, in co-operation with software vendor Temenos and its partners Deloitte and Syncordis. Following the core system replacement, we experienced a challenging stabilisation period, which impacted our internal work situation and unfortunately also our clients. We, however, did our utmost to minimise any negative impact on our client's experiences and our business-critical processes.

We are building the future relationship bank, with the aim of being a personalised and relevant bank for our clients – anywhere, anytime. This is why we have also taken important steps to engage with our clients through multiple communication channels. For example, throughout 2016, we organised several webinars, with the aim of facilitating information flow towards clients and generating further awareness of our advice and offerings. We also introduced videos as a new information channel.

Following Panama Papers in April, an extensive internal investigation of our activities in relation to offshore structures was carried out. Based on the conclusions from the investigation, we presented an action plan for how Nordea would be prevented from being used as a platform for tax evasion or aggressive tax planning. As a consequence, nearly all accounts related to the law firm Mossack Fonseca have been closed. Among other measures taken, we have prepared a new client tax due diligence policy and new client tax due diligence procedures to mitigate the risk of the Bank.

Despite the difficult year, there are positives to be drawn. Our transformation towards a personalised relationship bank is firmly under way, whilst our growth strategy has become more targeted, geared towards creating value for our clients. On top, our international, cross-border competences continue to be developed, serving us well as we face an increasingly sophisticated clientele.

Despite the difficulties in 2016, our client base and assets under management remained unchanged, and at the same time we delivered a positive performance on our clients' investments.

Nordea Investment Funds S.A.

The 31 December 2016 marked the end of a highly successful year for Nordea Investment Funds S.A. (NIFSA) and the funds under its management. The development and optimisation of the product range and the local presence within European markets, initiated in previous years, continued throughout 2016. The branch network was expanded via the launch of further activities in its French operation. The setup process for a branch in the United Kingdom was initiated in March 2016 and approval for the setup was obtained from the UK regulator in December 2016. NIFSA's intention is for the trend to continue in this direction during the coming years in order to ensure availability of information and support for the investors in their home markets.

In terms of our product range, one new umbrella, Nordea 2 SICAV, and 13 new sub-funds across all umbrellas were launched during 2016. By year end, seven of the launched funds had Assets under Management (AuM) exceeding EUR 130 million each, while one of them was above EUR 1 billion: Nordea 2 – Global Large Cap Equity Fund with EUR 1.2 billion (USD 1.3 billion).

The aggregated AuM managed by NIFSA increased by 30%, closing the year at EUR 78.9 billion. The growth was ensured by large inflows into many of the funds, of which the Nordea 1 – Stable Return Fund was the largest, recording a net flow of EUR 10.4 billion, ending the year at EUR 18.4 billion AuM. Meanwhile, the Nordea 1 – Flexible Fixed Income Fund saw an AuM increase of EUR 1.9 billion, ending the year at EUR 3 billion AuM.

As a consequence of the large inflows, the Stable Return Fund was soft-closed and the Stable Equity Long/Short Fund was hard closed during 2016, both due to full capacity issues in the sub-funds.

Supported by the AuM increase, the NIFSA's revenues increased by 35% to EUR 166 million, whilst expenses grew by 36% to EUR 77 million, leading to a net profit of EUR 89 million – an increase of 32% compared to 2015 result.

The strong inflows seen during previous years are not expected to continue at the same pace in 2017, hence the growth in revenue and net profit is expected to be more moderate.
Financial position and dividend

Nordea Bank S.A. remains financially strong, with a consolidated capital ratio of 15.62%, which is above legal requirements. Capital and reserves amounted to EUR 656 million at the end of 2016. Profit for the year, before depreciation, provisions and tax, amounted to EUR 231.6 million.

After depreciation and provisions, pre-tax profit amounted to EUR 224.1 million and net profit for the year was EUR 158.8 million.

The 2016 profit is impacted by EUR 0.3 million in provisions for net loan losses mainly related to critical mortgage loans in France and Spain.

At the Annual General Meeting, the Board of Directors will propose a dividend of EUR 155 million, part of which – EUR 62,000,000 – will be conditional on that the Bank maintains a CET1 (Common Equity Tier 1) ratio above 13% following the release of the conditional dividend payment.

In March 2017, the board of the the Bank has approved two closely linked transactions, subject to approvals from the CSSF. These transactions will contribute to the streamlining and focus of the activities of the Bank to private banking activities. The transactions consist of the transfer of the transfer agency and fund administration acitivities to NIFSA and the subsequent transfer of the ownership of NIFSA to another legal entity in the Nordea Group. Apart from this, there have been no material events after the reporting date. Please refer to the Note 38 of the consolidated financial statements.

The Bank has no research and development activities. The Bank did not acquire its own shares.

The Bank's financial risk management objectives and policies, as well as exposures to market risk, credit risk, liquidity risk and other types of risks is given in Note 34 of the consolidated financial statements.

10 March 2017

Cecilia Vernerson
Country Manager

Snorre Storset
Chairman of the Board of Directors

Audit report

To the Board of Directors of Nordea Bank S.A.

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of Nordea Bank S.A., which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors' responsibility for the financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé" including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Nordea Bank S.A. as of 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Other information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Report on other legal and regulatory requirements

The management report is consistent with the annual consolidated financial statements and has been prepared in accordance with the applicable legal requirements.

PricewaterhouseCoopers, Société coopérative
Luxembourg, 21 March 2017

Represented by

Rima Adas

Consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016

EUR '000	Note(s)	2016	2015
Operating income			
Interest income	4	32,845	46,274
Interest expense	4	(11,321)	(8,903)
Net interest income		**21,524**	**37,371**
Fee and commission income	5	684,552	555,311
Fee and commission expense	5	(374,419)	(286,268)
Net fee and commission income		**310,133**	**269,043**
Net gains/(losses) on items at fair value and other foreign exchange revaluation results	6	27,359	21,454
Other operating income	7	450	647
Total gross banking income		**359,466**	**328,515**
Net loan losses	12	(307)	(1,256)
Total net banking income		**359,159**	**327,259**
Operating expenses			
General administrative expenses:			
Staff costs	8	(84,553)	(74,459)
Other administrative expenses	9	(43,340)	(39,717)
Depreciation/amortisation of tangible and intangible assets	15, 16	(7,771)	(2,509)
Total operating expenses		**(135,664)**	**(116,685)**
Litigation and redundancy provisions	22	630	1,895
Operating profit		**224,125**	**212,469**
Income tax expense	10	(65,280)	(64,486)
Profit for the year		**158,845**	**147,983**
Total comprehensive income for the year		**158,845**	**147,983**
Total comprehensive income attributable to:			
Equity holders of the Bank		158,845	147,983
		158,845	**147,983**

The following notes form an integral part of these consolidated financial statements

Consolidated statement of financial position as of 31 December 2016

EUR '000	Note(s)	2016	2015
Assets			
Cash and balances with central banks	11	863,616	616,074
Loans and receivables to credit institutions	12	2,283,038	2,099,695
Loans and receivables to the public	12	1,718,732	1,772,539
Shares	13	63,192	70,304
Derivatives	14	422,376	336,307
Intangible assets	15	63,296	58,428
Property and equipment	16	2,174	2,933
Deferred tax assets	10	93	17
Other assets	17	6,066	6,381
Prepaid expenses and accrued income	18	183,355	139,960
Total assets		**5,605,938**	**5,102,638**
Liabilities			
Deposits from credit institutions	19	624,899	64,158
Deposits and borrowings from the public	19	3,625,289	3,975,178
Derivatives	14	369,748	265,731
Current tax liabilities		101,890	39,128
Other liabilities	20	15,322	15,273
Accrued expenses and prepaid income	21	147,923	114,505
Deferred tax liabilities	10	5,941	5,565
Litigation and redundancy provisions	22	7,327	4,286
Subordinated liabilities	23	51,323	51,383
Total liabilities		**4,949,662**	**4,535,207**
Equity			
Share capital	24	25,000	25,000
Share premium	24	12,246	12,246
Reserves	24	68,980	57,355
Retained earnings		550,050	472,830
Total equity attributable to equity holders of the Bank		**656,276**	**567,431**
Total liabilities and equity		**5,605,938**	**5,102,638**

The following notes form an integral part of these consolidated financial statements

Consolidated statement of changes in equity as of 31 December 2016

EUR '000	Note	Share capital	Share premium	Reserves	Retained earnings	Total
At 31 December 2014		**25,000**	**12,246**	**46,260**	**365,981**	**449,487**
Profit for the year		-	-	-	147,983	147,983
Translation differences		-	-	-	1	1
Distributions to equity holders		-	-	-	(30,000)	(30,000)
Shareholders contribution	24	-	-	(40)	-	(40)
Appropriations of profit:						
- Transfer to reserve		-	-	11,135	(11,135)	-
At 31 December 2015		**25,000**	**12,246**	**57,355**	**472,830**	**567,431**
Profit for the year		-	-	-	158,845	158,845
Translation differences		-	-	-	-	-
Distributions to equity holders		-	-	-	(70,000)	(70,000)
Shareholders contribution	24	-	-	-	-	-
Appropriations of profit:						
- Transfer to reserve		-	-	11,625	(11,625)	-
At 31 December 2016		**25,000**	**12,246**	**68,980**	**550,050**	**656,276**

The following notes form an integral part of these consolidated financial statements

Consolidated statement of cash flows for the year ended 31 December 2016

EUR '000	Note(s)	2016	2015
Operating activities			
Operating profit		224,125	212,469
Adjustments for:			
Depreciation and amortisation	15, 16	7,771	2,509
Net loan losses	12	307	1,256
Litigation and redundancy provisions	22	(630)	(1,895)
Unrealized (gains)/losses on shares and derivatives	6	(2,108)	(455)
Income taxes paid		(2,218)	(43,206)
Cash inflow from operating activities before changes in operating assets and liabilities		**227,247**	**170,678**
Changes in operating assets			
Change in deposit to central banks		(247,657)	(505,264)
Change in loans and receivables to credit institutions		(1,056,038)	300,018
Change in loans and receivables to the public		53,499	(141,736)
Change in shares		9,220	(57,491)
Change in derivatives, net		17,948	(99,936)
Change in other assets		316	(655)
Changes in operating liabilities			
Change in deposits from credit institutions and subordinated liabilities		560,681	(5,176)
Change in deposits and borrowings from the public		(349,889)	721,340
Change in other liabilities and provisions		3,716	6,287
Change in accruals and prepayments		(9,977)	(13,121)
Cash inflow from operating activities		**(790,934)**	**374,944**
Investing activities			
Maturity of interest bearing securities		-	8,103
Acquisition of property and equipment, own use		(273)	(538)
Acquisitions of intangible assets		(11,603)	(18,062)
Cash outflow from investing activities		**(11,876)**	**(10,497)**
Financing activities			
Shareholders contribution		-	(40)
Dividend paid		(70,000)	(30,000)
Cash outflow from financing activities		**(70,000)**	**(30,040)**
Net (decrease)/increase in cash and cash equivalents		**(872,810)**	**334,407**
Cash and cash equivalents at the beginning of year		**1,892,617**	**1,558,210**
Cash and cash equivalents at the end of year	32	**1,019,807**	**1,892,617**

The following notes form an integral part of these consolidated financial statements

Notes to the Consolidated Financial Statements for the year ended 31 December 2016

1 General

Corporate matters
Nordea Bank S.A. was incorporated in Luxembourg on 30 September 1976 as a "société anonyme". The registered office of the Bank is located in 562, Rue de Neudorf, L-2220 Luxembourg.

The Bank is a majority-owned subsidiary of Nordea Bank AB (publ) ("the Parent Company"), a company incorporated under the laws of Sweden, which is both immediate and ultimate parent company of the Bank. The members of the Board of Directors are senior executives of companies forming part of the Nordea Group. The business policy and valuation principles, unless prescribed by Luxembourg rules and regulations, are determined and monitored by the Board of Directors in accordance with those applied in the Nordea Group.

The Bank operates from its Luxembourg head office and from two branches, located in Zürich (Switzerland), and in Singapore.

The consolidated financial statements of Nordea Bank AB (publ) may be obtained from Nordea, Investor relations, SE-10571 Stockholm, Sweden.

The consolidated financial statements of the Bank as at and for the year ended 31 December 2016 comprise the Bank and its subsidiaries Nordea Investment Funds S.A. ("NIFSA") with registered address 562, rue de Neudorf, L-2220 Luxembourg (ownership interest 100%), and Nordea Fonds Services GmbH (Germany) with registered address Bonner Strasse 323, D-50968, Köln (ownership interest 100%).

Nordea Bank S.A. and its subsidiaries are hereafter referred to as "the Bank" or "Nordea".

Nature of the Bank's business
The statutory objective of the Bank is to undertake all banking and financial operations whatsoever.

Consolidated financial statements
These consolidated financial statements are presented in EUR considering that is the currency of the primary economic environment in which the Bank operates and currency in which the capital is expressed.

The Bank's financial year is the calendar year.

These consilodated financial statements have been approved for issue by the Board of Directors on 10 March 2017.

2 Summary of significant accounting policies and valuation rules

The accounting policies adopted in respect of the items that are considered material for the results and the financial position of the Bank are stated below.

2.1 Basis for preparation and statement of compliance
The consolidated financial statements of the Bank have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and interpretations of such standards by the International Financial Reporting Standards Interpretations Committee (IFRS IC, formerly IFRIC), as endorsed by the European Union ("EU"). Additional information is included in the accompanying consolidated financial statements in order to comply with Luxembourg legal requirements.

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

On 10 March 2017 the Board of Directors approved the consolidated financial statements, subject to final approval of the Annual General Meeting on 31 March 2017.

2.2 Accounting convention and presentation
The consolidated financial statements have been prepared under the historical cost convention except for the revaluation of certain financial instruments, in accordance with accounting principles which conform, in all material respects with IFRSs as endorsed by the EU. The significant accounting policies are described below.

2.3 Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Bank and its subsidiaries. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the consolidated financial statements of subsidiaries to bring their accounting policies into line with those used by the Bank. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

2.4 Foreign currency translation
The consolidated financial statements are expressed in Euro (EUR '000), which is the functional and presentation currency of the Bank.

Foreign currency transactions are recorded in the consolidated financial statements at rates of exchange ruling at the date of transactions or at contracted rates, where appropriate. Monetary assets and liabilities denominated in foreign currencies are translated at rates of exchange ruling at the reporting date. Gains and losses on exchange are dealt with through the statement of profit or loss and other comprehensive income under profit and loss.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction.

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 statement of profit or loss and other comprehensive income in the item "Net gains/(losses) on items at fair value and other foreign exchange revaluation results".

2.5 Use of estimates and judgements

The preparation of consolidated financial statements in conformity with IFRSs as endorsed by the EU requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

2.6 Interest income and expense

Interest income and expense are recognized on an accrual basis. Interest income and expense are calculated and recognised based on the effective interest rate method.

2.7 Fee and commission income and expense

The Bank earns commission income from different services provided to its customers. The recognition of commission income depends on the purpose for which the fees are received. Fees are either recognised as revenue when services are provided or in connection to the execution of a significant act. Fees received in connection with performed services are recognised as income in the period these services are provided.

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

Commission fees mainly include asset management commissions, investment management and distribution fees, custody fees and commissions from trading activities.

2.8 Dividend income

Dividend income from investments is recognized when the Bank's right to receive payment has been established.

2.9 Net gains/(losses) on items at fair value and other foreign exchange revaluation results

Realised and unrealised gains and losses on financial instruments measured at fair value are recognised in the item "Net gains/(losses) on items at fair value and other foreign exchange revaluation results".

Realised and unrealised gains and losses mainly derive from shares and share related instruments, interest-related instruments, currency-related instruments and foreign exchange gains/losses.

2.10 Employee Benefits

Defined contribution plan

The Bank has pension obligations from a defined contribution plan. The Bank's defined contribution plan is the main pension scheme and covers all employees of the Bank in Luxembourg and NIFSA. Defined contribution plans are not reflected on the statement of financial position.

A defined contribution plan is a post-employment benefit plan under which the Bank pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligation for contributions to defined contribution pension plans are recognized as an employee benefit expense in profit and loss when they are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plan

Contributions to defined benefit retirement plans are recognised as an expense when employees have rendered service entitling them to the contributions.

Calculation of defined benefit obligations is performed by external actuaries and is based on the actuarial assumptions fixed for the Bank's pension plan. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in staff costs in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

2.11 Share-based payment

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. The Bank's Parent Company has granted the right to its equity instruments directly to the employees of the Bank.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At each reporting date, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, with a corresponding adjustment to shareholders contributions.

Equity-settled share-based payment transactions with other parties are measured at the fair value of the goods or services received, except where the fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

The Group also operates share-linked deferrals on parts of variable compensation for certain employee categories, indexed with the Total Shareholder Returns ("TSR") and either vesting after three years or vesting in equal instalments over a three to five year period. Since 2011 the Group also operates

TSR-linked retention on part of variable compensation for certain employee categories under a cash-settled share-based payment programme.

This programme is 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 security charges, recognised in the statement of profit or loss and other comprehensive income in the item "Net gains/(losses) on items at fair value and other foreign exchange revaluation results".

2.12 Taxation

Income tax expense represents the sum of the current tax and deferred tax.

Current tax

Corporation tax is charged on the annual taxable profit on the basis of tax legislation and tax rates which are applicable in the Grand Duchy of Luxembourg. Corporation tax for the Bank's branch is calculated based on the tax legislation and tax rates applicable in Switzerland. The computation also takes into consideration the loss realized at the level of the branch in Singapore.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statement of profit or loss and other comprehensive income under profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are exempt or non-deductible in accordance with the tax legislation applicable in the Grand Duchy of Luxembourg. The Bank's liability for current tax is calculated using the tax rates that have been enacted or substantively enacted by the reporting date.

Deferred tax

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method.

Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

2.13 Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and loans on demand with credit institutions.

2.14 Financial assets and financial liabilities

Investments are recognized and derecognized on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets "at fair value through profit or loss" and "loans and receivables".

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Financial liabilities are classified as either financial liabilities "at fair value through profit and loss" or "other financial liabilities".

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period. Income is recognised on an effective interest basis for debt instruments other than those financial assets designated as at fair value through profit and loss.

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

Financial assets and financial liabilities are classified as at fair value through profit and loss where the financial asset/financial liability is either held for trading or it is designated as at fair value through profit and loss.

A financial asset/financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Bank manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset/financial liability other than a financial asset/financial liability held for trading may be designated as at fair value through profit and loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at fair value through profit and loss.

Financial assets and financial liabilities at fair value through profit and loss are stated at fair value, with any resultant gain or loss recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest earned on the financial asset.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at each reporting date.

Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty; or
- Default or delinquency in interest or principal payments; or
- It is probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The amount of impairment loss is recognized in profit and loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment on loans

If the carrying amount of the loans is higher than the sum of the net present value of the estimated cash flows including the fair value of the collateral and other credit enhancements, the difference is the impairment loss.

If the impairment loss is not regarded as final, the impairment loss is accounted for on an allowance account representing the accumulated impairment losses. Changes in the credit risk and accumulated impairment losses will be recorded as changes in the allowance account and as "Net loan losses" in the consolidated statement of profit or loss and other comprehensive income.

If the impairment loss is regarded as final, it is reported as a realized loss. A realized loss is recognized and the value of the loan and the related allowance for impairment loss are derecognised with a corresponding loss recognized in the line item "Net loan losses" in the consolidated statement of profit or loss and other comprehensive income. An impairment loss is regarded as final when the obligor has filed for bankruptcy procedure, or when the Bank forgives its claims either through a legal based or voluntary reconstruction or when the Bank, for other reasons, deems it unlikely that the claim will be recovered.

Discount rate

The discount rate used to measure impairment is the original effective interest rate for loans attached to an individual customer.

Derecognition of financial assets and financial liabilities

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the consolidated statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

As at the end of 2016 and 2015, the Bank had no financial instruments subject to an enforceable master netting arrangement or similar agreement.

2.15 Derivatives

All derivatives are recognised on the consolidated statement of financial position and measured at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.

Derivatives with a positive fair value including any accrued interest are recognised as assets in the item "Derivatives".

Derivatives with a negative fair value, including any accrued interest, are recognised as liabilities in the item "Derivatives".

Realised and unrealised gains and losses from derivatives are recognised in the consolidated statement of profit or loss and other comprehensive income in the item "Net gains/(losses) on items at fair value and other foreign exchange revaluation results".

2.16 Determination of fair value of financial instruments

Financial assets and liabilities classified as "financial assets/liabilities at fair value through profit or loss" and "derivative instruments" are recorded at fair value on the statement of financial position with changes in fair value recognised in the statement of profit or loss and other comprehensive income in the item "Net gains/(losses) on items at fair value and other foreign exchange revaluation results".

Fair value is defined by IFRS 13 as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

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. The Bank is using published price quotations to establish fair value for items disclosed under the following statement of financial position items:

- shares (listed shares);
- derivatives (listed derivatives).

The Bank does not apply any credit value adjustments (CVA), debit value adjustments (DVA) nor any own credit adjustments (OCA) in the valuation of its derivatives and borrowings as they are assessed by the Bank to be not significant.

Fair value of non-listed derivatives is determined by using valuation techniques. For the different instruments, the Bank is allowed by the Group to use various models, such as cash flow discounting, linear rate model, etc..

The Bank uses widely recognised valuation models for determining the fair value of common and simple financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple OTC derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Fair value is estimated to be equal to the book value (amortised cost) as its reasonable approximation for loans and receivables and deposits and borrowings. For further information, see Note 29 "Assets and liabilities at fair value".

2.17 Property and equipment and intangible assets

Property and equipment and intangible assets are stated at cost net of accumulated depreciation/amortisation and are depreciated according to the straight line method over their estimated useful lives using the following rates:

Leasehold improvements	2.5% - 20%
Motor vehicles	20%
Furniture and equipment	20%
Fixture and fittings	20%
Computer software and hardware	20%
T24 (core banking system)	8%

When the carrying amounts of property and equipment and intangible assets exceed their recoverable values, assets are written down, and impairment losses are recorded in the consolidated statement of profit or loss and other comprehensive income under profit or loss.

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on the disposal or retirement of an item of property and equipment and intangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

2.18 Impairment of property and equipment and intangible assets

At each reporting date, the Bank reviews the carrying amounts of its property and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit and loss.

2.19 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2.20 Operating leases

Operating leases are not recognised on the Bank's statement of financial position. For operating leases the lease payments are recognised as expenses in the statement of profit and loss and other comprehensive income on a straight-line basis over the lease term. The original lease terms normally range between 3 to 25 years.

Operating leasing is mainly related to office premises contracts and office equipment contracts normal to the business. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

2.21 Standards and interpretations not yet adopted

IFRS 9 "Financial instruments"

IASB has completed the new standard for financial instruments, IFRS 9 "Financial instruments". IFRS 9 covers classification and measurement, impairment and general hedge accounting and replaces the current requirements covering these areas in IAS 39. IFRS 9 is effective as from annual periods beginning on or after 1 January 2018. The standard is endorsed by the EU Commission. Earlier application is permitted, but Nordea does not intend to early adopt the standard. Nordea Luxembourg does not either intend to restate the comparative figures for 2017 in the annual report 2018 due to IFRS 9.

Classification and measurement

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

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

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

No business model assessment or SPPI analysis has been made for Nordea Life & Pension as Nordea has awaited the IFRS 9 EU endorsement process.

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

Impairment

The impairment requirements in IFRS 9 are based on an expected loss model as opposed to the current incurred loss model in IAS 39. The scope of IFRS 9 impairment requirements is also broader than IAS 39. IFRS 9 requires all assets measured at amortised cost, fair value through other comprehensive income, a lease receivable, a contract asset or loan commitment and a financial guarantee contract, to be included in the impairment test. Currently Nordea does not calculate collective provisions for off balance sheet exposures or the financial instruments classified into the measurement category AFS.

The assets to test for impairment will be divided into three groups depending on the stage of credit deterioration. Stage 1 includes assets where there has been no significant increase in credit risk, stage 2 includes assets where there has been a significant increase in credit risk and stage 3 includes defaulted assets. Significant assets in stage 3 are tested for impairment on an individual basis, while for insignificant assets a collective assessment is performed. In stage 1, the provisions should equal the 12 month expected loss. In stage 2 and 3, the provisions should equal the lifetime expected losses.

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

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

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

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

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

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

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

IFRS 15 "Revenue from Contracts with Customers"
The IASB published the new standard, IFRS 15 "Revenue from Contracts with Customers" in 2014. Clarifications to the standard were published in April 2016. The new standard outlines a single comprehensive model of accounting for revenue arising from contracts with customers and supersedes current revenue recognition standards and interpretations within IFRS, such as IAS 18 "Revenue". The new standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The standard was endorsed by the EU-commission in 2016 and the clarifications are expected to be endorsed in 2017. Nordea does not currently intend to early adopt this standard. The standard does not apply to financial instruments, insurance contracts or lease contracts.

IFRS 16 "Leases"
The IASB has published the new standard, IFRS 16 "Leases". The new standard changes the accounting requirements for lessees. All leases (except for short term contracts and small ticket leases) should be accounted for on the balance sheet of the lessee as a right to use the asset and a liability. The lease payments should be recognised as amortisation and interest expense. The accounting requirements for lessors are unchanged. Additional disclosures are also required. The new standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is also permitted. The amendments are expected to be endorsed by the EU Commission in 2017. Nordea does not currently intend to early adopt the amendments. Nordea's current assessment is that the new standard will change the accounting of property leases which mainly affects Nordea's statement of financial position.

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

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

3 Critical accounting judgments and key sources of estimation uncertainty

The preparation of consolidated financial statements in conformity with IFRS as adopted by the EU requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of off-balance sheet items at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The estimates are based on past experience and assumptions that management believes are fair and reasonable. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

These critical judgments and estimates are in particular associated with:

a) *The fair value measurement of certain financial instruments (non listed derivatives)*
Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments.

b) *The impairment tests of loans and receivables*
The Bank reviews its loan portfolios to assess impairment on a quarterly basis. In determining whether an impairment loss should be recorded in the statement of profit or loss and other comprehensive income under profit and loss, the Bank makes judgments as to whether there is any observable data indicating that there is a decrease in the estimated future cash flows from a loan. Elements considered as evidence of impairment are disclosed in Note 12.

c) *Useful lives of property and equipment and intangible assets*
The Bank reviews the estimated useful lives of property, plant and equipment at the end of each annual reporting period in order to determine the depreciation rates.

d) *Provision for claims*
All litigation provisions for claims that the Bank is involved in are analysed at each reporting date and adjusted to reflect the current best estimate. When necessary, legal advice is sought and provisions are recorded.

e) *Income taxes*
The Bank is subject to income tax in Luxembourg. Estimates are required in determining the provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognises tax liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

4 Net interest income

EUR '000	2016	2015
Interest income		
Loans and receivables to credit institutions	2,870	7,062
Loans and receivables to the public	25,502	22,656
Interest-bearing securities	-	24
Interest income on liability	4,358	-
Other interest income	115	16,532
	32,845	46,274
Interest expense		
Deposits from credit institutions	(3,975)	(4,316)
Deposits and borrowings from the public	(3,511)	(3,390)
Subordinated liabilities	(460)	(571)
Interest expense on assets	(263)	-
Interest expense on balances with Central Banks	(2,794)	-
Other interest expense	(318)	(626)
	(11,321)	(8,903)
Net interest income	21,524	37,371

Interest income on impaired loans for the year ended 2016 amounts to EUR 57 thousand (2015: EUR 398 thousand).

5 Net fee and commission income

EUR '000	2016	2015
Fee and commission income		
Asset management commissions	103,170	100,054
Custody fees	7,985	8,251
Trading activities on client accounts	28,492	40,454
Investment management and distribution fees	532,978	380,625
Mandate fees	8,710	10,586
Guarantees	30	75
Other fee and commission income	3,187	15,266
	684,552	555,311
Fee and commission expense		
Trading activities on client accounts	(2,576)	(5,254)
Payment expense	(1,336)	(1,415)
Advisory fees	(137,487)	(100,596)
Trailer fees	(222,617)	(157,127)
Other fee and commission expense	(10,403)	(21,876)
	(374,419)	(286,268)
Net fee and commission income	310,133	269,043

Other fee and commission income includes such charges as transfer of cash fees, fiduciary deposit fees and others.

Other fee and commission expense mainly includes performance fees and agent fees.

6 Net gains/(losses) on items at fair value and other foreign exchange revaluation results

EUR '000	2016	2015
Shares and other share-related instruments		
Realised gains/(losses)	1,040	1,151
Unrealised gains/(losses)	1,973	(584)
Interest-related instruments		
Unrealised gains/(losses)	135	(11)
Currency related instruments	854	1,169
Other foreign exchange revaluation results	23,357	19,729
	27,359	21,454

7 Other operating income

EUR '000	2016	2015
VAT reference	-	152
Other	450	495
	450	647

8 Staff costs

EUR '000	2016	2015
Wages and salaries	73,365	64,832
Pension costs	2,744	1,618
Social insurance contributions	5,471	4,943
Other staff costs	2,973	3,066
	84,553	74,459

The allocation of employees by category is as follows:

Average number of employees:	2016	2015
Senior management / Executives	8	8
Middle management	36	31
Employees	453	423
	497	462

Executives are the Head of International Private Banking (until 30 June 2016), Head of Business Transformation, Head of Private Banking International Luxembourg, Head of Business Development, Head of International Wealth Offerings and Head of Corporate Function, Managing Director of NIFSA and Administration Director of NIFSA. Executives amount to an average 7,5 individuals (2015: 8) and middle management amount to an average of 35,75 (2015: 30,75) individuals.

Remuneration of EUR 14,178 thousand has been paid to the Executives and middle management (average 43.25 persons) in respect of the year ended 31 December 2016 (2015: EUR 13,001 thousand for 38.75 persons) of which allocation to profit sharing represented EUR 115 thousand (2015: EUR 91 thousand).

At 31 December 2016, no loans and advances have been granted to the Executives and middle management (2015: EUR nil). No remuneration was paid to the Board of Directors in the year ended 31 December 2016 and 2015.

At 31 December 2016, no loans and advances have been granted to members of the Board of Directors (2015: EUR nil).

As at 31 December 2016, the Bank did not have a commitment relating to pension on behalf of Executives and middle management nor on behalf of Board of Directors' members (2015: EUR nil).

Long Term Incentive Programmes

	2016			2015		
Conditional rights LTIP 2012	Matching Share	Performance Share I	Performance Share II	Matching Share	Performance Share I	Performance Share II
Outstanding at the beginning of year	14,397	43,191	14,397	25,440	76,319	25,440
Granted [1]	1,045	3,135	1,045	1,365	4,095	1,365
Forfeited	-	-	-	(2,810)	(8,428)	(2,810)
Allotted [2]	(3,088)	(9,264)	(3,088)	(9,598)	(28,795)	(9,598)
Outstanding at end of year	**12,354**	**37,062**	**12,354**	**14,397**	**43,191**	**14,397**
- of which currently exercisable	-	-	-	-	-	-

	2016			2015		
Rights LTIP 2011	Matching Share	Performance Share I	Performance Share II	Matching Share	Performance Share I	Performance Share II
Outstanding at the beginning of year	9,874	16,498	4,444	11,712	19,569	5,271
Granted [1]	716	1,197	322	630	1,053	284
Forfeited	-	-	-	-	-	-
Allotted [2]	(2,648)	(4,424)	(1,191)	(2,468)	(4,124)	(1,111)
Outstanding at end of year	**7,942**	**13,271**	**3,575**	**9,874**	**16,498**	**4,444**
- of which currently exercisable	-	-	-	-	-	-

	2016			2015		
Rights LTIP 2010	Matching Share	Performance Share I	Performance Share II	Matching Share	Performance Share I	Performance Share II
Outstanding at the beginning of year	2,309	2,440	1,040	3,079	3,253	1,386
Granted	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-
Allotted [2]	(770)	(813)	(346)	(770)	(813)	(346)
Outstanding at end of year [2]	**1,539**	**1,627**	**694**	**2,309**	**2,440**	**1,040**
- of which currently exercisable	-	-	-	-	-	-

1) Granted rights are compensation for dividends on the underlying Nordea shares 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.

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

EUR '000	LTIP 2012
Total expense during 2016	-
Total expense during 2015	39.28

1) All amounts excluding social security contribution.

The Bank has a Long Term Incentive Plan ("LTIP") for senior management. Shares granted under the LTIP are equity-settled. Participation in the Long-Term Incentive Programmes ("LTIPs") requires that the participants take direct ownership by investing in Nordea shares.

Conditions and requirements

For each ordinary share the participants lock in to the LTIPs, they are granted a conditional Matching Share to acquire or receive ordinary shares based on continued employment, with certain exemptions, and the conditional Performance Share I and II to receive additional ordinary shares also based on fulfilment of certain performance conditions. The performance conditions for Performance Share I comprise a target growth in risk adjusted profit per share ("RAPPS") or a target growth in risk adjusted return of capital at risk ("RAROCAR").

Should the reported earnings per share ("EPS") be lower than a predetermined level the participants are not entitled to exercise any Performance Share I. The performance conditions for Performance Share II are market related and comprise growth in Total Shareholder Return ("TSR") in comparison with a peer group's TSR or a target in RAROCAR and in P/B-ranking compared to a peer group. Furthermore the profit for each right is capped.

When the performance conditions are not fully fulfilled, the rights that are no longer exercisable are shown as forfeited in the previous tables, together with shares forfeited due to participants leaving the Bank.

Fair value calculation and expenses
The exercise price, where applicable, for the ordinary shares is adjusted for dividends. However it is never adjusted below a predetermined price. Furthermore the profit for each right is capped. The share rights have a vesting period of 36 months. The exercise price of Matching Shares is EUR nil and the fair value per share of Matching Shares at grant date is EUR 7.23 and EUR 5.78 for LTIP 2011 and LTIP 2012 respectively.

The amount of the reversed expenses during the year was nil (2015: EUR 40 thousand expensed). The expense is offset by a contribution from the Parent Company for the same amount and is recorded directly in equity. The accumulated cost for the year in respect of the LTIP of EUR 2,065 thousand (2015: EUR 2,065 thousand) has been recognized in equity.

Cash-settled share-based payment transactions
In 2013 the Group introduced the Executive Incentive Programme ("EIP") which aims to strengthen the Group's capability to retain and recruit the best talents. The aim is to further stimulate the managers and key employees whose efforts have a direct impact on the Group's result, profitability and long term value growth. The EIP reward performance meeting agreed predetermined targets on the 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 shall be paid in the form of cash and be subject to TSR indexation, deferral, forfeiture clauses and retention as per relevant remuneration regulations. The main part of EIP for 2014 is paid no earlier than autumn 2018 (EIP for 2013: no earlier than autumn 2017). EIP for 2014 and 2013 is offered instead of the Group's LTIP and variable salary part ("VSP") for the invited employees.

As from 2015 on, the amounts for the EIP are included within the other bonus amounts.

9 Other administrative expenses

EUR '000	2016	2015
Information technology [1]	10,998	16,237
Rents, premises and real estate	7,029	6,204
Travel expenses	2,691	2,190
Marketing and representation	3,366	2,902
Consulting fees	2,705	1,874
Postage, telephone and office expenses	1,138	1,057
Group internal allocation [2]	4,704	1,711
Deposit guarantee schemes	943	250
Other [3]	9,766	7,292
	43,340	**39,717**

1) Information technology relates mostly to expenses on IT suppliers and consultants.
2) Group internal allocation is mainly related to Service Level Agreements with the parent company for providing TA administrative services.
3) Other expenses include fees paid to statutory auditor for the following services (excluding VAT):

EUR '000	2016	2015
Auditing assignments	642	317
Other fees	307	215
	949	**532**

10 Income tax expense

Amounts recognised in profit or loss

EUR '000	2016	2015
Current tax	64,795	66,171
Deferred tax	299	(2,035)
Direct taxes from previous period	(54)	(89)
Other direct taxes	240	439
Total	**65,280**	**64,486**

Reconciliation of effective tax rate
The reconciliation between the tax expense and the accounting profit based on the applicable tax rates is set out below:

EUR '000	2016	2015
Profit before tax	224,124	212,469
Tax calculated at a tax rate of 22.47%	50,360	47,742
Municipal business tax at a tax rate of 6.75%	15,128	14,342
Effect of different tax rates in other countries	314	229
Direct taxes from previous period	(55)	12
Other direct taxes	240	438
Non-deductible expenses	-	2,709
Other net non-deductible expenses/(non-taxable income)	(707)	(986)
Income tax expense	**65,280**	**64,486**

Movement in deferred tax balances

2016 EUR '000	Net balance at 1 Jan	Recognised in profit and loss	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Recognition of qualifying intangible assets	(65)	(17)	(82)	-	(82)
Recognition of qualifying tangible assets	(57)	-	(57)	-	(57)
Securities measured at fair value	(470)	(352)	(822)	-	(822)
Derivatives measured at fair value	17	76	93	93	-
Operating lease not recognized in accordance with IAS 17	(58)	(1)	(59)	-	(59)
Derecognition of provisions	(4,915)	(6)	(4,921)	-	(4,921)
Foreign exchange translation result	-	1	-	-	-
Tax assets / (liabilities)	**(5,548)**	**(299)**	**(5,848)**	**93**	**(5,941)**

2015 EUR '000	Net balance at 1 Jan	Recognised in profit and loss	Balance at 31 December Net	Deferred tax assets	Deferred tax liabilities
Tax loss carry forwards	674	(674)	-	-	-
Recognition of qualifying intangible assets	(68)	3	(65)	-	(65)
Recognition of qualifying tangible assets	(64)	7	(57)	-	(57)
Securities measured at fair value	(272)	(198)	(470)	-	(470)
Derivatives measured at fair value	(256)	273	17	17	-
Operating lease not recognized in accordance with IAS 17	(58)	-	(58)	-	(58)
Derecognition of provisions	(6,229)	1,314	(4,915)	-	(4,915)
Release of special items with reserve quote portion	(1,319)	1,319	-	-	-
Foreign exchange translation result	-	(9)	-	-	-
Tax assets / (liabilities)	**(7,592)**	**2,035**	**(5,548)**	**17**	**(5,565)**

There is no deferred tax relating to temporary differences associated with investments in group undertakings. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities, when the deferred tax income relates to the same fiscal authority.

11 Cash and balances with central banks

EUR '000	31 Dec 2016	31 Dec 2015
Reserve deposit with central banks	863,222	615,565
Cash in hand	394	509
	863,616	**616,074**

Deposits placed with the Luxembourg Central Bank amount to EUR 785,512 thousand, including EUR 40,512 thousand (2015: EUR 38,443 thousand) related to minimum restricted reserves that approximate to 1% of the Bank's deposits and debt certificates maturing within two years and EUR 745,000 thousand related to the amount placed with BCL to fulfill the LCR requirement, which entered into force in October 2015. An amount of EUR 55,541 thousand (2015: EUR 55,272 thousand) is placed with the Swiss National Bank and EUR 22,169 thousand (2015: EUR 21,958 thousand) is placed with the Monetary Authority of Singapore.

12 Loans and receivables

EUR '000	31 Dec 2016	31 Dec 2015
Loans and receivables to credit institutions		
Repayable on demand	1,019,413	1,892,108
Repayable not on demand	1,263,625	207,587
	2,283,038	**2,099,695**
Loans and receivables to the public		
Repayable on demand	706,921	692,762
Repayable not on demand	1,011,811	1,079,777
	1,718,732	**1,772,539**
	4,001,770	**3,872,234**

The amount of loans and receivables to credit institutions repayable not on demand has significantly increased due to an increase in the amount of term deposits held by the Bank.

The balances, which are past due or impaired and related allowances are set out below:

EUR '000	31 Dec 2016	31 Dec 2015
Loans and receivables, not impaired	3,989,868	3,854,718
Out of which: past due loans	*23,893*	*19,641*
Impaired loans and receivables	18,213	26,033
Loans and receivables before allowances and write offs	4,008,081	3,880,751
Allowances and write offs for individually assessed impaired loans	(6,311)	(8,517)
Allowances and write offs	(6,311)	(8,517)
Loans and receivables, carrying amount	4,001,770	3,872,234

Loans with the carrying amount of EUR 23,893 thousand (2015: EUR 19,641 thousand) are past due at the reporting date but not impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable. These loans and receivables include only the amounts granted to the public.

Maturity information on past due but not impaired loans

	Public	
EUR '000	31 Dec 2016	31 Dec 2015
Remaining maturity (book value)		
Less than 3 months	6,034	5,052
3-12 months	8,026	1,351
1-5 years	8,901	9,064
More than 5 years	932	4,174
Total	23,893	19,641

Reconciliation of allowance for impaired loans is as follows:

EUR '000	2016	2015
Allowance balance at 1 January	8,517	9,294
Provisions	868	2,367
Reversals	(561)	(1,111)
Utilizations	(2,522)	(2,011)
Currency revaluation impact	9	(22)
Allowance balance at 31 December	6,311	8,517

In determining the recoverability of loans and receivables, the Bank considers any change in the credit quality of the loans and receivables from the date credit was initially granted up to the reporting date.

The allowance for impaired loans represents the difference between the carrying amount of these loans and receivables and the present value of the expected future cash flows.

Information about allocation of secured and unsecured loans and receivables to the public is as follows:

EUR '000	31 Dec 2016	31 Dec 2015
Loans and receivables to the public		
Secured	1,705,249	1,747,907
Unsecured	13,483	24,632
	1,718,732	1,772,539

13 Shares

EUR '000	31 Dec 2016	31 Dec 2015
Shares	1,870	1,800
Fund units, equity related	61,322	68,504
	63,192	70,304

EUR '000	31 Dec 2016	31 Dec 2015
Listed shares	-	-
Unlisted shares	63,192	70,304
	63,192	70,304

The investments included above mainly represent participation in seeding funds. The Bank subscribes the seed money to allow the fund to have a minimum capital base at the launch. After a period of time, the fund receives net inflows enough to redeem the seed money to the Bank.

The fair values of the majority of fund units are based on official net asset values.

14 Derivatives

31 December 2016 EUR '000	Fair value Positive	 Negative	Total nominal amount
Derivatives held for trading			
Interest rate derivatives			
Swaps	-	300	21,680
Total	-	300	21,680
Equity derivatives			
Options	10,638	10,638	322,914
Total	10,638	10,638	322,914
Foreign exchange derivatives			
Currency forwards	409,484	356,683	41,119,252
Options	574	608	255,065
Other	1,680	1,519	1,128,541
Total	411,738	358,810	42,502,858
Total derivatives held for trading	422,376	369,748	42,847,452

31 December 2015 EUR '000	Fair value Positive	 Negative	Total nominal amount
Derivatives held for trading			
Interest rate derivatives			
Swaps	-	397	37,250
Total	-	397	37,250
Equity derivatives			
Futures	1,614	1,614	72,925
Options	1,099	1,099	73,708
Total	2,713	2,713	146,633
Foreign exchange derivatives			
Currency forwards	331,989	261,010	33,650,173
Options	1,332	1,296	119,901
Other	273	315	424,408
Total	333,594	262,621	34,194,482
Total derivatives held for trading	336,307	265,731	34,378,365

15 Intangible assets

EUR '000	2016	2015
Acquisition cost		
At 1 January	65,305	47,243
Additions	11,603	18,062
At 31 December	**76,908**	**65,305**
Amortisation		
At 1 January	6,877	5,324
Charge for the year	6,735	1,553
At 31 December	**13,612**	**6,877**
Net book values 31 December	**63,296**	**58,428**

Additions to intangible assets during 2016 and 2015 are mainly related to the change of the core banking system of the Bank, which was launched as from 1 January 2016.

16 Property and equipment

EUR '000	Leasehold improvements	Computer hardware	Motor vehicles	Fixtures	Total
Cost					
At 1 January 2016	12,482	3,945	73	511	17,011
Additions	71	90	14	99	274
Currency impact	-	(2)	-	1	(1)
At 31 December 2016	**12,553**	**4,033**	**87**	**611**	**17,284**
Depreciation					
At 1 January 2016	10,321	3,609	69	79	14,078
Charge for the year	864	66	-	106	1,036
Currency impact	1	(3)	-	(2)	(4)
At 31 December 2016	**11,186**	**3,672**	**69**	**183**	**15,110**
Net book values at 31 December 2016	**1,367**	**361**	**18**	**428**	**2,174**

EUR '000	Leasehold improvements	Computer hardware	Motor vehicles	Fixtures	Total
Cost					
At 1 January 2015	12,482	3,845	106	74	16,507
Additions	-	100	-	437	537
Disposals	-	-	(33)	-	(33)
At 31 December 2015	**12,482**	**3,945**	**73**	**511**	**17,011**
Depreciation					
At 1 January 2015	9,421	3,568	100	66	13,155
Charge for the year	900	41	2	13	956
Disposals	-	-	(33)	-	(33)
At 31 December 2015	**10,321**	**3,609**	**69**	**79**	**14,078**
Net book values at 31 December 2015	**2,161**	**336**	**4**	**432**	**2,933**

17 Other assets

EUR '000	31 Dec 2016	31 Dec 2015
Receivables on securities settlement	1,536	-
Retirement benefit asset	53	52
Cash items in the process of collection	2,190	4,724
Other	2,287	1,605
	6,066	6,381

Information on the fair value of the retirement benefit plan and the present value of the respective liabilities is set out below:

EUR '000	31 Dec 2016	31 Dec 2015
Present value of the obligation	(513)	(466)
Fair value of the plan	566	518
Net retirement benefit asset	53	52

The defined benefit plan was the pre-existing pension scheme transferred to the Bank during the merger with Merita Nordbanken Luxembourg S.A. on 22 June 2000. As of 31 December 2016, the number of people belonging to the scheme is 3 (2015: 3).

The total net pension expense related to the defined benefit plan recognised in the Bank's statement of profit or loss and other comprehensive income for the year is EUR 32 thousand (2015: EUR 34 thousand).

18 Prepaid expenses and accrued income

EUR '000	31 Dec 2016	31 Dec 2015
Accrued fees income linked to funds	176,890	130,079
Prepaid tax asset	-	6,625
Prepaid expenses	6,465	3,256
	183,355	139,960

19 Deposits and borrowings

EUR '000	31 Dec 2016	31 Dec 2015
Deposits and borrowings from credit institutions		
Repayable on demand	220,790	35,785
Repayable not on demand	404,109	28,373
	624,899	64,158
Deposits and borrowings from the public		
Repayable on demand	3,429,625	3,523,029
Repayable not on demand	195,664	452,149
	3,625,289	3,975,178
	4,250,188	4,039,336

20 Other liabilities

EUR '000	31 Dec 2016	31 Dec 2015
Other tax liabilities	3,324	6,459
Accounts payable	1,766	4,439
Other	10,232	4,375
	15,322	15,273

Liabilities classified as other are mainly related to securities settlement proceeds.

21 Accrued expenses and prepaid income

EUR '000	31 Dec 2016	31 Dec 2015
Accrued interest payable	-	142
Other accrued expenses	147,923	114,363
	147,923	114,505

Other accrued expenses are mainly related to sub-management fees payables.

22 Litigation and redundancy provisions

Movements in litigation and redundancy provisions are as follows:

EUR '000	2016	2015	2016	2015	2016	2015
Provisions	Litigation provisions		Redundancy provision		Total	
At beginning of year	4,286	7,313	-	625	4,286	7,938
New provisions made	-	454	6,141	-	6,141	454
Reversals	(630)	(2,349)	-	-	(630)	(2,349)
Utilizations	(455)	(1,226)	(2,038)	(625)	(2,493)	(1,851)
Translation differences	23	94	-	-	23	94
At 31 December	3,224	4,286	4,103	-	7,327	4,286

Litigation provisions are analysed at each reporting date and adjusted to reflect the current best estimate. When necessary, appropriate legal advice is taken into consideration in order to make an assessment of the amount of provisions to be recorded.

23 Subordinated liabilities

Subordinated debt of EUR 51,323 thousand (2015: EUR 51,383 thousand) carries a variable interest rate linked to 6M LIBOR plus margin of 1% p.a. The debt was issued on 15 July 1992 for an indefinite period towards Nordea Bank AB and it is ranked after all other creditors in case of liquidation. The subordinated liability will be repaid only with prior notice of five years and one day in one lump sum with all interest accrued to date of repayment.

24 Equity

a) Share capital and share premium

As at 31 December 2016, the Bank's subscribed and paid up capital amounts to EUR 25,000 thousand (2015: EUR 25,000 thousand), represented by 1,000,000 shares of EUR 25 each.

As at 31 December 2016, the Bank's share premium amounts to EUR 12,246 thousand (2015: EUR 12,246 thousand).

b) Reserves

- In accordance with Luxembourg law, the Bank is required to have reserves of an amount equivalent to at least 5% of the annual net profit until such reserve equals 10% of the share capital. Distribution of the reserve is restricted by Luxembourg Law.

  As at 31 December 2016, the total amount of this reserve included in reserves is EUR 2,500 thousand (2015: EUR 2,500 thousand).

- Included in reserves as at 31 December 2016 is an amount of EUR 11,625 thousand (2015: EUR 11,204 which relates to the creation of a non-distributable reserve. An amount of EUR 7,540 thousand became available for distribution as related to the year 2010 for net worth tax reserve.

Following the simplified merger with Nordea Investment Funds Company I S.A. on 30 December 2013 an amount of EUR 7,850 thousand of non distribuable reserve is still included in the reserves of the Bank. If the amount of the reserve is not maintained (for a reason other than a change in capital) for a five year period, the Bank's liability to income tax will be increased by one-fifth of the amount of the reduction for the year in which the reduction took place.

As at 31 December 2016, the total amount of net worth tax reserve included in reserves is EUR 50,784 thousand (2015: EUR 41,655 thousand).

In respect of the Bank's LTIP for senior management (Note 8), the amount expensed during the year was EUR nil (2015: EUR 40 thousand). Expense is offset by a contribution from the Parent entity for the same amount and is recorded directly in equity. The accumulated cost for the year in respect of the LTIP of EUR 2,065 thousand (2015: EUR 2,065 thousand) has been recognized in equity.

25 Contingencies and commitments

a) Operating lease commitments

Where the Bank is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

EUR '000	31 Dec 2016	31 Dec 2015
No later than one year	4,791	4,755
Later than one year but no later than five years	14,688	18,535
Later than five years	-	843
Total operating lease commitments	**19,479**	**24,133**

b) Credit related commitments

The primary purpose of these instruments is to ensure that funds are available to counterparties as required.

Outstanding credit related commitments are as follows:

EUR '000	31 Dec 2016	31 Dec 2015
Contingent liabilities		
Guarantees given	43,069	46,498
Credit limits		
Unutilised committed lines	22,191	27,516
	65,260	**74,014**

26 Related party transactions

The Bank entered into transactions with the Parent Company, affiliated entities, and the key management personnel within the normal banking practice. Related parties transactions were made on terms equivalent to those that prevail in an arm's length transaction.

The statement of financial position includes the following amounts resulting from the transactions with related parties:

	Parent Company		Affiliated entities	
EUR '000	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Assets				
Loans and receivables to credit institutions	105,583	46,299	2,125,045	2,034,411
Derivatives	1,858	-	215,480	67,685
Other assets	-	-	103	13
Total assets	**107,441**	**46,299**	**2,340,628**	**2,102,109**

	Parent Company		Affiliated entities	
EUR '000	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015
Liabilities				
Deposits from credit institutions	-	-	551,270	35,514
Subordinated liabilities	51,323	51,383	-	-
Derivatives	3,696	1,118	83,284	176,709
Other liabilities	-	-	70,479	64,122
Total liabilities	**55,019**	**52,501**	**705,033**	**276,345**

	Parent Company		Affiliated entities	
EUR '000	2016	2015	2016	2015
Income and expense				
Interest income	-	2	6,693	8,939
Interest expense	(464)	(572)	(3,060)	(3,618)
Commission income	13	-	757	198
Commission expenses	(335)	-	(226,403)	(194,096)
Net gains/(losses) on items at fair value and other foreign exchange revaluation results	-	-	(42,027)	(98,473)
Other income	-	-	2,921	-
Other expenses	(814)	(3)	(8,151)	(6,572)
Net income and expense	**(1,600)**	**(573)**	**(269,270)**	**(293,622)**

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given, guarantee of EUR 200 million was received from the Parent Company by the Singapore branch of the Bank. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Key management personnel have no loans and receivables outstanding as of 31 December 2016 (2015: EUR nil). There was no income or expense generated in relation to balances of key management personnel as of 31 December 2016 (2015: nil).

Compensation to key management personnel is specified in Note 8 and below.

Remuneration of key management personnel

The remuneration of the key management personnel of the Bank, or Executives as defined in Note 8, is set out below in aggregate for each of the categories specified in IAS 24 "Related Party Disclosures".

EUR '000	2016	2015
Short-term employee benefits	3,940	3,807
Post-employment benefits	129	136
	4,069	3,943

Short term employee benefits include salaries, social security contributions, paid annual leave and paid sick leave, profit-sharing and bonuses (if payable within twelve months of the end of the period) and non-monetary benefits (such as medical care, housing, cars and free or subsidised goods or services).

Post-employment benefits include pensions, other retirement benefits, post-employment life insurance and post-employment medical care.

Other long-term benefits include long-service leave or sabbatical leave, jubilee or other long-services benefits, long-term disability benefits and, if they are not payable wholly within twelve months after the end of the period, profit sharing, bonuses and deferred compensation.

27 Investment management services and underwriting functions

The Bank provides its customers with, among others, the following services:
- Private Banking;
- Custody; and
- Fiduciary representation.

Assets managed by the Bank on behalf of third parties are as follows:

EUR '000	31 Dec 2016	31 Dec 2015
Custody and administration of transferrable securities	9,111,280	10,598,935
Fiduciary representation	17,421	194,170
Wealth management	3,405,419	3,127,046
	12,534,120	13,920,151

Assets under management of NIFSA amounted EUR 78.9 billion as of 31 December 2016 (2015: EUR 60.8 billion).

28 Classification of financial instruments

31 December 2016 EUR '000	Loans and receivables	Designated at fair value through profit and loss	Total
Assets			
Cash and balances with central banks	863,616	-	863,616
Loans and receivables to credit institutions	2,283,038	-	2,283,038
Loans and receivables to the public	1,718,732	-	1,718,732
Shares	-	63,192	63,192
Derivatives	-	422,376	422,376
Other assets	6,066	-	6,066
Prepaid expenses and accrued income	176,890	-	176,890
Total	5,048,342	485,568	5,533,910

31 December 2016 EUR '000	Designated at fair value through profit and loss	Other financial liabilities	Total
Liabilities			
Deposits from credit institutions	-	624,899	624,899
Deposits and borrowings from the public	-	3,625,289	3,625,289
Derivatives	369,748	-	369,748
Other liabilities	-	15,322	15,322
Accrued expenses and prepaid income	-	147,923	147,923
Subordinated liabilities	-	51,323	51,323
Total	369,748	4,464,756	4,834,504

31 December 2015 EUR '000	Loans and receivables	Designated at fair value through profit and loss	Total
Assets			
Cash and balances with central banks	616,074	-	616,074
Loans and receivables to credit institutions	2,099,695	-	2,099,695
Loans and receivables to the public	1,772,539	-	1,772,539
Shares	-	70,304	70,304
Derivatives	-	336,307	336,307
Other assets	6,381	-	6,381
Prepaid expenses and accrued income	130,079	-	130,079
Total	4,624,768	406,611	5,031,379

31 December 2015 EUR '000	Designated at fair value through profit and loss	Other financial liabilities	Total
Liabilities			
Deposits from credit institutions	-	64,158	64,158
Deposits and borrowings from the public	-	3,975,178	3,975,178
Derivatives	265,731	-	265,731
Other liabilities	-	15,273	15,273
Accrued expenses and prepaid income	-	114,505	114,505
Subordinated liabilities	-	51,383	51,383
Total	265,731	4,220,497	4,486,228

29 Assets and liabilities at fair value

EUR '000	31 Dec 2016 Book value	31 Dec 2016 Fair value	31 Dec 2015 Book value	31 Dec 2015 Fair value
Assets				
Loans and receivables to credit institutions	2,283,038	2,283,038	2,099,695	2,099,695
Loans and receivables to the public	1,718,732	1,718,592	1,772,539	1,772,326
Shares	63,192	63,192	70,304	70,304
Derivatives	422,376	422,376	336,307	336,307
	4,487,338	4,487,198	4,278,845	4,278,632
Liabilities				
Deposits from credit institutions	624,899	624,899	64,158	64,158
Deposits and borrowings from the public	3,625,289	3,625,289	3,975,178	3,975,178
Derivatives	369,748	369,748	265,731	265,731
Subordinated liabilities	51,323	51,323	51,383	51,383
	4,671,259	4,671,259	4,356,450	4,356,450

Estimation of fair value for assets and liabilities

Financial assets and financial liabilities on the statement of financial position are generally measured at amortised cost.

Fair value is estimated to be equal to the book value (amortised cost) as its reasonable approximation for loans and receivables other than loans and receivables to the public and deposits and borrowings.

Loans and receivables mainly consist of investment loans whose interest repricing period is up to 3 months and mortgage loans with interest repricing period of one year. Fair value of investment loans is considered to approximate its book value due to short maturity and low volatility in interest rates. Fair value of mortgage loans differs to its book value due to longer interest repricing period and higher volatility in interest rates.

Fair value is estimated to be equal to the carrying amount for short-term financial assets and financial liabilities including cash and balances with central banks. The carrying amount is a reasonable approximation of fair value due to limited credit risk and short time to maturity.

Valuation of unquoted equity instruments is normally based on one of the following:

- recent arm's length market transactions;
- current fair value of another instrument that is substantially the same;
- expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- other valuation models.

Determination of fair value from quoted market prices or valuation techniques

The following table presents the valuation methods used to determine fair values of financial instruments carried at fair value.

EUR '000, 31 December 2016	Instruments with quoted prices (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets				
Loans and receivables to credit institutions	-	2,283,038	-	2,283,038
Loans and receivables to the public	-	1,718,592	-	1,718,592
Shares1	61,389	1,759	44	63,192
Derivatives	-	422,376	-	422,376
Liabilities				
Deposits from credit institutions	-	624,899	-	624,899
Deposits and borrowings from the public	-	3,625,289	-	3,625,289
Derivatives	-	369,748	-	369,748
Subordinated liabilities	-	51,323	-	51,323

EUR '000, 31 December 2015	Instruments with quoted prices (Level 1)	Valuation technique using observable data (Level 2)	Valuation technique using non-observable data (Level 3)	Total
Assets				
Loans and receivables to credit institutions	-	2,099,695	-	2,099,695
Loans and receivables to the public	-	1,772,326	-	1,772,326
Shares1	68,504	1,756	44	70,304
Derivatives	-	336,307	-	336,307
Liabilities				
Deposits from credit institutions	-	64,158	-	64,158
Deposits and borrowings from the public	-	3,975,178	-	3,975,178
Derivatives	-	265,731	-	265,731
Subordinated liabilities	-	51,383	-	51,383

[1] The level 3 assets consists of unlisted shares, which grant to the Bank membership rights to particular services.

Level 1 includes financial assets and financial liabilities valued using unadjusted quoted prices in active markets for identical assets or liabilities. This category includes listed equity shares, exchange-traded derivatives and listed securities.

Level 2 includes financial assets and financial liabilities which do not have quoted market prices directly available from an active market, and where fair values are estimated using valuation techniques or models, based wherever possible on assumptions supported by observable market prices or rates prevailing at the reporting date. The Bank's OTC derivatives and unlisted shares fall within this category.

Level 3 includes financial assets and financial liabilities where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

30 Foreign currency risk

The management of the Bank, within the framework of the approved investment policy, sets the limits on all currency positions at the Bank. These positions are monitored daily through the Investment and Currency department which reports matters to upper management to ensure maintaining positions within the approved limits.

The following are the net position of major currencies at the Bank:

EUR '000, 31 December 2016	EUR	SEK	DKK	NOK	USD	Other	Total
Assets							
Cash, balances with central banks and loans and receivables to credit institutions	995,595	344,356	826	253,040	1,213,621	339,216	3,146,654
Loans and receivables to the public	803,276	107,424	190,237	69,009	125,742	423,044	1,718,732
Other remaining assets	737,315	1,149	27	127	84	1,850	740,552
Total assets	**2,536,186**	**452,929**	**191,090**	**322,176**	**1,339,447**	**764,110**	**5,605,938**
Liabilities and equity							
Deposits from credit institutions	27,500	16	124,191	51,138	362,985	59,069	624,899
Deposits and borrowings from the public	1,323,811	467,013	353,615	151,151	925,852	403,847	3,625,289
Subordinated liabilities	51,323	-	-	-	-	-	51,323
Other remaining liabilities and equity	1,298,126	274	145	122	301	5,459	1,304,427
Total liabilities and equity	**2,700,760**	**467,303**	**477,951**	**202,411**	**1,289,138**	**468,375**	**5,605,938**
Net positions, currencies	**(164,574)**	**(14,374)**	**(286,861)**	**119,765**	**50,309**	**295,735**	**-**

EUR '000, 31 December 2015	EUR	SEK	DKK	NOK	USD	Other	Total
Assets							
Cash, balances with central banks and loans and receivables to credit institutions	1,522,699	384,435	168,464	147,292	212,016	280,863	2,715,769
Loans and receivables to the public	863,820	114,265	188,432	50,546	90,007	465,469	1,772,539
Interest-bearing securities							
Other remaining assets	435,171	37,929	11,502	68,993	25,241	35,477	614,313
Total assets	**2,821,690**	**536,629**	**368,398**	**266,831**	**327,264**	**781,809**	**5,102,621**
Liabilities and equity							
Deposits from credit institutions	25,109	12	5	3,370	1	35,661	64,158
Deposits and borrowings from the public	1,506,708	358,860	290,741	149,342	1,268,423	401,104	3,975,178
Subordinated liabilities	51,383	-	-	-	-	-	51,383
Other remaining liabilities and equity	766,600	12,476	1,227	1,342	225,037	5,220	1,011,902
Total liabilities and equity	**2,349,800**	**371,348**	**291,973**	**154,054**	**1,493,461**	**441,985**	**5,102,621**
Net position, currencies	**471,890**	**165,281**	**76,425**	**112,777**	**(1,166,197)**	**339,824**	**-**

31 Maturity analysis for assets and liabilities

Remaining maturity

EUR '000, 31 December 2016	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Cash and balances with central banks	863,616	-	-	-	-	863,616
Loans and receivables to credit institutions	1,019,412	878,489	242,749	142,388	-	2,283,038
Loans and receivables to the public	717,123	475,003	113,492	208,503	204,611	1,718,732
Derivatives	-	412,225	6,943	3,208	-	422,376
Total assets with fixed maturities	**2,600,151**	**1,765,717**	**363,184**	**354,099**	**204,611**	**5,287,762**
Deposits from credit institutions	220,790	47,849	213,872	142,388	-	624,899
Deposits and borrowings from the public	3,429,787	138,338	57,164	-	-	3,625,289
Derivatives	-	358,432	7,807	3,509	-	369,748
Subordinated liabilities	-	-	-	-	51,323	51,323
Total liabilities with fixed maturities	**3,650,577**	**544,619**	**278,843**	**145,897**	**51,323**	**4,671,259**

The maturity analysis is based on contractual maturity.

EUR '000, 31 December 2015	Payable on demand	Maximum 3 months	3-12 months	1-5 years	More than 5 years	Total
Cash and balances with central banks	616,074	-	-	-	-	616,074
Loans and receivables to credit institutions	1,892,108	207,587	-	-	-	2,099,695
Loans and receivables to the public	692,762	496,662	116,072	231,525	235,518	1,772,539
Interest-bearing securities						
Derivatives	-	329,648	6,659	-	-	336,307
Total assets with fixed maturities	**3,200,944**	**1,033,897**	**122,731**	**231,525**	**235,518**	**4,824,615**
Deposits from credit institutions	35,785	25,011	3,362	-	-	64,158
Deposits and borrowings from the public	3,523,029	369,007	83,142	-	-	3,975,178
Derivatives	-	249,960	15,466	305	-	265,731
Subordinated liabilities	-	-	-	-	51,383	51,383
Total liabilities with fixed maturities	**3,558,814**	**643,978**	**101,970**	**305**	**51,383**	**4,356,450**

32 Cash and cash equivalents

Cash and cash equivalents included in the consolidated cash flows statement comprise of the following amounts:

EUR '000	2016	2015
Cash in hand (Note 11)	394	509
Loans and receivables on demand to credit institutions (Note 12)	1,019,413	1,892,108
	1,019,807	**1,892,617**

33 Capital Management

The Bank performs an Internal Capital Adequacy Assessment Process (ICAAP) to ensure that it maintains sufficient available capital for Nordea Bank S.A. and its subsidiaries to cover all the risks taken over a foreseeable future.

The ICAAP provides an overview of the Bank's approach to capital and risk management. It represents the Bank's contribution to the Supervisory Review and Evaluation Process (SREP), Pillar II of the Capital Requirements Directive (CRDIV), a dialogue between banks and supervisors to determine each bank's adequate capital level, based on Circular CSSF 07/301 (in its latest applicable version), issued by the Commission de Surveillance du Secteur Financier (CSSF).

The Bank actively manages regulatory capital requirements as outlined in the CRDIV/CRR. In conformity with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012, published in the Official Journal of the European Union No L 176/1 of 27 June 2013 (hereinafter CRR Regulations), representing applicable provisions with regards to regulatory capital requirements, the Bank is required to maintain eligible own funds at least equal to the amount of its overall capital requirements. In this respect the Bank is required to calculate a capital adequacy ratio designed to ensure that banks set aside sufficient own funds to cover their exposures to credit risk, dilution risk, operational risk, foreign exchange risk, commodity risk and risk related to trading book activities. The capital adequacy ratio compares eligible own funds to the overall capital requirement for the risks concerned.

Credit institutions are required at all times to possess sufficient own funds to meet their overall capital requirement on a stand-alone and, where applicable, on a consolidated basis. The minimum required level of this ratio as of 31 December 2016 is 10.5%.

As of 31 December 2016 the consolidated solvency ratio was 15.62 % (2015: 17.60%). The Bank has complied with capital requirements throughout the whole financial year.

EUR '000	31 Dec 2016	31 Dec 2015
Common Equity Tier 1 (CET1) capital	423,969	352,642
Tier 2 (T2) capital	30,677	35,790
Total capital (TC = T1 + T2)	**454,646**	**388,432**
Credit risk	185,230	141,370
Market risk	-	2,068
Operational risk	47,333	32,453
Credit value adjustment (CVA)	245	688
Capital requirements	**232,808**	**176,579**

34 Financial risk management

During the normal course of business, the Bank is exposed to market risk (interest rate risk, equity risk, and foreign exchange risk), liquidity risk, credit risk (counterparty risk, settlement risk) and operational risk. These risks are monitored and managed through internal risk reports which analyse exposure by degree and magnitude of risks. The aim of risk management within the Bank is to identify and measure, to monitor and control risks and follow closely risk lines and limits, report risks and follow up on risks.

a) Market risk

Market risk is the risk of loss in market value of the Bank's positions with market risk exposure as a result of movements in market factors related to interest rates, equity prices and foreign exchange rates. The Bank's consolidated market risks are assessed from a Euro based currency perspective.

Value at Risk ("VaR") is the main measure of market risk in the Bank for normal market conditions.

VaR estimates the loss in market value that could be expected in rare events in a normal market environment for deep and liquid financial markets.

The VaR models in place as of 31 December 2016 are based on historical changes in market prices and rates over the last 500 days, a holding period of six Banking days and a probability of 99%. The Bank uses historical simulation based on the so-called expected tail loss approach, using the average of the three (or a lower number) most adverse simulation results as an estimate of VaR, and therefore label it tVaR (tail VaR).

tVaR figures are calculated for each type of risk and as total tVaR (across risk categories) for the Bank.

The purpose of the implemented market risk control is to ensure that risks the Bank is exposed to be effectively monitored. The control is carried out by the Bank's Risk & Capital department on a business daily basis according to the Bank's risk policy.

The Group has set up the systems and models needed for calculating the market risk. The Bank's end-of-day transactions and positions bearing market risk are sent electronically to the Group's market risk system at night. Market risk figures are calculated and results are returned to the Bank the following morning. Risk figures are calculated on the basis of Group models, parameters and prices.

The Risk & Capital department has access to an intranet reporting interface provided by the Group ("MARS"). Any risk figures received daily from the Group's system are controlled, validated and approved against the actual limits granted to the Bank via the Bank's overall market risk instructions.

In case of any limit being exceeded the Risk & Capital department will investigate and explanation reports are established jointly with the responsible front office department. Any line excess is reported to Executive Management, the Board and the Group, and corrective measures are taken.

Exchange rate risk

The exchange rate risk is the risk that the value of the financial assets will fluctuate as a result of foreign exchange rate movements. This risk is controlled by adhering to approved currency risk limits, (VaR and FX option risk limits), covered through the Bank's market risk system ("MARS") and the daily controls performed by the Risk & Capital department.

- Foreign exchange VaR limit: EUR 1,000 thousand (2015: EUR 3,200 thousand)
- Foreign exchange risk (VaR): EUR 223 thousand (2015: EUR 2,241 thousand)

The Bank has implemented a limit of EUR 750 thousand on maximum losses on currency options, which is based on reporting from the Bank's internal system used for trading currency-option, and controlled by Risk & Capital department.

Interest rate risk

Interest rate risk is the potential impact on the Bank's earnings and net asset values arising from changes in interest rates. Interest rate risk arises, when the Bank's principal and interest cash flows (including final maturity), both on- and off-balance sheet, have mismatched re-pricing dates or there is a mismatch of floating versus fixed interests.

The Bank has a measurement system for interest rate risk which incorporates each of these risk items. The system for linear risk is based on VaR on the interest rate risk ladders from all interest bearing items and covers the usual yield curve and basic risk. The non-linear risk stemming from options is based on scenario simulation.

- Interest rate VaR limit: EUR 1,250 thousand (2015: EUR 2,500 thousand)
- Interest rate risk (VaR): EUR 322 thousand (2015: EUR 625 thousand)

The interest sensitivity ladder is calculated for a given currency by choosing a number of predefined ladder points on the yield curve (1M, 2M etc., usually 12 points up to 10Y) and calculating the sensitivity to that yield curve point.

A 1% increase or decrease (also referred to as 1% shift) is used when reporting interest rate risk internally to executive management and represents the basis for management's assessment of the reasonably possible change in interest rates.

- Interest rate sensitivity limit: EUR 5,000 thousand (2015: EUR 5,000 thousand).
- Interest rate sensitivity: EUR 762 thousand (2015: EUR 947 thousand).

Investment risk
The Bank from time to time acts as seed investor for investment funds launched by Nordea Group. The risk is that the value of the financial assets will fluctuate as a result of market movements. The Bank has an approved investment limit to control the risk attached to such investments, covered through the Bank's market risk system ("MARS").

- Investment limit: EUR 80,000 thousand (2015: EUR 80,000 thousand)
- Investment amount: EUR 62,969 thousand (2015: EUR 69,973 thousand)

Positions in the Bank's portfolio are monitored daily by the Risk & Capital department. The report used shows all seed investments and also other positions that are booked as part of the Bank's portfolio. The market risk of such position is monitored as part of the interest rate risk and FX risk.

b) Credit risk
Credit risk arises when the inability of the contractual parties to settle their obligation could result in the decrease of the amount of future cash inflows from receivables as at reporting date.

Excluding exposures on legal entities within the Group the credit risks in the Bank stem mainly from various forms of lending to the public (mainly private banking clients) and also from guarantees. Furthermore, credit risk includes counterparty risk, transfer risk and settlement risk.

The credit risk from guarantees arises from the potential claims on customers, for which the Bank issued guarantees.

At the request of the Bank, the CSSF approved the full exemption of risks taken with Nordea Group in relation to the large exposure limits, in accordance with Part XVI, point 24 of the CSSF Circular 06/273 as subsequently amended and then replaced by article 400.2 of the Capital Requirements Regulation n°575/2013.

Management of credit risk
The Board of Directors has, with an exception for Financial Institutions, delegated responsibility for the oversight of the credit risk to the Bank's credit committee. Credit department, reporting to the credit committee is responsible for the management of the Bank's credit risk including:

- following credit policy and guidelines;
- establishing the authorisation for the approval and renewal;
- reviewing and assessing credit risk;
- monitoring concentration and exposure to counterparties.

The general monitoring of credits is done through a risk exposure system inherent to the core banking system. The potential overdraft and/or insufficient collateral cover of any exposure are followed continuously by the wealth partners.

The responsibility for the management of the Bank's credit risk on Financial Institutions and similar counterparties is delegated to the Risk & Capital department.

Maximum exposure to credit risk
(Excluding cash in hand and balances with central banks)

EUR '000	31 Dec 2016	31 Dec 2015
Assets:		
Loans and receivables to credit institutions	2,283,038	2,099,695
Loans and receivables to the public	1,718,732	1,772,539
Derivatives	422,376	336,307
Off-balance sheet		
Guarantees	43,069	46,498
Unutilised committed lines	22,191	27,516
	4,489,406	4,282,555

The breakdown of loans and receivables to the public by type is as follows:

EUR '000	31 Dec 2016	31 Dec 2015
Loans and receivables to the public		
Investment loans	485,511	546,363
Mortgage loans	525,474	533,414
Other	707,747	692,762
	1,718,732	1,772,539

The loans granted to the public are mostly those with private individuals (or where the ultimate risk is towards a private individual).

The collateral for the above presented credit exposures mainly consists of pledged deposits, and/or securities and mortgages on residential properties.

Exposures that have been past due more than 90 days are by definition regarded as non-performing, and reported as impaired or not impaired depending on the deemed loss potential.

The gross and net exposures of loans and receivables are as follows:

EUR '000 31 Dec 2016	Credit institutions	The public	Total
Neither past due nor impaired	2,283,038	1,682,937	3,965,975
Past due but not impaired	-	23,893	23,893
Impaired loans:			
past due and impaired	-	18,213	18,213
Loans before allowances	2,283,038	1,725,043	4,008,081
Allowances for individually assessed impaired loans			
past due and impaired	-	(6,311)	(6,311)
Allowances	-	(6,311)	(6,311)
Loans, carrying amount	2,283,038	1,718,732	4,001,770

EUR '000 31 Dec 2015	Credit institutions	The public	Total
Neither past due nor impaired	2,099,695	1,735,382	3,835,077
Past due but not impaired	-	19,641	19,641
Impaired loans:			
not past due and impaired	-	-	-
past due and impaired	-	26,033	26,033
Loans before allowances	2,099,695	1,781,056	3,880,751
Allowances for individually assessed impaired loans			
not past due and impaired	-	-	-
past due and impaired	-	(8,517)	(8,517)
Allowances	-	(8,517)	(8,517)
Loans, carrying amount	2,099,695	1,772,539	3,872,234

Forbearance is renegotiating terms or restructuring due to a borrower's financial stress. The intention with granting forbearance for a limited period of time is to ensure full repayment of the outstanding debt. Examples of renegotiated terms are changes in amortization profile, repayment schedule, customer margin as well as ease of financial covenants. Forbearance is undertaken on a selective and individual basis and followed by impairment testing. Loan loss provisions are recognized, if necessary. Forborne customer balances without impairment charges are fully covered by either collateral and/or the net present value of future cash flows.

Exposures are treated as forborne if a concession has been made, irrespective of whether any amount is past-due or impaired in accordance with the applicable accounting standards or as defaulted in accordance with Article 178 of Regulation (EU) No 575/2013.

If a performing forborne contract under probation (24 months) is extended additional forbearance measures or becomes more than 30 days past-due, it shall be classified as non-performing.

The gross and net exposures of forborne loans and receivables are as follows:

EUR '000, 31 Dec 2016	The public	Total
Performing	4.249	4,249
Non-performing	5,016	5,016
Forborne loans before allowances	**9,265**	**9,265**
Allowances for individually assessed forborne loans		
Performing	-	-
Non-performing	-	-
Allowances	**-**	**-**
Forborne loans, carrying amount	**9,265**	**9,265**

EUR '000, 31 Dec 2015	The public	Total
Performing	4,086	4,086
Non-performing	-	-
Forborne loans before allowances	**4,086**	**4,086**
Allowances for individually assessed forborne loans		
Performing	(978)	(978)
Non-performing	-	-
Allowances	**(978)**	**(978)**
Forborne loans, carrying amount	**3,108**	**3,108**

Geographical risk

An analysis of geographical concentration of credit risk of loans and receivables, shares and interest-bearing securities and derivatives by residence of a counterparty is as follows:

EUR '000 31 Dec 2016	Loans and receivables	Shares and interest-bearing securities	Derivatives	Total
Luxembourg	118,511	60,547	188,261	367,319
Denmark	192,568	-	442	193,010
Finland	1,658,204	-	215,211	1,873,415
Great Britain	346,582	-	8,284	354,866
Norway	669,145	-	160	669,305
Sweden	229,294	-	4,778	234,072
Switzerland	186,393	-	827	187,220
Other	601,073	2,645	4,413	608,131
	4,001,770	**63,192**	**422,376**	**4,487,338**

EUR '000, 31 Dec 2015	Loans and receivables	Shares and interest-bearing securities	Derivatives	Total
Luxembourg	220,530	51,871	255,558	527,959
Denmark	239,353	-	242	239,595
Finland	2,002,552	-	67,474	2,070,026
Great Britain	359,651	-	4,475	364,126
Norway	147,166	-	72	147,238
Sweden	160,415	-	637	161,052
Switzerland	199,982	-	837	200,819
Other	542,585	18,433	7,012	568,030
	3,872,234	**70,304**	**336,307**	**4,278,845**

Mortgage loans

The Bank grants mortgage loans – primary for residential purposes – to Private Banking clients with residential properties situated mainly in the United Kingdom, France, and Spain.

A mortgage loan program is established for retail clients from Nordea branches in Denmark, Finland, Norway and Sweden. Mortgage loans by location of purchased property are presented as follows:

EUR '000	31 Dec 2016	31 Dec 2015
France	156,748	148,988
Spain	102,952	107,124
United Kingdom	229,170	246,392
Other	36,604	30,910
	525,474	**533,414**

Investment loans

Under this scheme, clients may leverage their investments depending on the collateral composition of the portfolio held with the Bank. The assets, including the assets acquired by the loan proceeds, are deposited with the Bank and are pledged as collateral for the loan. Given the structure of the product, investment loans do not bear a direct geographical risk.

Industry sector allocation of risks

As at 31 December 2016 and 2015, the breakdown by industry sector of the risks held in the securities (except for trading positions and derivatives held for hedging) and loans and receivables before taking into account collateral held and other credit enhancements can be summarized as follows:

EUR '000 31 Dec 2016	Loans and receivables	Shares and interest-bearing securities	Derivatives	Total
Credit institutions	2,283,038	-	221,605	2,504,643
Non-financial corporations	18,163	-	127	18,290
Households	1,278,447	-	8,291	1,286,738
Other	422,122	63,192	192,353	677,667
	4,001,770	**63,192**	**422,376**	**4,487,338**

EUR '000 31 Dec 2015	Loans and receivables	Shares and interest-bearing securities	Derivatives	Total
Credit institutions	2,099,695	-	66,958	2,166,653
Non-financial corporations	13,538	-	50	13,588
Households	1,752,479	-	14,157	1,766,636
Other	6,522	70,304	255,142	331,968
	3,872,234	**70,304**	**336,307**	**4,278,845**

Collateral held and other credit enhancements

EUR '000, 31 Dec 2016	Net carrying amount	Of which secured by			Of which unsecured
		Property	Guarantees	Other	
Loans and receivables to credit institutions	2,283,038	-	-	-	2,283,038
Loans and receivables to the public					
Mortgage loans	525,474	412,882	1,895	102,303	8,394
Lombard loans	485,511	-	2,706	477,716	5,089
Other	707,747	-	-	707,747	-
	1,718,732	**412,882**	**4,601**	**1,287,766**	**13,483**
	4,001,770	**412,882**	**4,601**	**1,287,766**	**2,296,521**

EUR '000, 31 Dec 2015	Net carrying amount	Of which secured by			Of which unsecured
		Property	Guarantees	Other	
Loans and receivables to credit institutions	2,099,695	-	-	-	2,099,695
Loans and receivables to the public					
Mortgage loans	533,414	467,187	2,205	41,407	22,615
Lombard loans	546,363	-	2,568	541,778	2,017
Other	692,762	-	-	692,762	-
	1,772,539	**467,187**	**4,773**	**1,275,947**	**24,632**
	3,872,234	**467,187**	**4,773**	**1,275,947**	**2,124,327**

The Bank does not require collateral for its exposures to credit institutions as the Group policy requires the Bank to deal only with counterparties having a good credit rating, as stated in the section "Credit quality monitoring" hereafter.

Litigation provisions included within liabilities on the Statement of financial position related to specific mortgage loans are taken into account in the above table when classifying mortgage loans as secured or unsecured. The portion of a mortgage loan, against which a litigation provision is recognized, is disclosed under "Other" security category.

Investment loans are mainly secured by cash and securities. Other loans to the public, which include current accounts overdrafts are mainly secured by securities portfolios.

Loan-to-value distribution

A common way to analyse the value of collateral is to measure the loan to value ("LTV") ratio, i.e. the credit extended divided by the market value of the collateral pledged. In the table below, the mortgage exposures are distributed by LTV range up to the top LTV bucket based on the LTV ratio.

	31 Dec 2016		31 Dec 2015	
Retail mortgage exposure	**EURmln**	**%**	**EURmln**	**%**
<50%	133.1	25	95.9	18
50-70%	156.8	30	182.7	34
70-80%	153.6	29	136.2	26
80-90%	36.6	7	42.8	8
90-100%	10.7	2	37.2	7
>100%	36.5	7	38.6	7
Total, gross	**527.3**	**100**	**533.4**	**100**
Allowances	(1.9)		(8.5)	
Total, net	**525.4**		**524.9**	

Warning signals for investment loans

To ensure a proper follow-up on credit exposures, collateral margin limits are set ("observation limit", "intervention limit" and "realization limit"). If the observation limit (collateral margin below 75% of the required excess cover) is breached, the Bank has to contact the client with the aim to restore the security margin and the client is also put under observation. If the intervention limit (collateral margin below 50% of the required excess cover) is breached, the Bank is entitled to demand additional collateral to

re-establish the required collateral margin. If the realization limit (collateral margin below 25% of the required excess cover) is breached the Bank is entitled, but not obliged, to sell all or part of the securities pledged and to reduce the exposure by the sales proceeds and/or to close any open positions of derivatives.

These limits are stipulated in agreements with the customer, these agreements being the facility letter and security agreement, which have to be signed before any drawings can be made under the facility.

Past due but not impaired loans
Past due but not impaired loans are those for which contractual interest or principal payment are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or stage of collection of amounts owed to the Bank.

Collateral permitted to be sold or repledged in the case of default of the borrower:

EUR '000	31 Dec 2016	31 Dec 2015
Bonds	1,732,007	3,866,497
Shares	4,790,354	1,602,841
Other assets	1,749,282	2,025,492
	8,271,643	7,494,830

Assets in the amount of EUR 8,271,643 thousand (2015: EUR 7,494,830 thousand) are held as collateral for facilities granted to customers. These facilities represent investment facilities granted to customers to invest in securities and derivatives. Under the terms of the facility agreement, should the collateral margin fall to or below 50% and 25% of the required excess cover, subject to written notice to the customer of 5 days and 3 days respectively, the Bank is entitled to sell all or part of the pledged assets sufficient to restore the collateral margin to 100%.

During the year the Bank did not force sale on any pledged securities (2015: EUR nil).

Allowances for impairment
The Bank establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of incurred losses in its loan and investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures. Assets carried at fair value through profit and loss are not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Write-off policy
The Bank writes off a loan or advances, and any related allowances for impairment losses, when the Bank's credit committee determines that the loan or advance is uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Credit quality monitoring

Lending to credit institutions
The Bank's network comprises custody and settlements accounts with custodian and clearing banks as well as cash accounts with bank-correspondents.

Following the Group's policy, the correspondent network selection procedures are centralised with International Banks division. This division issues and monitors a list of authorised correspondents for all Group entities. Respective credit limits for each counterparty are also determined in a centralized manner and communicated to the Bank on an annual basis. These credit limits are granted based on the group-wide counterparty' credit risk analysis.

Generally, the following criteria are applied to the bank-correspondents:
- long-term rating at Moody's or Standard and Poor's of A3/A- or better or a short-term rating of P-1/A-1 if a long-term rating is not available;
- one of the largest within its jurisdiction measured by capital and should be of significant importance for the local economy;
- one of the largest within its field of services and should have a client base including a significant proportion of large foreign institutions.

In addition, the correspondent should have a good reputation in the market regarding operational reliability and prudent banking practice.

Lending to the public
In order to ensure proper follow-up of credit exposures to the public the Bank closely monitors their security margin. Security margin is a ratio built on the weighted average value of collateral and customer's credit exposure. For fully secured commitments the security margin should be maintained at 100% or above. If the security margin falls below 100% the Bank has procedures in place aiming to restore the security margin above 100%. In critical cases, the Bank has the right (but not the obligation) to realise collateral or to reduce respective exposure and therefore to limit the risk of loss to the Bank.

c) Liquidity risk
The liquidity risk relates to losses the Bank may suffer from the possible weakness to fulfil its obligations mainly with regard to the repayment of deposits and the granting of advances. To deal with the liquidity risk, the Bank is closely monitoring the origin of deposits and their expiry date and complies with the liquidity regulations of the Central Bank of Luxembourg.

The Bank is making use of the Group liquidity risk application (Treasury Risk Calculator) in order to measure and control the Bank's overall liquidity gap for each day. The report is reviewed on a daily basis by Risk & Capital department to ensure that the limit is respected. The liquidity gap is also reported business-daily to Nordea Group Treasury which aggregates liquidity risk information for Nordea Group.
- Liquidity gap limit: EUR 1,200 million
  (2015: EUR 1,200 million) for the timeframe of up to 30 days
- Liquidity gap utilisation: EUR 326 million
  (2015: EUR 256 million)

The Bank's liquidity is monitored and controlled by use of the above mentioned report application and also include a monitoring the report on individual currency mismatch positions.

The contractual undiscounted cash outflows of the Bank's non-derivative financial liabilities are presented in the table below:

EUR '000, 31 December 2016	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Deposits from credit institutions	220,790	47,849	213,872	142,388	-	624,899
Deposits and borrowings from the public	3,429,787	138,338	57,164	-	-	3,625,289
Subordinated liabilities	-	-	-	-	51,323	51,323
Other liabilities	33,548	-	7,327	-	-	40,875
Total	**3,684,125**	**186,187**	**278,363**	**142,388**	**51,323**	**4,342,386**

EUR '000, 31 December 2015	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Deposits from credit institutions	35,785	25,011	3,362	-	-	64,158
Deposits and borrowings from the public	3,817,688	74,348	83,142	-	-	3,975,178
Subordinated liabilities	-	-	-		51,383	51,383
Other liabilities	129,778	-	4,286	-	-	134,064
Total	**3,983,251**	**99,359**	**90,790**	**-**	**51,383**	**4,224,783**

The contractual undiscounted cash outflows of the Bank's derivative financial liabilities are presented in the table below:

EUR '000, 31 December 2016	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Derivatives	14,435,314	27,609,244	457,791	510	-	42,502,859

EUR '000, 31 December 2015	Up to 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Derivatives	16,500,147	16,705,137	505,247	-	-	33,710,531

The contractual undiscounted cash flows of the Bank's derivative financial liabilities result from the currency-related derivative contracts.

d) Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risk arises from each of the Bank's operations.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management. This responsibility is supported by the development of overall Bank's policies for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;
- development of contingency plans;
- training and professional development;
- ethical and business standards;
- risk mitigation, including insurance where this is effective.

Compliance with the Bank's policies is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate.

Litigation risk

Litigation risk is the risk of financial loss, interruption of the Bank's operations or any other under sizable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through the contracts used by the Bank to execute its operations.

Reputation risk

The risk of loss of reputation arising from the negative publicity relating to the Bank's operations (whether true or false) may affect the client basis and result in a reduction in revenue and legal cases against the Bank. The Bank applies procedures to minimise this risk through training and professional development of its employees, by initiating marketing activities directed to maintain positive reputation of the Bank and by publishing the positive performance and financial position of the Bank.

Other risks

The general economic environment prevailing internationally may affect the Bank's operations to a certain extent. Concepts such as inflation, unemployment, and development of the gross domestic product are directly linked to the economic course of every country and any variation in these and the economic environment in general may create chain reactions in all areas hence affecting the Bank.

35 Return on assets

The return on assets of the Bank for the year ended 31 December 2016 stands to 2.83 % (2015: 2.90%).

The return on assets is calculated as being the net profit divided by the total assets.

36 Deposit guarantee schemes

The Law of 18 December 2015 on the resolution, reorganisation and winding-up measures of credit institutions and certain investment firms and on deposit guarantee and investor compensation schemes transposed the Bank Recovery and Resolution Directive (Directive 2014/59/UE) and the Deposit Guarantee Schemes Directive (Directive 2014/49/UE). The Deposit Guarantee and Investors Compensation Schemes currently set up by l'Association pour la Garantie des Dépôts Luxembourg (AGDL) will be replaced by an ex-ante contribution scheme.

The aggregate eligible deposits of each depositor will be covered up to EUR 100,000 (Luxembourg Deposit Guarantee Schemes) and the aggregate eligible investment transactions of each investor will be covered up to the amount of EUR 20,000 (Luxembourg Investors Compensation Schemes). Deposits resulting from private real estate transactions that serve social purposes or linked to the payment of insurance benefits or compensation for criminal injuries or wrongful conviction will be covered over EUR 100,000 for 12 months at the maximum.

The funded amount of the FRL shall reach by the end of 2024 at least 1% of covered deposits, as defined in article 1 number 36 of the Law, of all authorized credit institutions in all participating Member States.

This amount will be collected from the credit institutions through annual contributions during the years 2015 to 2024. The target level of funding of the FGDL is set at 0.8% of covered deposits, as defined in article 163 number 8 of the Law, of the relevant credit institutions and is to be reached by the end of 2018 through annual contributions. The contributions are to be made in the form of annual payments during the years 2016 to 2018. When the level of 0.8% is reached, the Luxembourgish credit institutions are to continue to contribute for 8 additional years in order to constitute an additional safety buffer of 0.8% of covered deposits as defined in article 163 number 8 of the Law.

During the year 2016 the Bank received reimbursement of AGDL of EUR 135 thousand and contributed EUR 609 thousand and EUR 469 thousand to FRL and FGDL respectively (Note 9).

37 Country by country reporting

The name, nature of activities and geographical location of the principal subsidiaries and all branches of the Bank are as follows:

Name of company	Description of activities	Jurisdictions of company and any branches
Nordea Bank S.A.	Banking Activities	562, rue de Neudorf L-2220 Luxembourg
Nordea Bank S.A. - Singapore branch	Banking Activities, representative office	#09-03, CapitaGreen 138 Market Street 048946, Singapore
Nordea Bank S.A. - Switzerland branch	Banking Activities, representative office	21 Mainaustrasse 8008 Zürich Switzerland
Nordea Investment Funds S.A.	Distribution of Nordea Investment Funds and investment advisory services.	562, rue de Neudorf L-2220 Luxembourg

Country by country report for the year ended 31 December 2016 (in EUR '000 if not stated otherwise):

Jurisdiction	Total operating income	Average number of employees	Profit before tax	Corporation tax	Public subsidies received
Luxembourg	347,295	455	224,558	(65,093)	-
Singapore	918	12	(2,211)	-	-
Switzerland	10,946	30	1,778	(187)	-
	359,159	497	224,125	(65,280)	-

38 Subsequent events

There have been no material events after the reporting date, which require disclosures or adjustments to the consolidated financial statements for the year ended 31 December 2016.

Luxembourg
Nordea Bank S.A.
562, rue de Neudorf
P.O. Box 562
L-2015 Luxembourg
Tel +352 43 88 77 77
Fax +352 43 88 76 11
nordea@nordea.lu
www.nordea.lu

Switzerland
Nordea Bank S.A. Luxemburg,
Zweigniederlassung Zurich
Mainaustrasse 21-23
Postfach
CH-8034 Zurich
Tel +41 44 421 42 42
Fax +41 44 421 42 82
nordea@nordea.ch
www.nordea.ch

Singapore
Nordea Bank S.A. Singapore Branch
138 Market Street
#09-03 CapitaGreen
Singapore 048946
Tel +65 6597 1070
Fax +65 6597 1080
nordea@nordea.sg
www.nordea.sg