Capital and Risk Management Report 2019

Aktia

Content

1. Main events

Aktia Asset Management to become a wholly-owned subsidiary of Aktia Bank

Aktia Bank plc and Evergreen Holding Ltd, the minority shareholder in Aktia Asset Management Ltd, have reached an agreement whereas Aktia Bank Plc will acquire the minority share of 24% in Aktia Asset Management in full. As a result, Aktia Asset Management will become a wholly-owned subsidiary of Aktia Bank by the end of the first quarter 2020. The aim of the simplified ownership structure is to support the management and development of asset management in line with Aktia's updated strategy.

Aktia acquires Alandia's life insurance portfolio

Aktia Life Insurance Ltd and Forsakringsaktiebolaget Liv-Alandia have agreed on the transfer of Alandia's life insurance portfolio to Aktia. The transfer is planned to take place during the first quarter of 2020. Aktia is currently already handling most of Liv-Alandia's insurance portfolio.

A lower Pillar 2 requirement

The Finnish Financial Supervisory Authority has on 13 December 2019 imposed a discretionary additional capital requirement (Pillar 2) under chapter 11, section 6, subsection 2, paragraph 1 subparagraph a) of the Act on Credit institutions (610/2014) for Aktia Bank Plc Group. The Pillar 2 requirement amounts to 1.25% and must be fulfilled with Common Equity Tier 1 capital as defined in EU's Capital Requirements Regulation (575/2013). The requirement is valid until further notice as of 30 June 2020 but not longer than until 30 June 2023. Aktia's current Pillar 2 requirement is 1.75%.

Changes in Executive Committee

Niina Bergring, M.Sc. (Econ.) appointed Director for business area Asset Management as of 1 January 2020. She is a member of Aktia's Executive Committee. In order to speed up the strategy implementation and to further increase operational efficiency, the following changes were made in the Executive Committee members' areas of responsibility:
Executive Vice President Juha Hammaren focuses on advancing the Group's strategic transactions, further develop the bank's credit portfolio and balance sheet as well as continue as Chairman of the Board of Aktia Life Insurance. Hammaren also continues as member of the Executive Committee and as Deputy CEO.

HR Director and member of the Executive Committee Anu Tuomolin appointed Chief Operating Officer (COO) responsible for HR, Business Risk Management, Production Center and Data & Analytics. The changes in the Executive Committee's areas of responsibility entered into force on 1 November 2019.

Strategy and long-term financial targets

Aktia updated its strategy and its long-term financial targets at the Capital Markets Day on 10 September 2019. According to the strategy update, extending to 2023, Aktia is seeking an even stronger growth in asset management and new customers in the growing cities in Finland, and continues to further intensify its operations. The aim of the strategy is to support Aktia's growth targets and to lead the company towards the new vision of being "The good bank. And a great asset manager".

Service model renewal and cooperation negotiations

Aktia's co-operation negotiations initiated on 19 September have been concluded on 31 October. After the conclusion of the negotiations the company has decided on changes leading to a reduction of 92 jobs and approximately 50 employees will be offered a new job. Aktia is seeking growth in growing cities and will merge 18 of its branches with other branches. Aktia is now strongly renewing its operation and service model and is creating a bank of the future.

Aktia involved in the first electronic housing transaction in Finland

On 18 June 2019, Aktia participated in the first electronic housing transaction in Finland where each stage of the transaction process, from the signing of the deeds of sale to the transfer tax, were conducted electronically. Aktia has participated in the development of digital housing transactions from the beginning and together with other Finnish banks been part of the joint venture that owns DIAS, the digital system for housing transactions. DIAS is a platform enabling digital housing transactions through a system between real estate agencies, property developers and banks. The platform is based on blockchain technology.

The launch of a new Investment Assistant solution

Aktia launched in summer 2019 a new digital Investment Assistant solution in order to create an easily accessible tool for digital savings and investments. With the help of the Investment Assistant Aktia's customers can define their own savings target and choose the most suitable tools for reaching the target. From the customer's point of view the Investment Assistant renews and digitalises many key banking services and makes it more flexible. The Investment Assistant has been developed in active co-operation with Aktia's customers.

Aktia divested its holdings in Samlink Ltd

On 23 January 2019, Aktia entered into an agreement to divest its holdings (22.56%) in Samlink Ltd to Cognizant Technology Solutions Finland Ltd. The divestment was finalised on 1 April 2019. In 2013 Aktia took the strategic decision to renew its core banking system and to waive from Samlink's system environment. The transaction generated a EUR 9.6 million sales gain in the second quarter, which affects the Group's reported operating profit for 2019. However, the transaction does not have an effect on the Group's comparable operating profit.

Renewal of business segments

Aktia's operations are now divided into the following three business segments: Banking Business, Asset Management and Group Functions. Aktia is reporting according to the new business segments as of 1 January 2019. The new segment Banking Business comprises the previous segment Personal & Corporate Banking as well as Aktias private banking business and the banking business of institutional customers, which previously were included in the Wealth Management segment. The new segment Asset Management comprises the previous Wealth Management segment, excluding the private banking business and the banking business of institutional customers, which from now on are included in the new Banking Business segment. Central functions, including the Group's treasury operations, will still form part of the Group Functions segment.

Business environment

Financial development was relatively modest in Finland during 2019, but the uncertainty in the world economy weighed down the outlook. Statistics Finland's meter of the economic situation showed 0.5% growth during December compared to the previous year, and the corresponding number in November 2018 was 1.6%. In December, the employment rate increased to 73.0%. The unemployment rate stayed relatively stable in 2019, and during the last quarter, unemployment was 6.0%. The prices for older terraced houses and apartments increased by 0.4% during the third quarter of 2019 compared to the previous year. The aggregated numbers are due to huge regional differences. Prices in the Helsinki region increased by 1.5%, while prices remained stable in the rest of the country.

Rating

On 18 December 2018, Standard & Poor's confirmed its rating of Aktia Bank plc's creditworthiness. The rating is A- for long-term borrowing and A2 for short-term borrowing, both with a stable outlook.

On 13 September 2019, Moody's Investors Service confirmed the long- and short-term deposit ratings of Aktia Bank. The Senior Unsecured rating was A1/P-1. Moody's Investors Service confirmed an Aaa rating for Aktia Bank's long-term Covered Bonds. The outlook is stable.

Profit 2019

The Group's operating profit increased to EUR 74.8 (67.6) million, and the Group's profit to EUR 61.8 (56.0) million. The comparable operating profit increased to EUR 68.2 (65.4) million.

Income

The Group's operating income increased to EUR 221.4 (210.1) million. Comparable operating income increased by 3% to EUR 211.4 (206.1) million. Net interest income decreased by 10% to EUR 77.6 (85.9) million. Net interest income from borrowing and lending increased by 5% to EUR 73.4 (70.1) million. Interest income from hedging measures through interest rate derivatives decreased by EUR 7.4 million to EUR 4.0 (11.4) million. The remaining active interest rate derivatives for hedging purposes, i.e. to hedge demand deposit accounts and savings deposits, were unwound in August 2019. The unwound interest rate derivatives resulted in a positive cash flow of EUR 7.5 million, which is accrued in net interest income in accordance with the interest rate derivatives' original maturity for 2019-2023. Interest income from the bank's liquidity portfolio decreased to EUR 6.1 (8.3) million, and interest income from Aktia's TLTRO financing programme to EUR 1.6 (3.5) million.

Net commission income was EUR 96.4 (95.6) million. Taking into account the reference period's income from the divested real estate agency and the terminated cooperation with Folksam, as well as the changes in accounting principles for recognition of insurance brokerage commissions, net commission income increased by 6% to EUR 96.4 (90.6) million. Commission income from funds, asset management and securities brokerage increased by 7% to EUR 63.9 (59.6) million. Card and other payment service commissions increased by 5% to EUR 25.6 (24.4) million. Commission income from borrowing and lending decreased by 4% to EUR 13.2 (13.8) million.

Net income from life insurance increased by 40% to EUR 30.0 (21.4) million, which was related to unrealised value changes in the investment portfolio of EUR 6.3 (-4.6) million. An interest reserve of EUR 10.0 million was booked in November, which was compensated by realised sales profits from the investment portfolio. The actuarially calculated result excluding the interest reserve was somewhat higher than last year.

Net income from financial transactions was EUR 5.6 (4.9) million, which included additional income of EUR 0.5 million from the divestment of Visa Europe to Visa Inc. The reference period included a profit from the divestment of the shareholding in Folksam Non-Life Insurance of EUR 4.0 million, and a value change in the shareholding in Bohemian Wrappsody of EUR -1.0 million. Comparable net income from financial transactions increased to EUR 5.2 (1.9) million. The increase was related to net income from derivative instruments (EUR 0.9 million), net income from currency operations (EUR 0.7 million), a value change in shares and participations (EUR 0.6 million), net income from hedge accounting (EUR 0.6 million), and a change in the model-based credit losses (ECL) of the bank's interest-bearing securities (EUR 0.4 million). Other operating income amounted to EUR 11.4 (2.3) million and included a profit of EUR 9.6 million from the divestment of shares in Samlink Ltd. The reference period included a profit from the divestment of Aktia Real Estate Agency Ltd of EUR 1.1 million.

Expenses

Operating expenses amounted to EUR 143.9 (143.0) million, including EUR 3.5 (1.8) million in restructuring costs.

Comparable operating expenses decreased to EUR 140.4 (141.2) million. Staff costs increased to EUR 69.0 (66.7) million, including EUR 2.2 (1.8) million in restructuring costs. Comparable staff costs increased by 3% to EUR 66.8 (64.9) million. The increase was mainly related to costs for the AktiaUna programme. The running staff costs were at approximately the same level as last year.

IT expenses increased to EUR 26.2 (25.6) million. The higher expenses were mainly related to higher investments during the first half of 2019 compared to 2018. During the second half of the year, expenses were lower than last year. The depreciation of tangible and intangible assets increased to EUR 19.5 (12.4) million, and included depreciation of real estate leases and cars in accordance with IFRS 16 of EUR 6.8 (-) million. Other operating expenses decreased to EUR 29.2 (38.3) million, including restructuring costs of EUR 1.3 (0.0) million. Other comparable operating expenses decreased to EUR 27.9 (38.3) million. Rental expenses of EUR 7.3 million are reported as depreciations and interest expenses in accordance with IFRS 16 from 1 January 2019. Other expenses that have decreased since last year are mainly related to purchased services, postage costs and card manufacturing costs. Impairment on credits and other commitments increased to EUR -4.5 (-0.8) million, of which the change in the allowance for model-based credit losses (ECL) amounted to EUR -0.7 (0.3) million. The share of profit from associated companies mainly comprised a dividend of EUR 1.7 (1.3) million from Samlink Ltd.

Balance sheet and off-balance sheet commitments The Group's balance sheet total increased to EUR 9,697 (9,267) million. Off-balance sheet commitments consisting of credit limits, other loan promises and bank guarantees increased to EUR 641 (518) million.

Borrowing from the public and public-sector entities amounted to EUR 4,060 (3,963) million. Aktia's market share of deposits was 3.2% (3.3%) at the end of December. The value of bonds issued by the Aktia Bank totalled EUR 2,526 (2,460) million. Of these, EUR 1,631 (1,666) million were Covered Bonds issued by Aktia Bank.

Table 1.1 Key metrics

EUR million	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018
Available capital (amounts)					
Common Equity Tier 1 (CET1)	388.1	390	390	390	384.2
Tier 1	388.1	390	390	390	384.2
Total capital	490.7	500	442.5	446.6	451.7
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	2,637	2,495	2,384	2,305	2,199
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	14.7	15.6	16.5	16.9	17.5
Tier 1 ratio (%)	14.7	15.6	16.5	16.9	17.5
Total capital ratio (%)	18.6	20.0	18.6	19.4	20.5
Additional CET1 buffer requirements as a percentage of RWA					
Capital conservation buffer requirement (%)	2.5	2.5	2.5	2.5	2.5
Countercyclical buffer requirement (%)	0.05	0.05	0.05	0.05	0.05
Pillar 2 requirement (SREP, %)	1.75	1.75	1.75	1.75	1.75
Total of bank 'CET1-specific' buffer requirements (%) (row 8 + row 9 + row 10)	4.30	4.30	4.30	4.30	4.30
CET1 available after meeting the bank's minimum capital requirements (%)	7.0	7.9	8.8	9.1	9.8
EU CRR leverage ratio					
Total EU CRR leverage ratio exposure measure	8,475	8,344	8,302	8,676	8,111
EU CRR leverage ratio (%) (row 2 / row 13)	4.6	4.7	4.7	4.5	4.7
Liquidity coverage ratio					
Total HQLA	1,050	927	914	1,385	901
Total net cash outflow	893	698	792	1228	630
LCR ratio (%)	118	133	115	113	134
Net stable funding ratio					
Total available stable funding	6,534	6,958	6,992	7,040	6,402
Total required stable funding	5,528	5,446	5,413	5,401	5,366
NSFR ratio	1.18	1.28	1.29	1.30	1.19

In February, Aktia Bank issued a new long-term Covered Bond to a value of EUR 500 million and with a maturity of 7 years. The issue was conducted on very favourable terms, and it was oversubscribed more than twofold. Bonds with a value of EUR 2,032 (2,264) million were reserved as security for the Covered Bonds issue.

Aktia Bank issued a Tier 2 loan of EUR 70 million on the capital market in September. Through the issue, outstanding debentures originally sold to private customers were replaced. The Tier 2 loan is more efficient for the capital adequacy calculation than earlier debenture loans because of its structure. During the year, Aktia Bank also issued new long-term unsecured bonds to a value of EUR 120 million as part of its EMTN programme.

Total Group lending to the public and public-sector entities increased by EUR 322 million to EUR 6,429 (6,107) million. Loans to households accounted for EUR 4,886 (4,756) million, or 76.0% (77.9%) of the loan book. The housing loan book totalled EUR 4,877 (4,698) million, of which the share for households was EUR 4,026 (3,958) million.

Aktia's new lending to households increased to EUR 1,057 (951) million. At the end of December, Aktia's market share in housing loans to households stood at 4.0% (4.1%). Corporate lending accounted for 12.0% (11.6%) of Aktia Group's loan book. Total corporate lending increased to EUR 771 (708) million. Loans to housing companies amounted to EUR 738 (604) million, making up 11.5% (9.9%) of Aktia's total loan book. The increase was partly related to Aktia's purchase of loans to housing companies of EUR 55 million from the Mortgage Society of Finland at the end of 2019.

Aktia Group's financial assets consist of the liquidity portfolio and other interest-bearing investments of the Bank Group, amounting to EUR 1,326 (1,368) million, the life insurance company's investment portfolio, amounting to EUR 546 (551) million, and the equity holdings of the Bank Group, amounting to EUR 5 (4) million. The Group's total assets under management amounted to EUR 11,963 (10,466) million.

The liquidity portfolio consists of high-quality assets that can be used to meet liquidity requirements in stressed situations. The unencumbered assets in the liquidity portfolio which can be used as a liquidity reserve, including cash and balances with central banks, had a market value of EUR 1,104 (965) million at the end of the period. All bonds met the criteria for refinancing at the central bank.

The liquidity risk is, among other things, followed up by the Liquidity Coverage Ratio (LCR). The LCR measures the short-term reserve, consisting of unencumbered high-quality assets, to ensure it is sufficient to meet short-term net outflows in stressed situations over the coming 30 days. The LCR fluctuates over time, partly depending on the maturity structure of the bank's issued securities. The LCR amounted to 118% (134%). The liquidity risk is also followed up through the Net Stable Funding Ratio NSFR, which measures the long-term structural liquidity risk. The NSFR amounted to 118% (119%).

Capital adequacy and solvency

At the end of the period, the Common Equity Tier 1 capital ratio of Aktia Bank Group (Aktia Bank plc and all its subsidiaries except Aktia Life Insurance) was 14.7% (17.5%). After deductions, Common Equity Tier 1 capital increased by EUR 3.9 million during the period, which improved the CET1 capital ratio by 0.1 percentage points. Risk-weighted assets increased by EUR 437.7 million, which reduced the CET1 capital ratio by 2.9 percentage points. The increase in risk-weighted assets was mainly attributable to the implementation of the IRB approach to certain corporate exposures (Foundation Internal Ratings Based Approach FIRB) during the third quarter and the growth in corporate lending.

For Aktia Life Insurance, the solvency ratio was 192.1% (229.8%). The solvency ratio without transitional measures was 122.2% (141.5%).

The financial conglomerate's capital adequacy ratio was 131.6% (166.1%). The financial conglomerate's capital adequacy decreased during the period due to an increase in the conglomerate's minimum amount for its capital base. The statutory minimum stipulated in the Act on the Supervision of Financial and Insurance Conglomerates is 100%.

More detailed information concerning Aktia's strategy and the financial year can be found in Aktia's Annual Reports and Accounts Announcements, and at www.aktia.com.

2. Introduction

Aktia Bank plc, Finnish business ID 2181702-8, provides these public disclosures according to Part Eight of Regulation (EU) No. 575/2013, commonly referred to as the Capital Requirements Regulation (CRR), on its consolidated basis.

This disclosure constitutes a comprehensive disclosure of risks, risk management and capital management. It includes disclosures or references to other disclosures required in accordance with Part Eight of the CRR and tables especially recommended by European Banking Authority (EBA) guidelines on disclosure requirements under Part Eight of the CRR. An overview of information exempted from disclosure due to its being non-material, proprietary or confidential can be found in Appendix 6c. The disclosures are made annually in conjunction with the date of publication of Aktia Group's financial statements. For items Aktia has assessed as requiring more frequent disclosures, information is given in the interim financial reports or on the Investor Relations pages at www.aktia.com.

By approving this report, the Board of Directors approves the formal statement of key risks in Section 2, and formally declares the adequacy of risk management arrangements, given Aktia's risk profile. The Board of Directors has approved the Group principles for publication of disclosures according to Part Eight of the CRR, Article 435(1).

The figures in this report are based on economic information that is presented and audited in the 2019 Annual Report. This report is not externally audited; however, control mechanisms, internal control processes and policies provide certainty to stakeholders about its accuracy and relevance. All figures in this report are as of year-end 2019 unless otherwise stated.

2.1 Description of Aktia Group

Aktia is a Finnish asset manager, bank and life insurer that has been creating wealth and well-being from one generation to the next for 200 years. We serve our customers in digital channels everywhere and face-to-face in our offices in the Helsinki, Turku, Tampere, Vaasa and Oulu regions. Our award-winning asset management business sells investment funds internationally. We employ approximately 750 people around Finland. Aktia's assets under management (AuM) on 31 December 2019 amounted to EUR 9.9 billion, and the balance sheet total was EUR 9.7 billion.
Aktia announced its updated strategy and presented its new financial targets in conjunction with the Capital Markets Day held in September 2019 in Helsinki. Aktia is seeking even stronger growth in asset management and new customers in Finland's growing cities, and continues to further increase its operational efficiency. The aim of the strategy is to support Aktia's growth targets and lead the company towards the new vision of being "a good bank and a great asset manager".
Aktia Group focuses primarily on banking, asset management and life insurance operations. Risks and risk management are thus a substantial part of Aktia's operating environment and business activities. The main areas of risk are credit, interest and liquidity risks in banking activities, and interest and other market risks, as well as insurance risks in the life insurance business. All the Group's operations are exposed to business and operational risks.

Aktia Bank plc is the parent company of Aktia Group. The regulatory reporting, capital adequacy calculations, and internal risk and capital allocation assessments are compiled for the Bank Group. The Bank Group includes Aktia Bank plc and all its subsidiaries, excluding insurance holdings (the subsidiary Aktia Life Insurance Ltd); see Table 2.1.

Table 2.1 The differences in the basis of consolidation for accounting and prudential purposes

Owner	Company	Branch	Voting power	Accounting consolidation	Prudential consolidation in accordance with CRR
Aktia Bank Plc	Aktia Finance Ltd	Financing	100%	purchase method	fully consolidated
	Aktia Fund Management Company Ltd	Investment funds	100%	purchase method	fully consolidated
	Aktia Asset Management Ltd	Asset management	76%	purchase method	fully consolidated
	Aktia Life Insurance Ltd	Insurance	100%	purchase method	not consolidated, holdings partially deducted from own funds
	Trivekta Ltd	Other	100%	purchase method	fully consolidated
Aktia Life Insurance Ltd	Keskinäinen Kiinteistö Oy Tikkurilantie 141	Real estate	100%	purchase method	not consolidated
	Keskinäinen Kiinteistö Oy Areenakatu 4, Turku	Real estate	100%	purchase method	not consolidated
	Kiinteistö Oy Skanssinkatu, Turku	Real estate	50%	equity method	not consolidated
	Kiinteistö Oy Lempäälän Rajamäentie, Helsinki	Real estate	50%	equity method	not consolidated
	Asunto Oy Helsingin Tuulensuoja, Helsinki	Real estate	50%	equity method	not consolidated
	Keskinäinen Kiinteistö Oy Sähkötie 14-16, Turku	Real estate	33%	equity method	not consolidated
	Kiinteistö Oy Helsingin Gigahertsi, Helsinki	Real estate	33%	equity method	not consolidated

2.2 Statement of key risks in Aktia's operations

The results and capital adequacy of the banking business are affected primarily by business volumes, deposit and lending margins, the balance sheet structure, the general interest rate level, write-downs and cost efficiency. Fluctuating results in banking operations may occur as a result of sudden credit or operational risk outcomes. Business risks in the form of changes in volumes and interest margins change slowly, and they are managed through diversification and adjustment measures.

The results of asset management operations are mainly affected by trends in business volumes, commission levels and cost efficiency. Opportunities for improving, customising and developing new products and processes help reduce business risks. Negative trends in the valuation of assets under management may also affect customers' decisions on whether to invest in funds and other investment products.

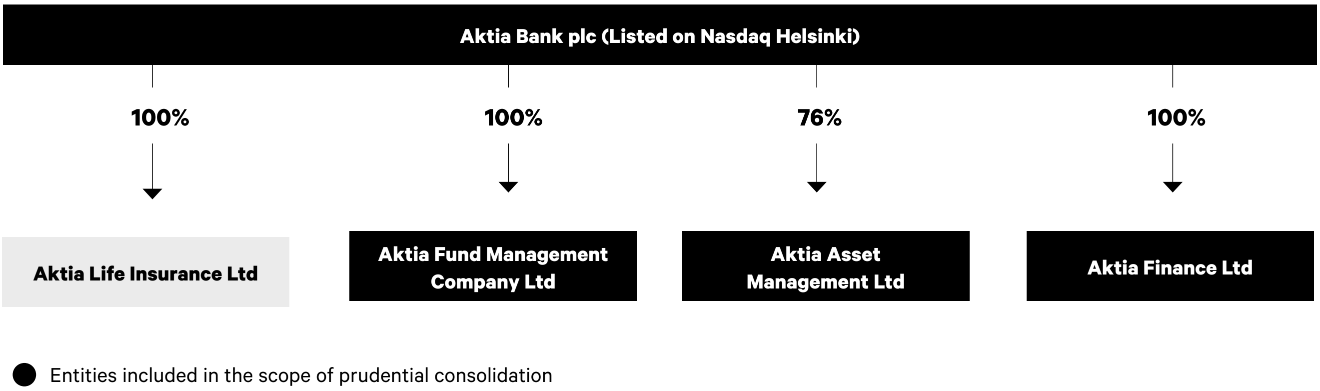
Life insurance operations are based on bearing and managing the risk of loss events, as well as the risks involved on both the asset side and in liabilities. Volatility in solvency and the results from life insurance operations can be attributed primarily to market risks in the investment assets and to the interest rate risk in technical provisions. The policyholder bears the market risk of investments that act as cover for unit-linked policies, while the company bears the risk of the part of the investment portfolio that covers technical provisions for interest-linked policies.

Table 2.2 Risk definitions and risk profile

Risk	Definition	Risk profile
General	Risk refers to a calculated or unexpected event that has a negative impact on results (loss) or capital adequacy/solvency. The term covers both the probability of an event taking place, as well as the impact of the event taking place.	Aktia focuses primarily on banking, asset management, life insurance operations and real estate agency services. Risks and risk management are thus a substantial part of Aktia's operating environment and business activities. The main areas of risk are credit, interest and liquidity risks in the banking sector, and interest and other market risks and insurance risks in the life insurance business. All of the Group's operations are exposed to business and operational risks.
Credit risk	The risk of loss due to the debtor failing to fulfil obligations towards Aktia. Counterparty risk is a part of credit risk and is defined as the risk of loss or negative valuation differences due to deterioration of the counterparty's credit worthiness. Credit risk also includes concentration risk and settlement risk.	Aktia'a lending is dominated by private individuals, households and small-sized companies. Lending to customers is mainly mortgage lending where security is predominantly real estate. The lending process comprises evaluation and rating of each customer where the ability for debt repaiment is in focus. The bank is exposed to counterparty risk through derivative contracts, which is mitigated by collateral arrangements according to agreements with each counterparty. Counterparties are selected through an evaluation process focusing on their ratings and they are mainly systemically important financial institutions.
Market risk	Market risk is divided into interest, exchange rate, equity and real estate risks. Market risk refers to changes in the value of assets or liabilities, including the effects of correlation and volatility, that have a negative effect on the result or equity/solvency.	Aktia's market risk is mainly structural interest rate risk in its balance sheet, while exchange rate risk is low, as lending and funding is mainly euro-denominated. No trading activities are carried out by the Group. Aktia is also exposed to market risk in its investment acitivities in the bank and in Aktia Life Insurance. Limits are set for the market risk annually by the Board of directors and then monitored and their utilisation is reported regularly. Market risk for the Group is stress-tested regularly to monitor the impact of a severe downturn in market conditions.
Funding and liquidity risk	The risk that the Group will not be able to meet its payment obligations, the availability and cost of refinancing, as well as differences in maturity between assets and liabilities.	Liquidity risks arise because the maturity structures on the asset and liability sides of the balance sheet do not coincide, as lending is generally longer term than deposits. To ensure market-related refinancing, the bank strives to maintain a diverse range of financing sources and an adequate diversification across different markets and investors. Aktia maintains a liquidity buffer for which a target is set annually by the Board of Directors. The liquidity buffer consists almost entirely of securities which are eligible as pledges to the central bank.
Insurance risk	Insurance risk refers to the risk that claims to be paid out to policyholders exceed the expected amount. The risk is divided into underwriting risk and technical provision risk.	Aktia Life Insurance provides voluntary pension insurance, life insurance and savings insurance. Due to laws regarding insurance contracts provisions, the company has quite limited scope to influence premium levels. The sufficiency of premiums is monitored on a yearly basis. For new policies, the company is free to set the premium levels, which are decided by the Life Insurance Board. Reinsurance is used to limit the liability, ensure that the solvency capital is adequate, and to prevent profit fluctuation.
Operational risk	Operational risks refer to risk of loss arising from unclear or incomplete instructions and internal processes, unreliable information, human error, deficient systems or external events.	The framework for managing the operational risks of the Group has been established by the Board of Directors. The responsibility for managing operational risks lies with the risk owner, i.e. the management of the different business areas and their organisation. Risk assessments are performed by the risk owners and their organisation with the help of standard assessment models. Adequate internal instructions, continuity planning for all critical functions and standard processes for approval of new products, processes and services are applied at a Group level.
Other	Other risks include business risk, strategic risk and reputational risk. Business risk refers to risk of decreased income and increased costs due to decreasing volumes, price pressures or competition. Strategic risk is closely related to business risk and is defined as risk of losses due to mistaken business decisions or failure to react to the changes in society, the regulatory system or the banking sector, while reputational risk is a decline in confidence towards the Group due to negative publicity.	Business and strategic risk are predominantly risks that, when realised, have an impact on the group's perfomance and profitablility. Reputational risk is similar but can, in addition, have an impact on the group's liquidity. Business risk is reduced by diversification in operations, as well as strategic risk. Some strategic risks can also be realised as operational risk incidents, and they are managed by the same measures as mentioned above. Reputational risk is mitigated by transparency and providing timely information to all parties with interest in the group. Aktia has published an information policy which can be accessed on the group's website.

2.3 Legal and governance structure

Figure 2.3 Aktia Group’s legal structure



3. Governance of risk

3.1 Risk management

The Group is managed in the manner of an industrial group, which means that the parts of the Group complement each other, work in synergy and promote competitive advantages as a group. In the subsidiaries, their Boards of Directors and CEOs are responsible for adherence to the strategies, guidelines and policies set at Group level.

3.1.1 Board of Directors

The Board of Directors of Aktia Bank plc oversees the efficient management of Aktia Group and follows prudent business principles in accordance with the provisions of applicable laws and the Articles of Association. The Board of Directors approves the Bank's business strategy, strategic objectives, risk strategy and systems for management and governance, as well as their monitoring and oversight. The Board of Directors also appoints Aktia's Managing Director.

The Group's strategy governs all risk taking, and the Board of Directors has the responsibility for the Group's risk management and the resources it requires. The Board of Directors annually approves the Group's risk management framework, including strategies, goals and limits for managing the operations. The risk appetite is approved and translated into key risk indicators (KRIs), guidelines and limits for business units.

The Board of Directors regularly monitors the Group's compliance with the risk policy and its risk positions. Utilisation of limits and KRIs are reported to the Board of Directors at least quarterly.

The Board of Directors approves and monitors the Group's internal capital assessment, including stress tests, to measure the adequacy of capital, taking into account the Group's risk positions.

3.1.2 Board's Risk Committee

The Group's Board of Directors appoints a Risk Committee from among its members to prepare risk-related matters for the Board's decision making. This includes the Group's risk management framework and assessment of and potential recommendation for individual credit proposals accordance with the principles and limits accepted by the Board. The Risk Committee also prepares the internal capital assessments (ICAAP) for the Group and the life insurance subsidiary (ORSA), liquidity and funding issues, and the recovery and continuity plans for the Group.

The Board's Risk Committee consists of four members of the Board with expertise in the fields of risk management, lending and investment activities. The Risk Committee met 10 times during 2019. At these meetings, the Committee discussed the updating of several new policies and guidelines, and other risk-related information.

3.1.3 Executive Committee

The CEO is appointed by the Board of Directors. The CEO is responsible for the day-to-day management of the Aktia Group in accordance with instructions issued by the Board of Directors.

The Executive Committee members manage their respective business areas or support functions. Certain matters related to lending and the handling of the Group's asset and liability management, financing, liquidity and market risks, as well as administration, are dealt with by committees consisting of Executive Committee members and others appointed by the CEO. Among other things, the CEO is responsible for organising the risk management processes, including matters relating to internal capital assessment and further delegation of risk mandates.

3.1.4 Asset and Liability Management Committee (ALCO)

A committee for asset and liability management (ALM) is appointed by the CEO. The ALCO meets approximately once a month in meetings dedicated to ALM-, capital- and risk-related matters. The role of these meetings is to handle and prepare issues for decisions by the Board of Directors and make decisions, based on a mandate delegated by the Board of Directors, regarding internal credit, and market risk models and parameters used in scenario analysis. The ALCO comprises 3 members of the Executive Committee. The Chief Risk Officer (CRO) is also a member of the ALCO.

3.1.5 The Group's Risk Control function

The Group's Risk Control function reports to the Board of Directors. Risk Control monitors risk management in the business units and is responsible for securing appropriate calculations, analysis and monitoring of risks in all areas of the Group's operations, including subsidiaries. Risk Control assesses the Group's overall risk position in relation to the strategy and risk appetite decided by the Board of Directors. Risk Control is responsible for preparing the Group's risk management framework, which is approved annually by the Board of Directors. The Group's internal capital assessment and liquidity planning process is coordinated by Risk Control, and it evaluates the impacts of different stress tests and scenarios on the capital adequacy and liquidity position, as well as on the result of the financial conglomerate and Group companies. Risk Control is also responsibility for coordinating and updating the Group's recovery plan in accordance with the Bank Recovery and Resolution Directive and national legislation, and for monitoring the indicators in the plan.

Regarding the fund and asset management subsidiaries, the independent risk control function is responsible for monitoring and reporting risk limits related to mutual funds and asset management activities. In addition asset management's middle office function monitors the daily risk limits of all Aktia's asset management customers. Risk limits are reported to the Boards of Directors of the two subsidiaries, Aktia Fund Management Company Ltd and Aktia Asset Management Ltd.

Administratively, the Group's Risk Control function is subordinate to the CEO.

3.1.6 Three lines of defence

The primary responsibility for internal control lies with the first line of defence: business units responsible for the day-to-day running of business operating processes and their control, as well as risk management measures. Risk management is the key element of internal control. In the second line of defence, the control functions consist of the Group's Risk Control unit, the Compliance function and the independent Actuarial function in Aktia Life Insurance Ltd, which are independent of the business units. In addition, three of the subsidiaries, Aktia Life Insurance, Aktia Fund Management Company and Aktia Asset Management Company Ltd, have persons responsible for the control function. These persons report to the Board of Directors of each of the subsidiaries. The Group's Internal Audit function represents the third line of defence.

Figure 3.1. Lines of defence

First line of defence – Business units, Financial Reporting and Analysis

The first line of defence comprises business units and support units, Financial Reporting & Analysis and Actuary function. Risk management is a part of internal control and, therefore, the business units bear the responsibility for risk management measures. The business units are responsible for building up processes and competence for risk management and internal control, identifying and analysing risks, and making decisions on how risk will be dealt with through pricing, covenants, pledges or other risk-reducing policies.

Financial Reporting and Analysis is responsible for economic data, analyses made of the current and future situations, and financial reporting to different authorities and other functions.

Second line of defence – Risk Control, Compliance function, Independent Actuary function

The second line of defence comprises the independent control functions Risk Control and Compliance function.

The role of the Risk Control function is to oversee that appropriate methods, analysis and monitoring of risks is implemented in all the Group's business operations and to assess the Group's overall risk position. In addition, Risk Control makes proposals for key risk indicators for the Group's risk appetite. Risk Control reports directly to the Group's Board of Directors. There is an independent risk management control function, as well in the subsidiaries Aktia Fund Management Company Ltd and Aktia Asset Management and an independent actuary function in Aktia Life Insurance.

The role of the Compliance function is to ensure that the rules, especially regarding customer protection, market conduct and anti-money laundering, are adhered to within the Group's activities. The Compliance function also advises the operational management and line managers in the application of internal rules and by identifying, handling and reporting on risks related to inadequate compliance.The Compliance function reports directly to the Group's Board of Directors.

Third line of defence – Internal Audit

The third line of defence comprises the Group's Internal Audit function, which is independent and separate from other functions, ensuring appropriate internal control and risk management. Internal Audit also contributes through permanent changes in business activities. Internal Audit is responsible for an independent assessment and evaluation of all operations in Aktia Group, including the adequacy and quality of the Group's internal controls, risk management and of the control functions. Internal Audit reports directly to the Board of Directors.

In providing financial solutions to its customers, Aktia is exposed to various risks. Risks and risk management are thus a substantial part of Aktia's operating environment and business activities. The term "risk management" refers to all activities involved in taking, reducing, analysing, measuring, controlling and monitoring risks. The risk culture in Aktia Group is based on high ethical principles and integrity in all its operations. The personnel are well aware of the significance of internal control, their own roles and responsibilities, internal risk management policies, and the code of conduct.

3.2 Internal control and risk management system associated with the financial reporting process

The internal controls in the financial reporting process are based on the following underlying principles: having clear roles; a clear division of responsibility; a sufficient understanding of operations in the parts of the organisation concerned; and comprehensive and regular reporting procedures in the Aktia Group.

To ensure that financial reporting is accurate, system-based internal controls, duality and reconciliation have also been built into all key processes in which information is recorded. Internal control is supported by observations made by the Group's Internal Audit function, which verifies the accuracy of information flows and the sufficiency of the level of control through risk-based audits.

The Aktia Group's operational financial reporting organisation consists of an accounts unit at Group level that is in charge of external and internal financial reporting. The unit's remit includes consolidation, budgeting, internal performance monitoring, updating of accounting principles, and internal financial reporting guidelines and instructions. For each business segment and the key individual subsidiaries within these units, segment controllers have been appointed with responsibility for financial monitoring and analysis. The Group's reports are compiled centrally and are based on a common financial reporting system covering both external and internal reporting, which helps to ensure that day-to-day financial reporting is handled uniformly.

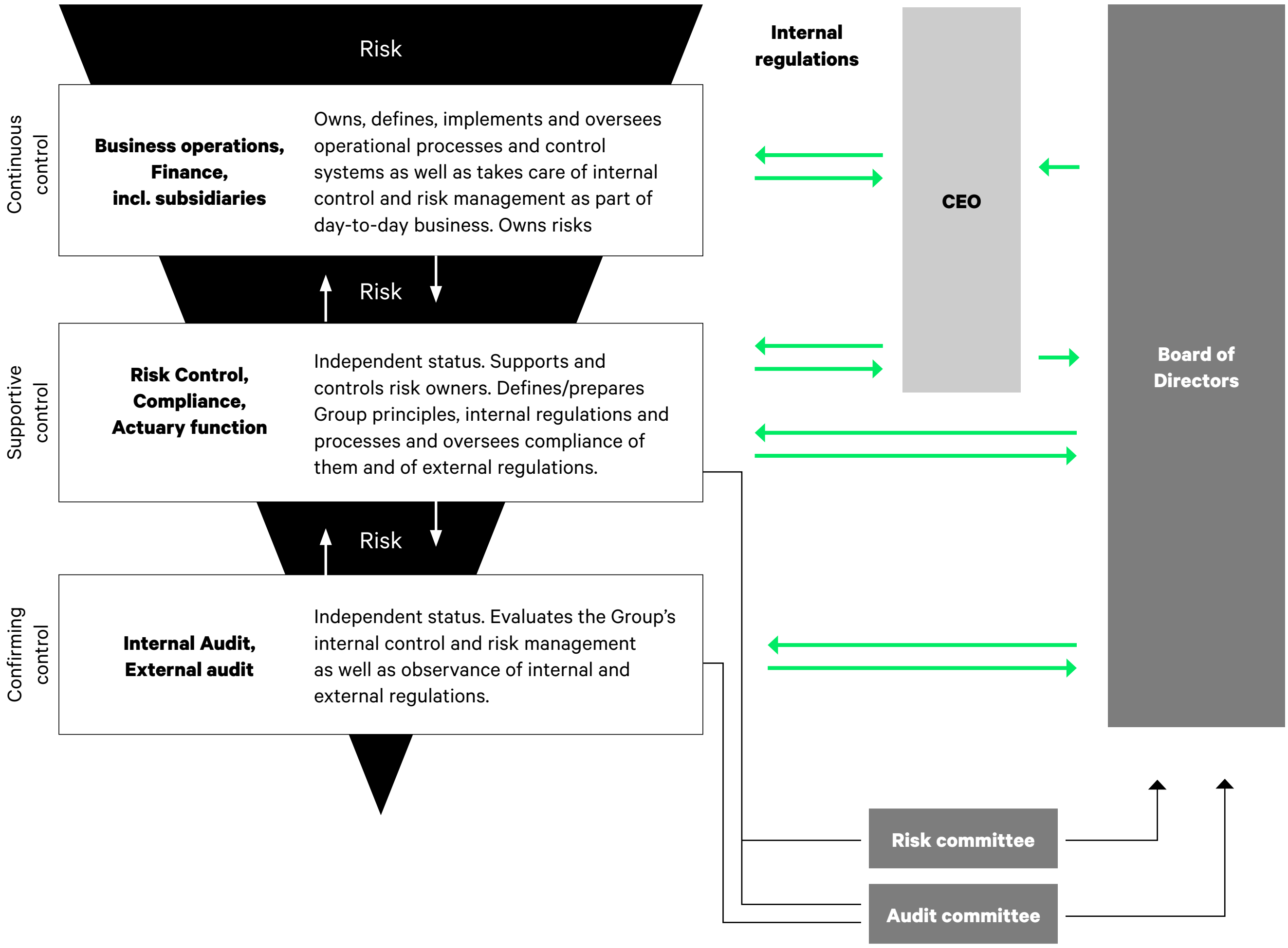
Important parts of current accounting activities in companies within the Aktia Group have been outsourced to external companies that provide accountancy services. These accountancy services also include the maintenance of securities, purchasing and fixed asset ledgers, and the preparation of accounts in accordance with Finnish accounting standards. The services are rendered in accordance with agreements entered into between the parties, and comply with the guidelines and directives issued by the Financial Supervisory Authority and other authorities. To develop and assess cooperation, meetings are arranged regularly with service providers. The Aktia Group is represented on the Board of Directors of PP-laskenta Oy, which operates the Aktia Group's outsourced bookkeeping services.

Within the Aktia Group, duties and responsibilities have been organised to ensure that the people involved in the financial reporting process only have very restricted rights of use to the different production systems and business applications in the respective business area. The Aktia Group's Head of Group Finance, who is in charge of internal and external financial management, is not involved in making direct business decisions. His incentive is mainly independent of the factors driving the business. The Head of Group Finance reports to the Chief Financial Officer of the Aktia Group, who is a member of the Executive Committee.

The Aktia Group's internal reporting and monthly financial statements are based on the same structure, and prepared using the same standards applied to the official interim financial statements and annual accounts. Monthly reports, supplemented by a comparative analysis of previous periods, the budget, planned projects and central key figures for analysing the respective business segment, are currently distributed to the Aktia Group's Board of Directors and management, selected key personnel and the auditors.

The Aktia Group's financial development and performance is addressed each month by the Group's executive committee. A similar, detailed review by the Group's Board of Directors and its Audit Committee takes place on a quarterly basis in the form of interim reports and an annual report. The annual report is revised, and the interim reports are reviewed, by the Group's external auditors, who report their observations to the Audit Committee. New or revised accounting principles are to be dealt with and approved by the Group's Board of Directors and its Audit Committee.

Figure 3.2 Aktia Group internal control and risk management



4. Capital management

Aktia's CET1 ratio remained above the target level in 2019. The credit exposure increased as a result of a growth in corporate lending. The Foundation IRB approach was implemented in certain corporate exposures. Aktia's MREL requirement was renewed during the year.

4.1 Capital position

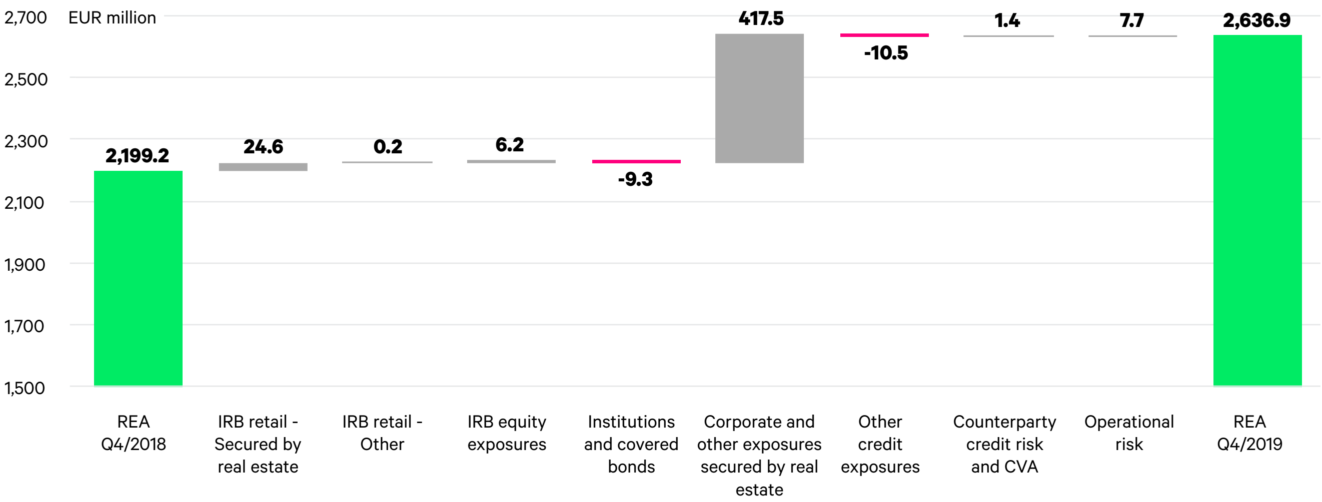
4.1.1 Minimum capital requirements

The regulatory minimum capital requirements for Aktia Bank Group are stated in the EU Capital Requirements Regulation (No. 575/2013), which is supplemented by the implementation of the national options by the Finnish regulators. The Capital Requirements Directive (CRD) (2013/36/EU) is implemented by the Finnish Credit Institutions Act and stipulates the powers to set the additional buffer requirements in Finland.

Table 4.1 Minimum capital requirements and REA

	31 Dec 2019			31 Dec 2018		
(EUR million)	**Minimum capital requirement**	**REA**	**Credit exposure**	**Minimum capital requirement**	**REA**	**Credit exposure**
Credit risk	**180.9**	**2,260.9**	**8,623.5**	**137.4**	**1,717.9**	**8,313.3**
- of which counterparty credit risk	0.5	6.7	17.2	0.5	6.6	22.9
IRB	**137.4**	**1,716.9**	**6,018.6**	**70.0**	**874.5**	**4,842.1**
- of which corporate	**59.1**	**738.6**	**998.0**	**0.0**	**0.0**	**0.0**
- of which SME	19.8	247.5	300.6	0.0	0.0	0.0
- of which retail	**68.9**	**860.8**	**4,976.0**	**59.5**	**744.3**	**4,794.4**
- of which secured by immovable property	63.8	797.1	4,797.4	52.4	655.4	4,630.8
- of which other retail	3.6	44.7	149.9	4.7	58.9	131.4
- of which SME	1.5	19.0	28.7	2.4	30.0	32.2
- of which equity	**9.4**	**117.5**	**44.6**	**10.4**	**130.2**	**47.6**
Standardised	**43.5**	**544.0**	**2,604.9**	**67.5**	**843.4**	**3,471.3**
- of which central governments or central banks	0.1	0.8	505.4	0.0	0.0	488.6
- of which regional governments or local authorities	0.0	0.4	284.2	0.1	1.3	264.3
- of which multilateral development banks	0.0	0.0	0.0	0.0	0.0	51.0
- of which international organisations	0.0	0.0	35.3	0.0	0.0	128.0
- of which institutions	4.2	53.0	187.3	8.8	109.8	433.9
- of which corporate	7.1	89.1	90.9	18.1	226.8	229.1
- of which retail	6.4	80.2	111.9	6.9	86.6	127.2
- of which secured by mortgages on immovable property	15.7	196.6	556.9	24.0	299.8	839.3
- of which in default	0.1	0.7	0.5	0.7	9.3	9.0
- of which associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0
- of which covered bonds	6.0	75.1	750.5	6.7	83.6	836.4
- of which equity	0.0	0.0	0.0	0.0	0.0	0.0
- of which other items	3.8	48.1	82.1	2.1	26.0	64.6
Credit value adjustment risk	**1.2**	**14.7**		**1.0**	**12.4**	
Market risk	**0.0**	**0.0**		**0.0**	**0.0**	
Settlement risk	**0.0**	**0.1**		**0.0**	**0.0**	
Operational risk (basic indicator approach)	**28.9**	**361.3**		**28.0**	**349.9**	
Total	**211.0**	**2,636.9**		**166.4**	**2,080.2**	

Figure 4.2 Split of REA changes



The Financial Supervisory Authority in Finland has granted Aktia Bank Group permission to apply the internal ratings-based (IRB) approach to retail, equity and certain corporate exposures. The Foundation IRB approach is used for corporate exposures. The IRB approach represents 68% of the Bank Group's credit risk exposure. The remaining credit exposures are calculated using the standardised approach (SA). For counterparty credit risk in the OTC derivatives, the mark-to-market method is applied to calculate the exposure value. The capital requirement for the credit valuation adjustment risk is calculated using the standardised method. The basic indicator approach was used for operational risks. There are no capital requirements for market risks because of the small trading book and limited foreign exchange (FX) positions. Aktia Bank Group has no investments in securitisation positions, and it has no securitised exposures.

The Solvency II framework for insurance companies entered into force on 1 January 2016. The Solvency II requirements are stated in Commission Delegated Regulation (EU) 2015/35 and in the Insurance Companies Act. For the financial conglomerate, Aktia uses the consolidation method, as stipulated in the Act on the Supervision of Financial and Insurance Conglomerates.

Table 4.1 presents the composition of Aktia Bank Group's minimum capital requirement. The table also presents the changes in credit exposures and the split between calculation approaches. Figure 4.2 summarises the changes in REA during the year. The REA of retail portfolios increased during the year due to credit growth. During 2018, the RW floor of 15% introduced in residential mortgage loans increased the REA by EUR 149.5 million at the end of the period. Corporate lending continued to grow during 2019, which led to a growth in corporate- and real estate-secured REA. The bank's liquidity portfolio decreased during 2019, which led to a lower REA in institution and covered bond asset classes. The total amount of REA grew by 20% during the year.

4.1.2 The Bank Group's own funds

Table 4.4 presents a summary of Aktia Bank Group's own funds and their development in 2019. The total amount of the Bank Group's own funds increased by EUR 39.0 million during 2019. The growth was mainly in Tier 2 capital. Aktia Bank issued new Tier 2 capital with a nominal value of EUR 70 million in 2019. The amount recognised in the Bank Group's own funds of previously issued Tier 2 instruments decreased by EUR 34.2 million due to the maturity haircut. CET1 capital increased by EUR 3.9 million. The profit after dividend increased the CET1 capital. Unrealised gains on available-for-sale assets increased due to lower interest rates. The intangible assets to be deducted also decreased during the year due to the depreciation of investment in the core banking system. The EL shortfall increased as a result of the implementation of the FIRB approach to corporate exposures. The deduction of significant holdings of financial entities relates to holdings in Aktia Life insurance Ltd. The amount above the 10% threshold is deducted from CET1 capital, and the remaining part is risk-weighted at 250%.

The Aktia Group implemented IFRS 9 standard on 1 January 2018. According to IFRS 9 the impairments are based on a model for expected credit losses (ECL). The EU has agreed on transitional measures to mitigate the negative impacts of ECL accounting from IFRS 9 on banks' CET1 capital. The transitional period covers a five-year period from 2018 to 2022. Banks can decide if they will apply the transitional measures. Aktia has decided not to apply the transitional measures.

Appendix 2 presents the full disclosure of items and deductions in the Group's own funds. Appendices 3 and 4 include the disclosure of the terms of CET1 and Tier 2 instruments included in the Bank Group's own funds. The full terms and conditions of capital instruments can be found at www.aktia.com (in Swedish and Finnish only).

Table 4.3 Non-deducted participations in insurance undertakings *	31 Dec 2019 EUR million Value
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	39
Total RWAs	99

* EU INS1

Table 4.4 Summary of consolidated own funds and movements during 2019

Aktia Bank Group	Own funds 31 Dec 2018	Development in 2019	Own funds 31 Dec 2019
Equity	163.0	0.0	163.0
Reserves, retained earnings and profit after dividend	302.7	4.0	306.7
Unrealised gains on FVOCI financial assets	4.0	3.7	7.7
Intangible assets	-64.4	3.9	-60.5
EL shortfall	-11.9	-8.6	-20.5
Significant holdings in financial sector entities	-7.1	0.4	-6.7
Other items	-2.1	0.5	-1.6
CET1 total	**384.2**	**3.9**	**388.1**
Tier 1 capital	**384.2**	**3.9**	**388.1**
Tier 2 instruments	67.5	35.1	102.6
Own funds	**451.7**	**39.0**	**490.7**

Table 4.5 Combined capital requirement as of 31 Dec 2019

			Buffer requirements				
	Pillar 1 minimum requirement	Pillar 2 requirement	Capital Conservation	Counter-cyclical	O-SII	Systemic risk	Total capital requirement
CET1 capital	4.50	1.75	2.50	0.05	0.00	1.00	9.80
AT1 capital	1.50	0.00					1.50
Tier 2 capital	2.00	0.00					2.00
Total	**8.00**						**13.30**

4.1.3 Buffer requirements

The Basel III framework introduced a series of buffer requirements that increased the 8% minimum capital requirement set by the CRR. In the European Union, the buffers are included in the CRD, which means their implementation can vary between member states. In Finland, the capital conservation buffer, countercyclical capital buffer, systemic buffer and buffer requirement for systemically important institutions are implemented. The current Finnish systemic buffer requirement is institution-specific, and a 1% requirement for Aktia entered into force on 1 July 2019. Table 4.5 illustrates the current buffer requirements. All buffer requirements should be covered by CET1 capital. The countercyclical capital buffer requirement is an institution-specific requirement calculated based on the weighted average of the relevant credit exposures and individual buffer requirements set in different jurisdictions. In Finland, the board of the Financial Supervisory Authority has currently set the requirement at 0% for Finnish exposures. However, in Sweden and Norway, for example, a 2.5% requirement has been set. This requirement also applies to certain exposures, mainly in the Bank Group's liquidity portfolio. Tables 4.6 and 4.7 summarise the calculation of the institution-specific countercyclical capital buffer requirement as stipulated in EU Regulation 2015/1555.

In 2016, based on the Credit Institution Act, the Financial Supervisory Authority decided on a discretionary buffer requirement at a consolidated level (the regulatory Pillar 2 capital requirement). The requirement is based on the outcome of the supervisory review and evaluation process (SREP). The total Pillar 2 requirement is 1.75% and covers the credit risk concentration (1.0%) and the interest rate risk in the banking book (0.75%). There are no explicit capital requirements in the CRR for these risks. The Pillar 2 requirement must be met with CET1 capital. The requirement entered into force on 30 June 2017.

On 13 December 2019, the FIN-FSA determined a new Pillar 2 requirement of 1.25% for Aktia. The new requirement is valid as of 30 June 2020 and replaces the current requirement of 1.75%.

Table 4.6 Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer (consolidated), EUR million

31 Dec 2019

	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements					
EUR million	**Exposure value for SA**	**Exposure value IRB**	**Sum of long and short position of trading book**	**Value of trading book exposure for internal models**	**Exposure value for SA**	**Exposure value for IRB**	**Of which: General credit exposures**	**Of which: Trading book exposures**	**Of which: Securitisation exposures**	**Total**	**Own funds requirement weights**	**Countercyclical capital buffer rate**
Breakdown by country												
Finland	908.9	6,004.6	0.0	0.0	0.0	0.0	153.7	0.0	0.0	153.7	87.1%	0.000%
Norway	244.5	1.6	0.0	0.0	0.0	0.0	2.0	0.0	0.0	2.0	1.1%	2.500%
Sweden	160.3	11.0	0.0	0.0	0.0	0.0	1.5	0.0	0.0	1.5	0.9%	2.500%
Hong Kong	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	2.000%
Czech Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	1.500%
Iceland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	1.750%
United Kingdom	18.4	3.4	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2	0.1%	1.000%
Slovakia	34.5	0.1	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.3	0.2%	1.500%
Lithuania	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	1.000%
Denmark	15.3	0.8	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1%	1.000%
France	80.5	1.3	0.0	0.0	0.0	0.0	0.7	0.0	0.0	0.7	0.4%	0.250%
Ireland	0.0	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	1.000%
Bulgaria	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0%	0.500%
Other countries	373.4	69.8	0.0	0.0	0.0	0.0	18.1	0.0	0.0	18.1	10.2%	0.000%
Total	**1,835.8**	**6,093.9**	**0.0**	**0.0**	**0.0**	**0.0**	**176.5**	**0.0**	**0.0**	**176.5**	**100.0%**	

Table 4.7 Amount of institution-specific countercyclical capital buffer (consolidated)

EUR million	31 Dec 2019
Total risk exposure amount	2,636.9
Institution specific countercyclical buffer rate	0.05%
Institution specific countercyclical buffer requirement	1.4

4.1.4 Capital ratios and leverage ratio

Table 4.8 shows the development of capital ratios. The consolidated CET1 capital ratio decreased by 2.8 percentage points during the period. The increase in the CET1 capital improved the ratio by 0.1 percentage points, and the growth in the REA reduced the CET1 capital ratio by 2.9 percentage points.

The development of the leverage ratio is presented in Table 4.9. The leverage ratio decreased slightly during the period as a result of the growth in the exposure amount. At the same time, the improved Tier 1 capital offset the growth in the exposure amount. Appendix 5 presents the information set out in the implementing technical standards with regard to the disclosure of the leverage ratio (EU Regulation 2016/200).

4.1.5 Aktia Life Insurance and the financial conglomerate

The life insurance company follows the Solvency II Directive, in which solvency calculations deviate from previous solvency requirements, because technical provisions are measured at market value. According to Solvency II, the company calculates its solvency capital requirement (SCR) and minimum capital requirement (MCR), and identifies its available solvency capital within Solvency II. Aktia Life Insurance applies the standard formula for SCR, with a consideration of the transitional measure for technical provisions in accordance with the permission granted by the Financial Supervisory Authority.

At the end of the period, SCR amounted to EUR 86.6 (76.4) million, MCR to EUR 24.2 (22.7) million and the eligible capital to EUR 166.3 (175.5) million. Thus, the solvency ratio was 192.1% (229.8%). Without transitional measures, SCR amounted to EUR 98.3 (89.0) million, MCR to EUR 25.9 (24.7) million and the eligible capital to EUR 120.2 (125.8) million. The solvency ratio without transitional measures was 122.2% (141.5%).

The financial conglomerate's capital adequacy ratio was 131.6% (166.1%). The financial conglomerate's capital adequacy decreased during the period, mainly due to an increase in the capital requirement of banking business. The statutory minimum stipulated in the Act on the Supervision of Financial and Insurance Conglomerates is 100%.

Table 4.8 Development of capital ratios

Capital adequacy, %	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018
Aktia Bank Group					
CET1 capital ratio	14.7	15.6	16.5	16.9	17.5
Tier 1 capital ratio	14.7	15.6	16.5	16.9	17.5
Total capital ratio	18.6	20.0	18.6	19.4	20.5
Aktia Bank					
CET1 capital ratio	14.1	15.8	16.3	16.3	16.9
Tier 1 capital ratio	14.1	15.8	16.3	16.3	16.9
Total capital ratio	18.1	20.3	18.4	18.9	20.0
Aktia Asset Management					
CET1 capital ratio	12.3	13.3	13.3	13.1	11.2
Tier 1 capital ratio	12.3	13.3	13.3	13.1	11.2
Total capital ratio	12.3	13.3	13.3	13.1	11.2

Table 4.9 Development of Leverage Ratio

Aktia Bank Group

EUR million	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018
Tier 1 capital, fully phased	388	390	393	389	384
Total exposure	8,474	8,345	8,302	8,676	8,111
Leverage ratio, %	**4.6**	**4.7**	**4.7**	**4.5**	**4.7**

4.2 Capital management and internal capital requirements

4.2.1 Capital management

Capital management assesses the Group's capitalisation in relation to the risks of operations. The aim is to support business strategies and secure adequate capital structure, even during the weaker periods of the economic cycle. The objective is to find a balance between the effective use of capital and the financial stability required by internal and external counterparties. Capital management aims to identify material risks as a whole and assess their extent, and the capital they require. The planning of operations is forward-looking and uses the annually produced strategic plan as its starting point.

The Group's Executive Committee is responsible for preparing the Board's annual strategic planning process, and the accompanying capital planning and allocation. The Board's Risk Committee prepares the decisions to be made in the Group's Board of Directors. The Group's Internal Audit function conducts an annual evaluation of the capital management process. The rules of procedure for the Board of Directors and its Risk Committee closely define the process and decision making within the capital management process. The Group's independent Risk Control unit is responsible for ensuring that the Group's material risks are identified, measured and reported consistently, correctly and adequately. The unit is also responsible for preparing proposals for internal capital requirements and capital adequacy targets.

A strategic business plan regarding volumes and risk levels in the near future is used as the starting point for capital planning. The plan is used as the basis for creating capital adequacy forecasts for the Group. In addition to base scenarios, stress tests are conducted to assess the effect of weaker periods of the economic cycle on capital adequacy.

The risk of excessive leverage is managed as part of the capital management process. The future development of the leverage ratio is estimated based on the strategic business plan. The plan incorporates the growth targets for the exposure amount and the anticipated developments in the capital measure. As part of the process, the targets for the leverage ratio and liability structure are also defined. The asset encumbrance ratio is a key metric and limits the amount of covered bond funding.

The level of leverage is monitored quarterly and reported to the Board of Directors. The leverage ratio is also an indicator in the Group's recovery plan, and alarm zones have been set for the ratio. The recovery plan describes actions that management can take to increase capital or reduce exposure.

4.2.2 Capital policy

Stress scenarios and sensitivity analyses are used to derive the Group's capital adequacy targets. The purpose of capital adequacy targets is to ensure the availability of sufficient capital buffers in cases where unexpected losses occur. The capital adequacy targets also take into account the targets for external ratings and the impact of any foreseeable changes in regulatory requirements. The capital adequacy targets are set for the long term, but the actual buffer can vary over an economic cycle.

Aktia's target for the Common Equity Tier 1 capital ratio is set at 1.5–3 percentage points above regulatory requirements. The target was set in 2017 and renewed in 2019, when the Board of Directors updated the strategy and long-term financial targets for 2023.

As part of the yearly capital management process, the Board of Directors has supplemented the framework with targets for Tier 1 and total capital. The target for the Tier 1 capital ratio is set at 1.5–3 percentage points above regulatory requirements. For total capital ratio, the target is set at 2.0–3.5 percentage points above regulatory requirements.

The Bank Group's target for the leverage ratio is set at a minimum of 3.5%. The solvency ratio target, including transitional measures, for Aktia Life Insurance is set at a minimum of 125%. The capital adequacy target for the financial conglomerate is to exceed 120%.

The Group's dividend policy states that the pay-out ratio should be between 60% and 80% of the profit after taxes for the period.

There are no current or foreseen material practical or legal impediments to the prompt transfer of the Group's own excess funds, or the repayment of liabilities between Aktia Bank plc and its subsidiaries. Each legal entity must fulfil its individual capital requirements and have sufficient liquidity to operate. Aktia Bank plc and all its subsidiaries are incorporated in Finland: there is thus no need for cross-border transfers within the Group.

4.2.3 Internal capital requirements

The internal assessment of capital requirements for the Group is an important element of capital management. The internal capital requirement reflects the Group's capital adequacy more comprehensively than the regulatory capital requirements (Pillar 1), because it also takes into account risks not included in them. The internal capital requirement encompasses all the Group's material risks.

The Bank Group's internal capital requirement is based on the "Pillar 1 plus Pillar 2" method. Pillar 1 sets the minimum regulatory capital requirements for credit risks and operational risks. In Pillar 2, the capital requirement is supplemented with internal capital requirements for other risks, as well as areas that are covered insufficiently under Pillar 1. During the year, the FIRB approach was implemented in Pillar 1 for certain corporate exposures. There were also some changes in the detailed parameters and assumptions within individual Pillar 2 risk models.

The Pillar 1 requirements for credit risks are based on a combination of the standard approach and Aktia's IRB models. Pillar 2 adds the capital requirement for concentration risk, because Pillar 1 methods are based on the assumption that credit portfolios are perfectly diversified across counterparties, regions and industries. Aktia uses an internal model to measure single-name concentrations in corporate and liquidity portfolios, as well as product and geographical concentrations, in the banking book.

Aktia has no trading book, which means that there is no Pillar 1 requirement for market risk. The market risk in the banking book is captured by the Pillar 2 requirements. The Pillar 2 models measure the spread, equity, FX and real estate risks in the FVTPL and FVOCI portfolios. Market risk also includes the interest rate risk in the banking book. The model for structural interest risk in the banking book also includes the Bank Group's liquidity portfolio. The aggregation of market risk requirements assumes a correlation structure between various components of market risk.

Business risk in banking is measured with a scenario model that takes into account changes in customer behaviour and pricing, the cost of funding and the competitive situation, which affects net interest income. The model also incorporates adverse scenarios in non-interest income and operating costs. The model does not capture the effects of credit and market risks on P&L. The liquidity risk is partly covered in the model as rising funding costs.

The Bank Group's total internal capital requirement is the sum of different Pillar 1 and Pillar 2 requirements, i.e. no inter-risk diversification is assumed. The internal capital requirement for Aktia Life Insurance is part of its ORSA (Own Risk and Solvency Assessment) process. The capital requirements are based on internal risk models that cover business, market, underwriting and operational risks. The model takes into account both intra- and inter-risk correlations.

The results of the Bank Group and Aktia Life Insurance are aggregated to a Group requirement. The results are then compared to the capital position of the Group. The Group's own funds are based on the adjusted value of equity and subordinated debt. The equity is adjusted by including the changes in fair value of investments measured at amortised cost in Aktia Life insurance and deducting the dividend proposal, intangible assets and EL shortfall. Also deducted are other life insurance-related items that are not considered to be eligible capital in the Solvency II regulation. The Group's own funds include the mark-to-market effect of technical provisions. Capital instruments that are not freely transferable to cover losses within the Group are deducted from the Group's own funds to the extent that they exceed internal capital requirements. Risk limits have been set based on internal capital requirements. The limit establishes the maximum amount of capital that can be utilised for a specific risk type. The limit framework also incorporates the targets for capital adequacy.

4.2.4 Stress testing

Aktia conducts regular stress testing and scenario analysis to analyse the capital position and identify risks. The process is conducted at different levels. Stress tests are conducted to measure the risk in certain positions or at company and Group level to capture the enterprise level of risk.

The stress scenarios focus on the key risk factors of the Group. Most of the loan book is secured by residential or commercial real estate. Thus, declining real estate prices combined with rising default rates have a material impact on loan losses. The development of short-term interest rates affects the level of interest income for the mainly Euribor-linked loan book. However, long-term rates have an impact on the values of the fixed-income portfolios in Aktia Bank and Life Insurance. In the Solvency II regime, the interest rates also affect the present value of the interest-linked technical provisions.

Other market risk factors include credit spreads, equity and commercial real estate prices. Movements in credit spreads have an impact on both the value of the fixed-income portfolios and Aktia's own funding prices. In Aktia Life Insurance, movements in FX rates also have a material impact.

Figure 4.10 Internal capital requirement by risk type

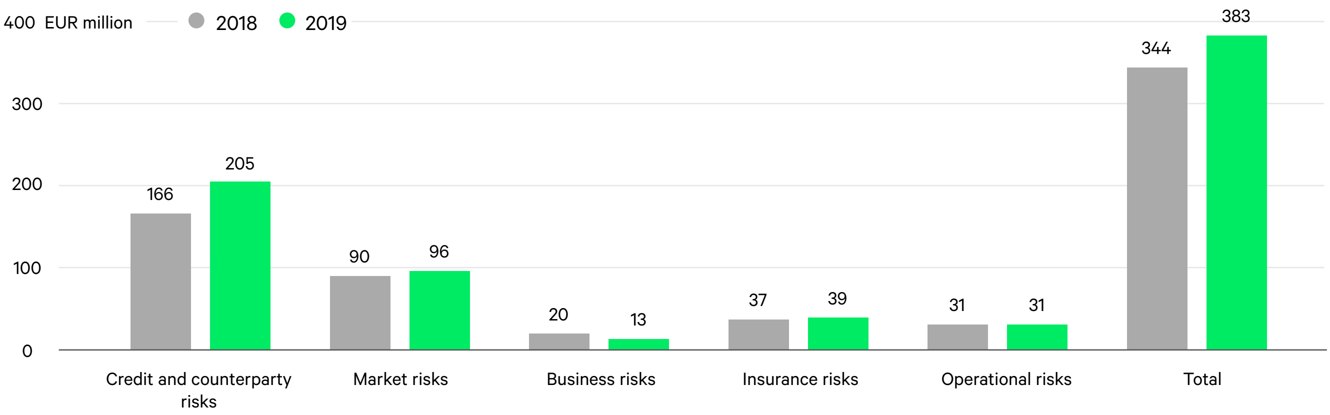
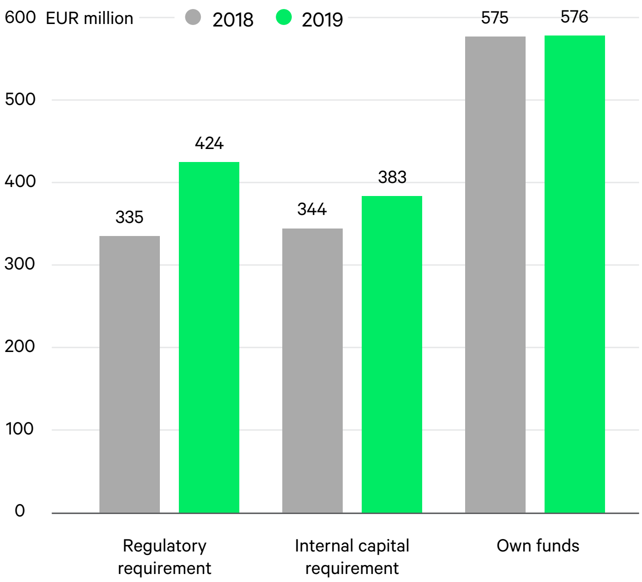


Figure 4.11 Group's own funds compared to internal capital requirement



Other key stress factors relate to the development of business volumes on and off the balance sheet and their pricing. Rising operating costs also affect the Group's overall profitability. The calculation process starts from the Group's rolling financial forecasts, which include baseline assumptions of business volumes and profitability. The stress scenarios cover a rolling three-year period. The severity of the scenarios can be adjusted to meet different needs for stress testing. Different P&L items are recalculated in the scenario based on the selected risk factors.

The stressed net interest income (NII) is based on assumptions of the business volumes and margins of both interest-bearing assets and liabilities in the scenario. The selected interest rate scenario affects the repricing of the balance sheet. The asset and liability management (ALM) model that calculates the NII estimate provides the dynamic balance sheet estimates, which are also used as the basis for credit risk REA estimates.

The loan book's loan loss estimates are based on the IFRS 9 ECL models. Credit risk scenarios are based on a two-factor model in which one factor drives the point-in-time estimates of PD and cure rates, and the other the collateral values behind the loss, given default (LGD) estimates. The ECL estimates can be supplemented by additional defaults in the corporate portfolio. RW estimates for IRB portfolios are based on the TTC PD and downturn LGD models, and collateral value-stressed RWs for the other portfolios under the SA. Combined with the balance sheet estimate, a REA estimate is obtained.

In addition to NII, the market risk factors mainly affect the unrealised profits and losses measured at fair value. The market risk factors are the main drivers of solvency stress in Aktia Life Insurance. The life insurance company has a special ALM tool to measure the dynamic impact of the scenarios on its solvency ratios.

Based on the selected scenario, a stressed balance sheet, P&L and risk metric estimates are calculated. Combined with the scenario assumptions on capital policy (i.e. dividend pay-out and new issues of various capital instruments), capital ratios for Aktia Bank and Life Insurance, and the financial conglomerate are derived. The results are then compared to the target, and the alarm zones are set by the Board of Directors.
The stress scenario methodology is also used to calculate the regulatory stress test exercises on an ad-hoc basis. The stress factors are adjusted in accordance with the given scenarios. The tool can also be used to conduct reverse stress tests. In particular, this method is used to design the stress scenarios that are required to test the recovery and resolution options.

4.2.5 Recovery and resolution planning

Capital management tools are also used to assess the various alternative actions that the Executive Committee can take in situations in which capital adequacy is at risk. Aktia Group has structured a recovery plan, and it is updated at least annually. The recovery plan consists of plans and actions for the Group to recover from serious financial difficulties. The Board and its risk committee monitor changes in capital adequacy quarterly, and within the framework of the capital management process, the effects of various stress tests as well. The recovery plan sets different indicators that monitor the Group's capital adequacy, liquidity, asset quality and profitability, as well as the status of the economy and financial markets. Various alarm zones have been set for the indicators to ensure prompt implementation of recovery actions. The recovery actions include the means by which capital requirements can be reduced, the Group's own funds increased, and the liquidity situation and profitability improved.

During the third quarter of 2019, the Financial Stability Board updated the minimum requirement for the Group's own funds and eligible liabilities that could be written down (MREL requirement) for Aktia Bank plc. The requirement is twice the minimum capital requirement, including the total buffer requirement at the end of 2017. The updated MREL requirement amounts to 23.37% of total risk-weighted assets (RWA). However, this is at least 8% of the balance sheet total. The new requirement entered into force immediately.

Table 4.12 Consolidated MREL requirement

(EUR million)	31 Dec 2019	31 Dec 2018
MREL requirement	**670.9**	**645.5**
Own funds and eligible liabilities		
CET1	388.1	384.2
AT1 instruments	0.0	0.0
Tier 2 instruments	160.4	148.3
Other liabilities	247.9	660.6
Total	**796.4**	**1,193.1**

5. Credit risk

Aktia's loan portfolio consists mainly of retail loans with real estate collateral. Strong loan-to-value ratios and a low risk level contribute to the high credit quality of Aktia's credit portfolio.

Credit risk is defined as the risk of losses brought about by debtors failing to fulfil their obligations towards Aktia, while counterparty risk is defined as the risk of losses or negative valuation differences due to the deterioration of the counterparty's creditworthiness. Credit risks occur in banking operations, while counterparty risks occur in both banking and insurance operations. Credit risk is measured by assessing the probability of default and any losses incurred by such. The probability of default is estimated using scoring or rating models, and the loss incurred by default is estimated by a model utilising information on the anticipated recovery of collateral with deductions for recovery costs.

Each year, the Group's Board of Directors determines credit policy, including risk appetite and limits, and revises both the credit risk strategy and delegation of decision making. The regulation of counterparty risks is managed similarly. The limit structure restricts credit and counterparty risks in both banking and insurance operations, both individually and at the conglomerate level, through restrictions on the total exposure to individual counterparties and at the portfolio level concerning concentrations, credit quality, geographical region and unrated counterparties.

5.1 Management, governance and measurement of credit risk

The line organisation assesses the credit risk in each individual transaction and bears the overall responsibility for credit risks in its own customer base. The Group's Risk Control unit is responsible for ensuring that the models and methods used for measuring credit risk are comprehensive and reliable. The Risk Control unit is also responsible for performing independent risk analysis and reporting.

Credit risks are reported to the Group's Board of Directors and its risk committee every quarter. Position- and aggregate-level credit risk reporting is available daily to the business personnel involved in the credit process and the Executive Committee. Every year, Risk Control conducts a comprehensive validation of all credit risk models, and the results are reported to both the Board of Directors and members of the Executive Committee in the ALCO. Risk Control also continuously monitors models to ensure they are functioning normally, and these monitoring results are reported quarterly to both the Board of Directors and the management of the Group.

5.1.1 Credit risks in the banking business

The Group's credit risk policy includes households' and corporate customers' appetite for credit risk. Loans are provided to households – most of which are secured against real estate collateral. Housing finance and other financing for households, including credit cards and consumption loans, are arranged directly from Aktia Bank's balance sheet. The net value of exposures at the end of the period was EUR 9,013.7 (8,598.1) million (Table 5.1).

Small and medium-sized businesses and entrepreneurs make up the main target group for Aktia's corporate business, and the long-term aim is to develop the broad cross-selling of bank and insurance solutions. The debtor's ability to repay the debt, good knowledge of the customer, complete understanding of the customer's business situation, limited risk taking and risk-based pricing are central elements of the Group's credit policy, along with the drive for sustained profitability.

The total and average net amount of exposures are presented in Table 5.1.

A geographical breakdown of exposures is presented in Table 5.2.

The concentration of exposures by industry or counterparty type is presented in Table 5.3.

The maturity of exposures is presented in Table 5.4.

The Bank Group's total exposures by exposure class before and after the effect of risk mitigation techniques are presented in Table 5.5.

Table 5.1 – Total and average net amount of exposures *

31 Dec 2019

EUR million	Net value of exposures at the end of the period	Average net exposures over the period
Corporates	1,073.3	539.7
Of which: SMEs	326.3	173.5
Retail	4,976.0	4,932.1
Secured by real estate property	4,797.4	4,759.8
SMEs	160.0	168.0
Non-SMEs	4,637.3	4,591.9
Other retail	178.6	172.3
SMEs	28.7	28.0
Non-SMEs	149.9	144.3
Equity	44.6	44.2
Total IRB approach	**6,093.9**	**5,516.1**
Central governments or central banks	463.7	536.5
Regional governments or local authorities	265.4	279.4
Multilateral development banks	0.0	7.7
International organisations	35.3	47.3
Institutions	319.7	320.7
Corporates	162.7	369.8
Of which SMEs	49.8	145.4
Retail	252.2	275.5
Of which SMEs	27.7	49.7
Secured by mortgages on immovable property	587.8	767.1
Of which SMEs	252.9	374.0
Exposures in default	0.5	4.3
Covered bonds	750.5	717.8
Other exposures	82.1	89.7
Total standardised approach	**2,919.8**	**3,415.8**
Total	**9,013.7**	**8,931.9**

*EU CRB-B

Table 5.2 – Geographical breakdown of exposures *

31 Dec 2019

Exposure classes, EUR million	Net value Finland	Norway	Sweden	France	Germany	Spain	Canada	Poland	Slovakia	United Kingdom	Portugal	Other countries	Total
Central governments or central banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Corporates	1,073.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,073.3
Retail	4,938.6	1.6	10.8	1.3	2.3	1.2	0.6	0.4	0.1	3.4	0.5	15.1	4,976.0
Equity	40.5	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.9	44.6
Total IRB approach	**6,052.5**	**1.6**	**11.0**	**1.3**	**2.3**	**1.2**	**0.6**	**0.4**	**0.1**	**3.4**	**0.5**	**19.0**	**6,093.9**
Central governments or central banks	323.2	0.0	0.0	49.4	0.0	63.2	0.0	1.0	0.0	0.0	23.7	3.0	463.7
Regional governments or local authorities	235.8	0.0	0.0	0.0	29.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	265.4
Public sector entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral development banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International organisations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	35.3	35.3
Institutions	61.5	0.0	56.8	37.8	62.8	5.0	79.3	0.0	0.0	8.4	0.0	8.2	319.7
Corporates	162.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	162.7
Retail	250.2	0.1	0.6	0.1	0.1	0.1	0.0	0.0	0.0	0.1	0.0	0.9	252.2
Secured by mortgages on immovable property	585.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	1.6	587.8
Exposures in default	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.5
Items associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Covered bonds	80.8	244.0	157.8	80.1	0.0	20.4	0.0	66.5	34.5	17.2	0.0	49.2	750.5
Claims on institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Collective investments undertakings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity exposures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other exposures	70.3	0.5	2.4	0.5	0.1	0.0	0.1	0.1	0.0	1.2	0.0	6.9	82.1
Total standardised approach	**1,770.7**	**244.6**	**217.6**	**167.8**	**92.7**	**88.8**	**79.4**	**67.6**	**34.5**	**26.8**	**24.2**	**105.2**	**2,919.8**
Total	**7,823.2**	**246.2**	**228.6**	**169.0**	**95.0**	**90.0**	**80.0**	**68.1**	**34.6**	**30.2**	**24.7**	**124.2**	**9,013.7**

* EU CRB-C

Table 5.3 – Concentration of exposures by industry or counterparty types *

31 Dec 2019

	Total IRB approach				Total standardised approach						
EUR million	**Corporates**	**Retail**	**Equity**	**Institutions**	**Corporates**	**Retail**	**Secured by mortgages on immovable property**	**Exposures in default**	**Covered bonds**	**Other exposures**	**Total**
Agriculture, forestry and fishing	9.4	61.7	0.0	0.0	2.5	3.5	28.1	0.0	0.0	0.0	**105.2**
Mining and quarrying	2.1	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	**2.3**
Manufacturing	69.0	13.1	0.0	0.0	0.3	2.2	0.0	0.0	0.0	0.0	**84.6**
Electricity, gas, steam and air conditioning supply	28.4	0.4	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	**29.0**
Water supply	3.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**4.2**
Construction	42.5	22.8	0.0	0.0	0.2	5.1	0.5	0.0	0.0	0.0	**71.1**
Wholesale and retail trade	27.6	26.4	0.0	0.0	0.9	3.5	0.0	0.0	0.0	0.0	**58.5**
Transport and storage	18.2	13.4	0.0	0.0	0.0	6.4	0.5	0.0	0.0	0.0	**38.5**
Accommodation and food service activities	5.0	6.8	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	**12.2**
Information and communication	3.3	3.5	0.4	0.0	0.0	1.7	0.0	0.0	0.0	0.0	**9.0**
Finance and Insurance	350.4	2.5	43.8	319.7	0.5	0.1	0.0	0.0	750.5	0.0	**1,467.4**
Real estate activities	439.8	86.2	0.2	0.0	120.1	0.6	511.7	0.0	0.0	0.0	**1,158.6**
Professional, scientific and technical activities	18.4	15.6	0.2	0.0	0.1	3.3	0.0	0.0	0.0	0.0	**37.6**
Administrative and support service activities	13.7	5.4	0.0	0.0	0.0	1.3	0.0	0.0	0.0	0.0	**20.4**
Public administration and defence, compulsory social security	0.0	3.4	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	**3.6**
Education	5.9	1.7	0.0	0.0	0.0	0.4	0.0	0.0	0.0	0.0	**8.0**
Human health services and social work activities	15.3	7.0	0.0	0.0	0.0	1.0	0.0	0.0	0.0	0.0	**23.3**
Arts, entertainment and recreation	10.1	6.5	0.0	0.0	0.0	0.9	0.0	0.0	0.0	0.0	**17.4**
Other services	10.2	8.6	0.0	0.0	0.0	0.7	0.0	0.0	0.0	0.0	**19.5**
Households	0.0	4,689.5	0.0	0.0	12.9	220.7	47.1	0.4	0.0	0.0	**4,970.5**
Central and regional governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	729.1	**729.1**
Multilateral developments banks and international institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	35.3	**35.3**
Other	1.0	0.2	0.0	0.0	24.8	0.1	0.0	0.0	0.0	82.1	**108.1**
Total	**1,073.3**	**4,976.0**	**44.6**	**319.7**	**162.7**	**252.2**	**587.8**	**0.5**	**750.5**	**846.4**	**9,013.7**

* EU CRB-D

Table 5.4 – Maturity of exposures *

31 Dec 2019			**Net exposure value**			
EUR million	**On demand**	**< = 1 year**	**> 1 year < = 5 years**	**> 5 years**	**No stated maturity**	**Total**
Corporates	13.9	30.7	456.3	314.1	0.0	815.1
Of which: SMEs	12.4	15.2	110.0	133.6	0.0	271.2
Retail	30.7	57.4	242.8	4,531.4	0.0	4,862.4
Of which: Secured by real estate property	24.3	52.2	219.5	4,410.4	0.0	4,706.5
Equity	0.0	0.0	0.0	0.0	44.6	44.6
Total IRB approach	**44.7**	**88.1**	**699.1**	**4,845.6**	**44.6**	**5,722.1**
Central governments or central banks	313.5	0.0	54.7	92.4	2.9	463.7
Regional governments or local authorities	0.0	148.7	84.4	27.4	0.0	260.4
International organisations	0.0	15.2	0.0	20.1	0.0	35.3
Institutions	0.1	89.3	174.2	55.9	0.0	319.5
Corporates	0.0	1.0	57.6	59.4	0.0	118.0
Retail	0.1	0.8	12.7	92.6	0.0	106.1
Secured by mortgages on immovable property	1.4	3.6	74.6	449.7	0.0	529.4
Exposures in default	0.3	0.0	0.0	0.1	0.0	0.5
Covered bonds	0.0	78.5	564.0	108.0	0.0	750.5
Other exposures	13.6	0.0	0.0	0.0	68.5	82.1
Total standardised approach	**329.1**	**337.1**	**1,022.2**	**905.6**	**71.4**	**2,665.5**
Total	**373.8**	**425.2**	**1,721.4**	**5,751.2**	**116.0**	**8,387.6**

* EU CRB-E

Table 5.5 The bank group's total exposures by exposure class before and after the effect of risk mitigation techniques

Balance sheet items and off-balance sheet items including derivatives by credit conversion factors

31 Dec 2019

The bank group's total risk exposure Exposure class, EUR million	Contractual exposure	Impairment	Net exposure	Financial guarantees and other substitutions	Exposure after substitution	Financial collateral	Exposure after collateral	Risk-weighted amount	Capital requirement 8%
Credit risk, IRB approach									
Corporates - SME	334.2	-7.9	326.3	-16.2	310.1	0.0	310.1	247.5	19.8
Corporates - Other	751.2	-4.2	747.0	-2.2	744.9	0.0	744.9	491.2	39.3
Retail, secured by immovable property non-SME	4,645.6	-8.2	4,637.3	0.0	4,637.3	0.0	4,637.3	567.1	45.4
Retail, secured by immovable property SME	161.5	-1.5	160.0	0.0	160.0	0.0	160.0	80.5	6.4
Retail, other non-SME	153.8	-3.9	149.9	0.0	149.9	0.0	149.9	44.7	3.6
Retail, other SME	30.5	-1.8	28.7	0.0	28.7	0.0	28.7	19.0	1.5
Retail, residential mortgages, risk-weight 15%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	149.5	12.0
Equity exposures	44.6	0.0	44.6	0.0	44.6	0.0	44.6	117.5	9.4
Total exposures, IRB approach	**6,121.3**	**-27.4**	**6,093.9**	**-18.3**	**6,075.6**	**0.0**	**6,075.6**	**1,716.9**	**137.4**
Credit risk, standardised approach									
Central governments and central banks	463.7	0.0	463.7	41.8	505.4	0.0	505.4	0.8	0.1
Regional governments and local authorities	265.4	0.0	265.4	21.3	286.7	0.0	286.7	0.4	0.0
Multilateral development banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International organisations	35.3	0.0	35.3	0.0	35.3	0.0	35.3	0.0	0.0
Credit institutions	319.9	-0.2	319.7	-11.3	308.3	-121.0	187.4	53.0	4.2
Corporates	163.5	-0.8	162.7	-33.4	129.3	-12.2	117.1	89.1	7.1
Retail exposures	253.1	-0.9	252.2	0.0	252.2	0.0	252.2	80.2	6.4
Secured by immovable property	587.8	0.0	587.8	0.0	587.8	0.0	587.8	196.6	15.7
Exposures in default	0.6	-0.1	0.5	0.0	0.5	0.0	0.5	0.7	0.1
Covered bonds	750.5	0.0	750.5	0.0	750.5	0.0	750.5	75.1	6.0
Other items	82.1	0.0	82.1	0.0	82.1	0.0	82.1	48.1	3.8
Total exposures, standardised approach	**2,921.7**	**-1.9**	**2,919.8**	**18.3**	**2,938.1**	**-133.2**	**2,805.0**	**544.0**	**43.5**
Total exposures	**9,043.1**	**-29.3**	**9,013.7**	**0.0**	**9,013.7**	**-133.2**	**8,880.6**	**2,260.9**	**180.9**

5.2 Credit risk approach

Aktia has received approval from the Finnish Financial Supervisory Authority to apply the internal ratings-based (IRB) approach to calculate the capital requirement for retail exposures and exposures to corporates. Since Q3 2019, Aktia has applied the IRB approach in exposures to corporates. The standardised approach is used where the IRB approach is not applied.

5.3 Development of exposure and RWA

5.3.1 Lending to households

Total Group lending to the public amounted to EUR 6,429 (6,106) million at the end of 2019, an increase of EUR 323 million. Loans to private households accounted for EUR 4,886 (4,756) million, or 76.0% (77.9%) of the loan book. The housing loan book totalled EUR 4,877 (4,698) million, of which households accounted for EUR 4,026 (3,958) million. Aktia's new lending to households amounted to EUR 1,057 (951) million.

5.3.2 Corporate lending

Corporate lending accounted for 12.0% (11.6%) of Aktia's loan book. Total corporate lending amounted to EUR 771 (708) million. Loans to housing companies increased by 22% to EUR 738 (604) million, making up 11.5% (9.9%) of Aktia's total loan book.

5.3.3 Concentration risks in lending

As a locally operating financial institution, Aktia is exposed to certain concentration risks. Concentration risks are governed by the Group's credit risk policy, which imposes rules and restrictions for individual counterparty level and portfolio level.

Aktia's level of credit risk is sensitive to changes in both domestic employment rates and housing prices. In addition, Aktia has a strong market position in some areas, which creates a certain geographical concentration risk. As the volumes in these branches are small in relation to the overall portfolio, and as Aktia does not operate in locations that are highly dependent on a small number of employers, these geographical concentration risks are deemed to be of minor importance for household lending.

Exposure to real estate activities is the largest sector concentration in Aktia's corporate portfolio.

An overview of CRM techniques is presented in Table 5.6.

The Bank Group's total risk exposure and risk mitigation is presented in Table 5.7.

Credit risk exposure and CRM effects in the standardised approach are presented in Table 5.8.

Exposures by asset class and risk weight in the standardised approach are presented in Table 5.9.

Table 5.6 – CRM techniques – Overview *

31 Dec 2019

EUR million	Exposures unsecured – Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans**	592.3	6,473.9	5,972.1	296.9	0.0
Total debt securities	1,301.0	12.1	0.0	12.1	0.0
Total exposures	**1,893.3**	**6,486.0**	**5,972.1**	**309.0**	**0.0**
Of which defaulted	1.2	49.6	47.4	2.2	0.0

* EU CR3
** Row Total loans includes off balance sheet exposures

Table 5.7 The bank group's total risk exposure and risk mitigation

31 Dec 2019

Exposure classes, EUR million	Contractual exposure	Impairment	Net exposure	of which secured by financial guarantees	of which secured by collateral	Average weighted LGD
Credit risk, IRB approach						
Corporates - SME	334.2	-7.9	326.3	-	136.8	38.6%
Corporates - Other	751.2	-4.2	747.0	-	480.2	35.3%
Retail - Secured by immovable property non-SME	4,645.6	-8.2	4,637.3	-	4,579.9	17.4%
Retail - Secured by immovable property SME	161.5	-1.5	160.0	-	154.6	25.9%
Retail - Other non-SME	153.8	-3.9	149.9	-	15.6	25.9%
Retail - Other SME	30.5	-1.8	28.7	-	5.1	53.7%
Equity exposures	44.6	-	44.6	-	-	
Total exposures, IRB approach	**6,121.3**	**-27.4**	**6,093.9**	**-**	**5,372.1**	
Credit risk, standardised approach						
Central governments and central banks	463.7	-	463.7	-	-	
Regional governments and local authorities	265.4	-0.0	265.4	-	-	
Multilateral development banks	-	-	-	-	-	
International organisations	35.3	-	35.3	-	-	
Credit institutions	319.9	-0.2	319.7	12.1	121.0	
Corporates	163.5	-0.8	162.7	33.4	12.2	
Retail exposures	253.1	-0.9	252.2	-	-	
Secured by immovable property	587.8	-	587.8	-	-	
Exposures in default	0.6	-0.1	0.5	-	-	
Covered bonds	750.5	-	750.5	-	-	
Other items	82.1	-	82.1	-	-	
Total exposures, standardised approach	**2,921.7**	**-1.9**	**2,919.8**	**45.5**	**133.2**	
Total exposures	**9,043.1**	**-29.3**	**9,013.7**	**45.5**	**5,505.3**	

Table 5.8 Standardised approach – Credit risk exposure and CRM effects *

31 Dec 2019

	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
Exposure classes, EUR million	**On-balance-sheet amount**	**Off-balance-sheet amount**	**On-balance-sheet amount**	**Off-balance-sheet amount**	**RWAs**	**RWA density**
Central governments or central banks	463.7	0.0	505.3	0.1	0.8	0%
Regional governments or local authorities	260.4	5.0	281.7	2.6	0.4	0%
Public sector entities	0.0	0.0	0.0	0.0	0.0	0%
Multilateral development banks	0.0	0.0	0.0	0.0	0.0	0%
International organisations	35.3	0.0	35.3	0.0	0.0	0%
Institutions	319.5	0.2	186.4	0.9	53.0	28%
Corporates	118.0	44.6	74.0	16.8	89.1	98%
Retail	106.1	146.1	106.1	5.8	80.2	72%
Secured by mortgages on immovable property	529.4	58.4	529.4	27.5	196.6	35%
Exposures in default	0.5	0.0	0.5	0.0	0.7	143%
Higher-risk categories	0.0	0.0	0.0	0.0	0.0	0%
Covered bonds	750.5	0.0	750.5	0.0	75.1	10%
Institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0%
Collective investments undertakings	0.0	0.0	0.0	0.0	0.0	0%
Equity	0.0	0.0	0.0	0.0	0.0	0%
Other items	82.1	0.0	82.1	0.0	48.1	59%
Total	**2,665.5**	**254.3**	**2,551.2**	**53.7**	**544.0**	**21%**

* EU-CR4

Table 5.9 Standardised approach - exposures by asset classes and risk weights *

31 Dec 2019

Exposure classes, EUR million	Risk weight 0%	2%	4%	10%	20%	35%	50%	70%	75%	100%	150%	250%	370%	1250%	Others	Deducted	Total	Of which unrated
Central governments or central banks	501.3	0.0	0.0	0.0	4.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	505.4	0.0
Regional governments or local authorities	282.0	0.0	0.0	0.0	2.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	284.2	0.0
Public sector entities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral development banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International organisations	35.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	35.3	0.0
Institutions	0.0	0.0	0.0	0.0	135.6	0.0	51.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	187.3	29.9
Corporates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	90.9	0.0	0.0	0.0	0.0	0.0	0.0	90.9	90.9
Retail	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	111.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	111.9	111.9
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	0.0	445.2	111.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	556.9	556.9
Exposures in default	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.4	0.0	0.0	0.0	0.0	0.0	0.5	0.5
Higher-risk categories	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Covered bonds	0.0	0.0	0.0	750.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	750.5	68.6
Claims on institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Collective investments undertakings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Equity	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items	1.8	0.0	0.0	0.0	40.2	0.0	0.0	0.0	0.0	40.0	0.0	0.0	0.0	0.0	0.0	0.0	82.1	82.1
Total	**820.4**	**0.0**	**0.0**	**750.5**	**182.1**	**445.2**	**163.3**	**0.0**	**111.9**	**131.0**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2,604.9**	**940.8**

* EU-CR5

5.4 Rating and scoring

The purpose of corporate ratings and credit scoring is to predict the likelihood that a counterparty will be unable to meet its credit obligations towards the Bank, i.e. to estimate the probability of default. Ratings and credit scores constitute an integral part of the credit process, e.g. for credit approval, pricing, monitoring, risk reporting, and capital adequacy calculations. Internal ratings are used for corporate exposures, while internal credit scoring is used for retail exposures.

Aktia uses external long-term issue and issuer ratings from Moody's Investors Service to calculate the risk weight according to the SA. The external ratings are used for sovereign-type exposure classes (exposure classes (a)–(e) according to Article 112 of the CRR), as well as for corporate, institution and covered bond exposure classes. The counterparties with external ratings are mainly derivative counterparties or part of the liquidity portfolio. The mapping of ratings follows the ECAI mapping published by the EBA. Tables 5.10 and 5.11 present the mapping of exposure values to credit quality steps.

Exposures in the standardised approach before credit risk mitigation distributed by credit quality step (EUR million) are presented in Table 5.10.

Exposures in the standardised approach after credit risk mitigation distributed by credit quality step (EUR million) are presented in Table 5.11.

RWA flow statements of credit risk exposures under the IRB approach are presented in Table 5.12.

Credit risk exposures by exposure class and PD range in the IRB approach are presented in Table 5.13.

Specialised lending and equities in the IRB approach are presented in Table 5.14. The equity exposures are treated under the simple risk weight approach. The 250% risk weight group refers to the holdings in Aktia Life insurance Ltd, which are not deducted from CET1 capital.

The backtesting of IRB parameters per retail subportfolio is presented in Table 5.15.

5.4.1 Scoring

Models or scorecards used in the retail portfolio, including both households and SMEs, are based on statistical models to predict the likelihood of retail customer exposures defaulting within one year of the time of estimation. The risk points generated by the scorecards are mapped to a master scale consisting of 12 risk grades, A1–C4, for non-defaulted customers.

Aktia uses two types of scoring model in its business: application models and behavioural models. Application models are used for screening and pricing exposures during the loan origination process, because they are designed to estimate credit quality over time, while behavioural models are used for risk monitoring due to their sensitivity to changes in customer behaviour. The set of models for SMEs differs from that used for households, because the credit risk predictors and credit processes differ for these two obligor types. As Aktia uses an exposure level default definition for households, the model performance is further optimised by dividing the portfolio into groups, with their own scorecards based on product characteristics and behavioural information.

Scorecards are developed based on application and internal behavioural data. The scorecards also take into account the credit policy and process used, because their effects are reflected in the data used for modelling. As part of the application data, credit bureau information is used in the scoring process. The retail portfolio's set of models is basically designed to optimise risk differentiation, based on portfolio characteristics and the available information.

Six months from loan origination, the application score is replaced with a behavioural score. The behavioural score is recalculated continuously, based on the most recent data and customer information.

Table 5.10 Exposures in the standardised approach before credit risk mitigation distributed by credit quality step

31 Dec 2019

	Credit quality step					
Exposure classes, EUR million	**1**	**2**	**3**	**4 to 6**	**Unrated**	**Total**
Central governments or central banks *	459.6	4.1	0.0	0.0	0.0	463.7
Regional governments or local authorities *	265.4	0.0	0.0	0.0	0.0	265.4
Multilateral development banks *	0.0	0.0	0.0	0.0	0.0	0.0
International organisations *	35.3	0.0	0.0	0.0	0.0	35.3
Institutions	169.3	120.7	0.0	0.0	29.6	319.7
Corporates	0.0	0.0	0.0	0.0	162.7	162.7
Retail	0.0	0.0	0.0	0.0	252.2	252.2
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	587.8	587.8
Exposures in default	0.0	0.0	0.0	0.0	0.5	0.5
Covered bonds	681.9	0.0	0.0	0.0	68.6	750.5
Other items	0.0	0.0	0.0	0.0	82.1	82.1
Total	**1,611.6**	**124.8**	**0.0**	**0.0**	**1,183.5**	**2,919.8**

31 Dec 2018

	Credit quality step					
Exposure classes, EUR million	**1**	**2**	**3**	**4 to 6**	**Unrated**	**Total**
Central governments or central banks *	387.8	4.0	0.0	0.0	0.0	391.8
Regional governments or local authorities *	281.0	0.0	0.0	0.0	0.0	281.0
Multilateral development banks *	15.2	0.0	0.0	0.0	0.0	15.2
International organisations *	66.7	0.0	0.0	0.0	0.0	66.7
Institutions	238.4	174.1	9.1	0.0	6.4	427.9
Corporates	0.0	0.0	50.0	0.0	416.3	466.3
Retail	0.0	0.0	0.0	0.0	296.3	296.3
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	961.2	961.2
Exposures in default	0.0	0.0	0.0	0.0	7.5	7.5
Covered bonds	658.9	0.0	0.0	0.0	56.0	714.9
Other items	0.0	0.0	0.0	0.0	63.5	63.5
Total	**1,647.9**	**178.1**	**59.1**	**0.0**	**1,807.2**	**3,692.2**

*Exposures that receive a fixed 0% risk weight according to CRR have been reported in step 1.

Table 5.11 Exposures in the standardised approach after credit risk mitigation distributed by credit quality step

31 Dec 2019

Exposure classes, EUR million	Credit quality step 1	2	3	4 to 6	Unrated	Total
Central governments or central banks *	501.4	4.1	0.0	0.0	0.0	505.4
Regional governments or local authorities *	286.7	0.0	0.0	0.0	0.0	286.7
Multilateral development banks *	0.0	0.0	0.0	0.0	0.0	0.0
International organisations *	35.3	0.0	0.0	0.0	0.0	35.3
Institutions	119.2	38.2	0.0	0.0	29.9	187.4
Corporates	0.0	0.0	0.0	0.0	117.1	117.1
Retail	0.0	0.0	0.0	0.0	252.2	252.2
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	587.8	587.8
Exposures in default	0.0	0.0	0.0	0.0	0.5	0.5
Covered bonds	681.9	0.0	0.0	0.0	68.6	750.5
Other items	0.0	0.0	0.0	0.0	82.1	82.1
Total	**1,624.5**	**42.3**	**0.0**	**0.0**	**1,138.2**	**2,805.0**

31 Dec 2018

Exposure classes, EUR million	Credit quality step 1	2	3	4 to 6	Unrated	Total
Central governments or central banks *	452.1	4.0	0.0	0.0	0.0	456.1
Regional governments or local authorities *	304.0	0.0	0.0	0.0	0.0	304.0
Multilateral development banks *	15.2	0.0	0.0	0.0	0.0	15.2
International organisations *	66.7	0.0	0.0	0.0	0.0	66.7
Institutions	167.8	55.7	6.0	0.0	10.8	240.3
Corporates	0.0	0.0	50.0	0.0	320.1	370.1
Retail	0.0	0.0	0.0	0.0	282.7	282.7
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	961.2	961.2
Exposures in default	0.0	0.0	0.0	0.0	6.8	6.8
Covered bonds	658.9	0.0	0.0	0.0	56.0	714.9
Other items	0.0	0.0	0.0	0.0	63.5	63.5
Total	**1,664.7**	**59.7**	**56.0**	**0.0**	**1,701.1**	**3,481.5**

*Exposures that receive a fixed 0% risk weight according to CRR have been reported in step 1.

Table 5.12 – RWA flow statements of credit risk exposures under the IRB approach *

31 Dec 2019

EUR million	RWA amounts	Capital requirements
RWAs as at the end of the previous reporting period	**947.2**	**75.8**
Asset size	218.4	17.5
Asset quality **	238.6	19.1
Model updates	0.0	0.0
Methodology and policy ***	175.4	14.0
Acquisitions and disposals	0.0	0.0
Foreign exchange movements	0.0	0.0
Other ****	149.5	12.0
RWAs as at the end of the reporting period	**1,729.1**	**138.3**

* EU CR8
** Asset quality decreased during the year mainly in retail portfolios where past due dates increased from historically low levels.
*** From Q3 2019 Aktia has applied IRB in exposures to corporates.
**** FIN-FSA has set a minimum risk weight level of 15% for residential mortgage loans applicable to credit institutions that have adopted the internal ratings-based approach for the calculation of capital requirements. The decision on the 15% minimum risk weight entered into force from 1 January 2018 and was renewed during 2019 to be valid until the beginning of 2021.

Table 5.13 – IRB approach – Credit risk exposures by exposure class and PD range *

31 Dec 2019

PD scale, EUR million	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
Corporates-SME												
0.00 to < 0.15	0	0	0%	0	0%	0	0%	2.5	0	0%	0	
0.15 to < 0.25	8	0	0%	7	0%	3	37%	2.5	2	26%	0	
0.25 to < 0.50	48	6	75%	52	0%	8	35%	2.5	20	39%	0	
0.50 to < 0.75	17	4	84%	19	1%	16	36%	2.5	10	54%	0	
0.75 to < 2.50	57	7	82%	61	2%	48	40%	2.5	44	72%	0	
2.50 to < 10.00	91	25	82%	104	5%	109	39%	2.5	96	92%	2	
10.00 to < 100.00	46	12	88%	53	21%	67	40%	2.5	76	143%	5	
100.00 (Default)	12	0	95%	12	100%	10	43%	2.5	0	0%	5	
Sub-total	**279**	**55**	**83%**	**308**	**10%**	**261**	**39%**	**2.5**	**247**	**80%**	**12**	**-8**

PD scale, EUR million	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjustments and provisions
Corporates-Other												
0.00 to < 0.15	36	0	0%	36	0%	2	41%	2.5	11	32%	0	
0.15 to < 0.25	0	5	91%	5	0%	2	36%	2.5	1	15%	0	
0.25 to < 0.50	302	64	75%	350	0%	15	36%	2.5	183	52%	0	
0.50 to < 0.75	90	51	77%	129	1%	17	32%	2.5	92	72%	0	
0.75 to < 2.50	46	37	78%	75	2%	45	36%	2.5	55	74%	0	
2.50 to < 10.00	57	46	75%	90	4%	43	36%	2.5	122	135%	2	
10.00 to < 100.00	13	0	75%	13	18%	21	38%	2.5	26	206%	1	
100.00 (Default)	4	0	0%	4	100%	5	41%	2.5	0	0%	2	
Sub-total	**548**	**203**	**77%**	**702**	**2%**	**150**	**35%**	**2.5**	**491**	**70%**	**5**	**-4**
Total FIRB corporate portfolios	**827**	**259**	**78%**	**1,010**	**4%**	**407**	**36%**	**2.5**	**739**	**73%**	**18**	**-12**

* EU CR6

PD scale, EUR million	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjust-ments and provisions
Retail - Secured by immovable property SME												
0.00 to < 0.15	0	0	100%	0	0.10%	38	26.20%		0	5%	0	
0.15 to < 0.25	0	0	100%	0	0.21%	58	23.72%		0	8%	0	
0.25 to < 0.50	2	1	100%	3	0.39%	146	28.34%		0	15%	0	
0.50 to < 0.75	7	2	100%	8	0.64%	242	26.71%		2	20%	0	
0.75 to < 2.50	70	9	100%	78	1.38%	1 243	26.75%		26	33%	0	
2.50 to < 10.00	47	5	100%	51	4.64%	719	24.25%		31	61%	1	
10.00 to < 100.00	15	1	100%	16	25.03%	242	24.05%		17	102%	1	
100.00 (Default)	4	0	100%	4	100.00%	63	36.06%		5	138%	1	
Sub-total	**144**	**18**	**100%**	**162**	**6.95%**	**2,751**	**25.91%**		**81**	**50%**	**3**	**-1**

PD scale, EUR million	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjust-ments and provisions
Retail - Secured by immovable property non-SME												
0.00 to < 0.15	2,994	45	100%	3,039	0.06%	29,431	16.96%		86	3%	0	
0.15 to < 0.25	396	3	100%	398	0.19%	5,695	17.71%		29	7%	0	
0.25 to < 0.50	370	3	100%	374	0.35%	5,320	17.86%		43	11%	0	
0.50 to < 0.75	123	6	100%	129	0.61%	1,816	17.96%		22	17%	0	
0.75 to < 2.50	358	12	100%	370	1.45%	3,999	17.83%		110	30%	1	
2.50 to < 10.00	187	4	100%	191	4.75%	2,153	19.70%		124	65%	2	
10.00 to < 100.00	100	0	100%	100	37.78%	1,373	18.45%		92	92%	7	
100.00 (Default)	45	0	100%	45	100.00%	521	25.39%		62	139%	9	
Sub-total	**4,572**	**73**	**100%**	**4,646**	**2.19%**	**44,500**	**17.42%**		**567**	**12%**	**19**	**-8**

PD scale, EUR million	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjust-ments and provisions
Retail - Other SME												
0.00 to < 0.15	0	0	100%	0	0.10%	12	84.26%		0	16%	0	
0.15 to < 0.25	0	0	100%	0	0.19%	17	62.76%		0	20%	0	
0.25 to < 0.50	0	0	100%	1	0.38%	26	57.94%		0	28%	0	
0.50 to < 0.75	2	1	100%	2	0.58%	40	32.68%		1	21%	0	
0.75 to < 2.50	6	4	100%	10	1.57%	263	57.37%		5	55%	0	
2.50 to < 10.00	10	2	100%	12	4.95%	235	51.43%		7	62%	0	
10.00 to < 100.00	3	0	100%	4	21.94%	92	51.44%		4	92%	0	
100.00 (Default)	2	0	100%	2	100.00%	105	74.88%		2	109%	2	
Sub-total	**23**	**7**	**100%**	**31**	**11.66%**	**790**	**53.70%**		**19**	**62%**	**3**	**-2**

PD scale, EUR million	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjust-ments and provisions
Retail - Other non-SME												
0.00 to < 0.15	14	4	100%	18	0.08%	1,480	47.74%		2	10%	0	
0.15 to < 0.25	3	0	100%	3	0.21%	354	53.78%		1	24%	0	
0.25 to < 0.50	10	1	100%	11	0.39%	1,157	26.43%		2	17%	0	
0.50 to < 0.75	26	0	100%	26	0.62%	2,428	12.44%		3	11%	0	
0.75 to < 2.50	64	7	100%	70	1.40%	7,009	16.98%		15	21%	0	
2.50 to < 10.00	11	3	100%	14	4.71%	1,319	41.28%		9	66%	0	
10.00 to < 100.00	7	0	100%	7	26.06%	4,073	28.78%		5	77%	1	
100.00 (Default)	5	0	100%	5	100.00%	401	76.64%		8	157%	4	
Sub-total	**138**	**15**	**100%**	**154**	**5.78%**	**16,740**	**25.90%**		**45**	**29%**	**5**	**-4**
Total Retail IRB portfolios	**4,878**	**114**	**100%**	**4,991**	**3%**	**61,559**	**18%**		**711**	**14%**	**30**	**-15**

PD scale, EUR million	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity	RWA	RWA density	EL	Value adjust-ments and provisions
Equity												
	45	0		45					117	264%	0	

Table 5.14 IRB (specialised lending and equities)

31 Dec 2019

	Equities under the simple risk-weighted approach					
Categories, EUR million	**On-balance sheet amount**	**Off-balance sheet amount**	**Risk weight**	**Exposure amount**	**RWA**	**Capital requirements**
Exchange-traded equity exposures	0.0	0.0	190.0%	33.6	0.1	0.0
Private equity exposures	0.0	0.0	290.0%	0.0	0.0	0.0
Other equity exposures	46.2	0.0	250.0%	39,482.0	98.7	7.9
Other equity exposures	5.1	0.0	370.0%	5,061.1	18.7	1.5
Total	**51.3**	**0.0**		**44,576.6**	**117.5**	**9.4**

Table 5.15 EU CR9 – IRB approach – Backtesting of PD per exposure class

31 Dec 2019

Retail portfolio	**Estimated PD***	**Average Default Rate**	**Estimated LGD***	**Realized LGD**
Household loans	1.19%	0.60%	38.5%	5.%
Retail SME	3.00%	0.84%	53.5%	16.7%
Other Retail	5.00%	2.49%	24.0%	1.4%

* PD and LGD estimates reflect those used in the capital adequacy calculations and include cyclical adjustments and conservatism buffers

5.5 Collateral

The valuation and administration of collateral is very important for managing credit risk. Rules and authorisations concerning the valuation of collateral and the updating of collateral values have been established. In keeping with the principle of prudence, collateral values are calculated by subtracting a haircut from the market value. The extent to which this prudent collateral value is lower indicates the volatility in the collateral's market value, liquidity, and the expected recovery time and fulfilment. Under the SA, real estate collateral, certain guarantees and financial securities are taken into account in the capital adequacy calculation. Under the IRB approach, credit risk mitigants affect the capital adequacy calculation through the LGD estimate.

Loans to households are mainly granted against prudent collateral, which means that no reduction in market values less than the haircut directly results in a collateral shortfall.

For corporate financing purposes, collateral is valued in accordance with separate rules, also taking into account a valuation buffer specific to the collateral, to allow the determination of a prudent value. Especially when valuing the fixed assets relating to a business, the interaction between the value of the fixed assets and the company's business opportunities is taken into account.

5.5.1 Loan-to-value ratio of collateral

The loan-to-value ratio is defined as the relationship between the outstanding loan amount and the market value of the loan's pledged collateral.

Most of the Bank's collateral stock is made up of residential real estate. Trends in housing prices are thus important factors in the Bank's risk profile. During 2019, developments in housing prices within Aktia's main business areas remained at a stable level.

The loan-to-value distribution of the retail mortgage loan book is presented in Table 5.16.

Table 5.16 Loan To Value (LTV) distribution* of mortgage loan book

LTV Band	**31 Dec 2019**
0-50%	81.3%
50-60%	8.0%
60-70%	4.4%
70-80%	2.2%
80-90%	1.1%
90-100%	0.4%
>100%	2.7%
Total	100%

* The table shows the distribution of exposures by LTV band. Example: A mortgage exposure of EUR 60,000 to finance a property worth EUR 100,000 (LTV 60%) is distributed EUR 50,000 to the "LTV 0-50%" bucket and EUR 10,000 to the "LTV 50-60%" bucket.

5.6 Estimation and validation of credit risk parameters

All credit risk models used for IRB purposes are validated annually, and central model performance metrics are reported quarterly to both the Board of Directors and the management of the Group. Validation is performed by the Risk Control function, and includes both quantitative and qualitative assessments of model performance and parameters. The majority of quantitative tests performed during annual validation are performed and analysed quarterly by the Risk Control function. Key monitoring metrics are reported to the Board of Directors and the management of the Group.

Rating and scoring models are translated into probability of default (PD) estimates for risk management purposes. PD models are calibrated using both point-in-time (PIT) and through-the-cycle (TTC) calculations. PIT PD estimates are used for short-term risk assessment, and monitoring and validation of default rates (DR), while TTC PD estimates are used for PD classification and regulatory capital calculations. LGD estimates are derived for both PIT and downturn scenarios, and they are used similarly to PD estimates. LGD estimates reflect the quality and characteristics of the collaterals and pledges connected to exposures.

5.7 Loan portfolio, impaired loans and loan losses

Problem loans are regularly monitored both in the business units through delinquency lists and alerts, and at portfolio level in the Group's Risk Control unit. Internal policies and tools have been put in place to enable early-stage identification of customers whose credit standing no longer corresponds to their level of indebtedness. Quickly reacting to such situations is in both the customer's and bank's best interests.

According to the Group's accounting principles, on each reporting date, an assessment of whether a significant increase in the credit risk of a receivable has occurred is performed. The assessment is primarily based on the change in the probability of default since initial recognition, and on whether the borrower has a delinquent loan payment (30 days) or is subject to forbearance measures. For non-defaulted loans whose credit risk has not increased significantly (ECL Stage 1), the expected credit losses for a 12-month period are calculated. For non-defaulted loans whose credit risk has increased significantly (ECL Stage 2), as well as for defaulted loans (ECL Stage 3), the expected credit losses for the remaining lifetime of the loan are calculated. A loan is considered in default if a significant loan payment is delinquent by 90 days or more. A loan is also considered in default if a significant loan payment is delinquent by less than 90 days and the borrower is subject to bankruptcy or debt restructuring, or the borrower's ability to settle his or her loan obligations to their fullest extent is considered unlikely.

Credit quality of exposures by exposure class and instrument is presented in Table 5.17.

Credit quality of exposures by industry or counterparty type is presented in Table 5.18.

Credit quality of exposures by geography is presented in Table 5.19.

Ageing of past-due exposures is presented in Table 5.20.

Non-performing and forborne exposures are presented in Table 5.21.

Changes in the stock of general and specific credit risk adjustments are presented in Table 5.22.

Changes in the stock of defaulted and impaired loans and debt securities are presented in Table 5.23.

Loans past due by time overdue and ECL stage are presented in Table 5.24.

Credit exposures per PD class and ECL stage are presented in Table 5.25.

Credit exposures (incl. off-balance sheet items) per LGD and ECL stage are presented in Table 5.26.

Credit exposures (incl. off-balance sheet items) per stage migration reason are presented in Table 5.27.

Table 5.17 – Credit quality of exposures by exposure class and instrument *

31 Dec 2019

EUR million	Gross carrying values of: Defaulted exposures	Gross carrying values of: Non-defaulted exposures	Specific credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	Net values (a+b-c-d)
Corporates	16.2	1,069.1	12.1			1,073.3
Of which: SMEs	12.5	321.6	7.9			326.3
Retail	55.6	4,935.8	15.4			4,976.0
Secured by real estate property	48.4	4,758.6	9.7			4,797.4
SMEs	3.6	157.9	1.5			160.0
Non-SMEs	44.8	4,600.7	8.2			4,637.3
Other retail	7.2	177.1	5.7			178.6
SMEs	1.9	28.6	1.8			28.7
Non-SMEs	5.2	148.6	3.9			149.9
Equity	0.0	44.6	0.0			44.6
Total IRB approach	**71.8**	**6,049.5**	**27.4**	**1.8**	**-3.2**	**6,093.9**
Central governments or central banks	0.0	463.7	0.0			463.7
Regional governments or local authorities	0.0	265.4	0.0			265.4
International organisations	0.0	35.3	0.0			35.3
Institutions	0.0	319.9	0.2			319.7
Corporates	0.0	163.5	0.8			162.7
Of which: SMEs	0.0	50.2	0.4			49.8
Retail	0.0	253.1	0.9			252.2
Of which: SMEs	0.0	27.9	0.2			27.7
Secured by mortgages on immovable property	0.0	587.8	0.0			587.8
Of which: SMEs	0.0	252.9	0.0			252.9
Exposures in default	0.6	0.0	0.1			0.5
Covered bonds	0.0	750.5	0.0			750.5
Other exposures	0.0	82.1	0.0			82.1
Total standardised approach	**0.6**	**2,921.2**	**1.9**	**12.6**	**-1.0**	**2,919.8**
Total	**72.4**	**8,970.6**	**29.3**	**14.5**	**-4.2**	**9,013.7**
Of which: Loans	71.9	6,396.3	28.2	14.5	-4.2	6,440.0
Of which: Debt securities	0.0	1,313.3	0.2	0.0	0.2	1,313.1
Of which: Off-balance-sheet exposures	0.5	626.6	1.0	0.0	-0.2	626.2

* EU CR1-A

Table 5.18 – Credit quality of exposures by industry or counterparty types *

31 Dec 2019

EUR million	Gross carrying values of: Defaulted exposures	Gross carrying values of: Non-defaulted exposures	Specific credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values (a +b-c-d)
Agriculture, forestry and fishing	2.8	103.9	1.5	0.0	-0.8	105.2
Mining and quarrying	0.0	2.3	0.0	0.0	0.0	2.3
Manufacturing	2.8	83.5	1.6	0.0	-0.3	84.6
Electricity, gas, steam and air conditioning supply	0.0	29.0	0.0	0.0	0.0	29.0
Water supply	0.3	4.0	0.0	0.0	0.0	4.2
Construction	2.4	71.2	2.5	0.0	0.1	71.1
Wholesale and retail trade	0.8	58.5	0.9	0.1	-0.1	58.5
Transport and storage	0.6	38.4	0.5	1.0	-0.1	38.5
Accommodation and food service activities	2.1	11.1	1.0	0.0	0.1	12.2
Information and communication	1.0	9.0	1.0	0.0	0.0	9.0
Finance and Insurance	0.8	1,467.7	1.1	0.0	0.4	1,467.4
Real estate activities	1.5	1,159.0	1.9	0.4	-0.1	1,158.6
Professional, scientific and technical activities	1.7	37.7	1.8	10.5	-0.6	37.6
Administrative and support service activities	0.0	20.5	0.1	0.0	0.0	20.4
Public administration and defence, compulsory social security	0.3	3.4	0.0	0.0	0.0	3.6
Education	0.2	7.9	0.2	0.0	0.0	8.0
Human health services and social work activities	0.7	22.9	0.3	0.0	0.0	23.3
Arts, entertainment and recreation	5.0	15.1	2.6	0.0	0.9	17.4
Other services	0.0	19.6	0.1	0.0	0.0	19.5
Households	49.4	4,933.5	12.3	2.6	-3.5	4,970.5
Central and regional governments	0.0	729.1	0.0	0.0	0.0	729.1
Multilateral developments banks and international institutions	0.0	35.3	0.0	0.0	0.0	35.3
Other	0.0	108.1	0.0	0.0	-0.1	108.1
Total	**72.4**	**8,970.6**	**29.3**	**14.5**	**-4.2**	**9,013.7**

* EU CR1-B

Table 5.19 – Credit quality of exposures by geography *

31 Dec 2019

EUR million	Gross carrying values of: Defaulted exposures	Gross carrying values of: Non-defaulted exposures	Specific credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values (a +b-c-d)
Finland	72.4	7,780.1	29.3	14.5	-4.2	7,823.2
Norway	0.0	246.2	0.0	0.0	0.0	246.2
Sweden	0.0	228.6	0.0	0.0	0.0	228.6
France	0.0	169.0	0.0	0.0	0.0	169.0
Germany	0.0	95.0	0.0	0.0	0.0	95.0
Spain	0.0	90.0	0.0	0.0	0.0	90.0
Canada	0.0	80.0	0.0	0.0	0.0	80.0
Poland	0.0	68.1	0.0	0.0	0.0	68.1
Slovakia	0.0	34.6	0.0	0.0	0.0	34.6
United Kingdom	0.0	30.2	0.0	0.0	0.0	30.2
Portugal	0.0	24.7	0.0	0.0	0.0	24.7
Other countries	0.0	124.2	0.0	0.0	0.0	124.2
Total	**72.4**	**8,970.6**	**29.3**	**14.5**	**-4.2**	**9,013.7**

* EU CR1-C

Table 5.20 – Ageing of past-due exposures *

31 Dec 2019

Categories, EUR million	Gross carrying values: ≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	69.6	14.5	12.8	13.1	11.0	37.1
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
Total exposures	**69.6**	**14.5**	**12.8**	**13.1**	**11.0**	**37.1**

* EU CR1-D

Table 5.21 – Non-performing and forborne exposures *

31 Dec 2019

	Gross carrying amount of performing and non-performing exposures							Accumulated impairment and provisions and negative fair value adjustments due to credit risk				Collaterals and financial guarantees received	
				Of which non-performing				On performing exposures		On non-performing exposures			
EUR million		Of which performing but past due > 30 days and ≤ 90 days	Of which performing forborne		Of which defaulted	Of which impaired	Of which forborne		Of which forborne		Of which forborne	On non-performing exposures	Of which forborne exposures
Debt securities	1,313.3	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Loans and advances	6,468.2	19.9	76.5	80.2	71.9	71.5	14.3	6.1	0.0	22.0	6.3	55.7	83.5
Off-balance-sheet exposures	627.2	0.0	0.0	0.0	0.5	0.0	0.0	1.0	0.0	0.0	0.0	0.0	0.0

* EU CR1-E

Table 5.22 – Changes in the stock of general and specific credit risk adjustments *

31 Dec 2019

EUR million	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**39.5**	**0.0**
Increases due to amounts set aside for estimated loan losses during the period	10.8	0.0
Decreases due to amounts reversed for estimated loan losses during the period	-7.7	0.0
Decreases due to amounts taken against accumulated credit risk adjustments	-12.9	0.0
Transfers between credit risk adjustments	0.0	0.0
Impact of exchange rate differences	0.0	0.0
Business combinations, including acquisitions and disposals of subsidiaries	0.0	0.0
Other adjustments	-0.4	0.0
Closing balance	**29.3**	**0.0**
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	0.1	0.0
Specific credit risk adjustments directly recorded to the statement of profit or loss	0.0	0.0

* EU CR2-A

Table 5.23 – Changes in the stock of defaulted and impaired loans and debt securities*

31 Dec 2019

EUR million	Gross carrying value defaulted exposures
Opening balance	**74.1**
Loans and debt securities that have defaulted or impaired since the last reporting period	20.9
Returned to non-defaulted status	4.6
Amounts written off	14.5
Other changes	-3.4
Closing balance	**72.4**

* EU CR2-B

Table 5.24. Loans past due by time overdue and ECL stages

31 Dec 2018

Days, EUR million	Stage 1	Stage 2	Stage 3	Totalt
≤ 30	39.3	14.9	0.1	54.2
of which households	36.5	13.5	0.1	50.1
> 30 ≤ 90	0.0	33.8	0.5	34.2
of which households	0.0	28.3	0.2	28.5
> 90	0.0	0.0	40.4	40.4
of which households	0.0	0.0	33.3	33.3

31 Dec 2019

Days, EUR million	Stage 1	Stage 2	Stage 3	Totalt
≤ 30	45.9	23.0	0.5	69.4
of which households	36.3	21.6	0.4	58.3
> 30 ≤ 90	0.0	26.0	1.4	27.4
of which households	0.0	23.3	1.1	24.4
> 90	0.0	0.0	44.4	44.4
of which households	0.0	0.0	38.0	38.0

Table 5.25. Credit exposures per PD-classes* and ECL stages

	12 month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Corporate				
PD grades A	182.59	16.91	0.00	199.50
PD grades B	707.68	0.00	0.00	707.68
PD grades C	525.85	26.27	0.00	552.12
Default	0.00	0.00	20.73	20.73
	1,416.12	43.18	20.73	1,480.03
Loss allowance (ECL)	-2.65	-0.84	-11.63	-15.12
Carrying amount	1,413.48	42.34	9.10	1,464.92
Households				
PD grades A	3,440.09	8.49	0.00	3,448.58
PD grades B	828.98	8.81	0.00	837.79
PD grades C	694.85	86.21	0.00	781.06
Default	0.00	0.00	51.65	51.65
	4,963.92	103.51	51.65	5,119.08
Loss allowance (ECL)	-0.92	-2.79	-9.91	-13.62
Carrying amount	4,963.01	100.72	41.74	5,105.47
Other				
PD grades A	26.41	0.00	0.00	26.41
PD grades B	330.64	0.00	0.00	330.64
PD grades C	158.73	0.46	0.00	159.19
Default	0.00	0.00	0.86	0.86
	515.78	0.46	0.86	517.10
Loss allowance (ECL)	-0.20	-0.02	-0.23	-0.45
Carrying amount	515.58	0.44	0.63	516.65

*) A=low risk, B=moderate risk, C=high risk

Table 5.26. Credit exposures per LGD-classes and ECL stages

	12 month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total
Corporate				
LGD class 1 (low)	0.00	0.00	0.26	0.26
LGD class 2	35.76	0.46	0.95	37.17
LGD class 3	1,043.59	40.12	3.78	1,087.49
LGD class 4	163.86	1.49	2.05	167.40
LGD class 5 (high)	172.91	1.11	13.69	187.70
	1,416.12	43.18	20.73	1,480.03
Loss allowance (ECL)	-2.65	-0.84	-11.63	-15.11
Carrying amount	1,413.48	42.34	9.10	1,464.91
Households				
LGD class 1 (low)	99.69	1.46	10.29	111.44
LGD class 2	2,185.39	26.94	10.22	2,222.55
LGD class 3	2,405.80	67.02	11.81	2,484.63
LGD class 4	23.44	1.40	6.88	31.72
LGD class 5 (high)	249.60	6.69	12.45	268.74
	4,963.92	103.51	51.65	5,119.08
Loss allowance (ECL)	-0.92	-2.79	-9.91	-13.61
Carrying amount	4,963.00	100.72	41.74	5,105.47
Other				
LGD class 1 (low)	4.92	0.10	0.01	5.03
LGD class 2	80.50	0.05	0.00	80.55
LGD class 3	279.99	0.22	0.00	280.21
LGD class 4	20.96	0.00	0.00	20.96
LGD class 5 (high)	129.41	0.09	0.85	130.35
	515.78	0.46	0.86	517.10
Loss allowance (ECL)	-0.20	-0.02	-0.23	-0.45
Carrying amount	515.58	0.44	0.63	516.65

Class 1	Risk free, e.g. state guarantee
Class 2	Low risk, e.g. share in housing co-operative
Class 3	Medium risk, e.g. other real estate security
Class 4	Increased risk, other guarantees
Class 5	High risk, no collateral

Table 5.27. Credit exposure and expected credit loss (ECL) per stage migration reasons

31 Dec 2019

EUR million	Exposure	ECL
Corporate		
Stage 1	1,413.5	2.7
Stage 2: 30 DPD*	14.9	0.3
Stage 2: Other	28.3	0.5
Stage 3	20.7	11.6
Total	**1,480.0**	**15.1**
Households		
Stage 1	4,963.9	0.9
Stage 2: 30 DPD*	35.7	1.0
Stage 2: Other	67.8	1.8
Stage 3	51.7	9.9
Total	**5,119.1**	**13.6**
Other		
Stage 1	515.8	0.2
Stage 2: 30 DPD*	0.2	0.0
Stage 2: Other	0.3	0.0
Stage 3	0.9	0.2
Total	**517.1**	**0.5**

* Days past due

5.8 Counterparty credit risk

Aktia uses the mark-to-market method to calculate counterparty credit risk exposure amounts for OTC derivatives. For securities financing transactions (SFTs), the financial collateral comprehensive method is used.

Derivative contracts are used to ensure an adequate level of net interest income in a low interest rate scenario. In addition, interest rate derivatives are brokered with certain local banks.

Counterparty risk in derivative contracts is the risk of a counterparty not fulfilling its contractual obligations to Aktia when a contract has a positive market value. Counterparty exposures are measured and followed up daily.

To limit and reduce counterparty risks, individual collateral arrangements are used, in accordance with ISDA/CSA (credit support annex) conditions. The ISDA/CSA agreement allows the use of close-out netting agreements, in which all positive and negative market values under an agreement can be netted at the counterparty level.

The Group has netting and collateral agreements in place with all counterparties that are credit institutions. The collateral used is mainly cash, but government securities can also be used. At year-end, all received and placed collateral was in cash. In connection with the updating of the variation margin in the ISDA/CSA agreements, rating-based thresholds or minimum transfer amounts have been significantly reduced. If Aktia were downgraded, the impact would be limited. A one-notch downgrade would result in a EUR 1 million outflow of collateral. Furthermore, all rating-triggered termination events were removed from the agreements.

Counterparty risk in SFTs is limited and reduced in Aktia by using the Global Master Repurchase Agreement with all counterparties. This agreement limits the market value change in repurchased securities, which triggers one of the counterparties to contribute more collateral when the threshold amount is exceeded.

Aktia had no outstanding credit default swaps at year-end.

In addition to the capital requirement for counterparty risk, derivative transactions result in capital requirements for value change risks related to the counterparty's credit quality (credit valuation adjustment, CVA). The capital requirement for CVA was EUR 1.1 (1.0) million. The Bank is also ready to start clearing derivatives via central counterparties, a clearing house, which would then reduce the capital requirement.

The CVA capital charge is presented in Table 5.28.

Derivative contracts are presented in Table 5.29.

The composition of collateral for exposures to counterparty credit risk is presented in Table 5.30.

Table 5.28. Credit valuation adjustment (CVA) capital charge *

31 Dec 2019

EUR million	EAD post-CRM	RWA
Total portfolios subject to the advanced CVA capital charge	0.0	0.0
(i) VaR component (including the 3 x multiplier)	0.0	0.0
(ii) Stressed VaR component (including the 3 x multiplier)	0.0	0.0
All portfolios subject to the Standardised CVA capital charge	17.2	14.7
Total subject to the CVA capital charge	**17.2**	**14.7**

*EU-CCR2

Table 5.29. Derivative contracts

Credit risk mitigation effects, EUR million	31 Dec 2019	31 Dec 2018
Gross positive fair value of contracts	68.1	70.0
Close out netting benefits	0.0	-0.4
Value after close out netting benefits	**68.1**	**69.6**
Received collaterals	-69.5	-64.0
Value after close out netting and received collaterals	**-1.3**	**5.6**

Table 5.30. Composition of collateral for exposures to counterparty credit risk

	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral			
Type of collateral used, EUR million	Segregated	Unsegregated	Segregated	Unsegregated	Fair value of collateral received	Fair value of posted collateral
Cash	0.0	69.5	0.0	2.5	52.8	0.0
Covered bonds	0.0	0.0	0.0	0.0	0.0	52.7
Total	**0.0**	**69.5**	**0.0**	**2.5**	**52.8**	**52.7**

6. Market risk

The Bank Group aims for low market risks and low volatility in its earnings, and market risk exposures were kept at low levels during the year. Market risks in the Bank Group mainly arise from the interest rate risk in the banking book.

Market risks arise from price and volatility changes in the financial markets. Market risks are divided into interest rate, foreign exchange rate and equity risks.

No trading activities are conducted by the Aktia Group.

6.1 Management, governance and measurement of market risk

The Aktia Group's limit system restricts the size of the exposure to market risks. The main market risk for the Group arises from the interest rate risk. Measurement methods, limits and strategy are prepared in the Executive Committee and the Board's Risk Committee, and are thereafter established by the Board of Directors. The Group's Asset and Liability Management Committee is responsible for the operational management of internal group investment assets within the given guidelines and limits. The Bank's Treasury unit conducts transactions to manage the structural interest rate risk based on the established strategy and limits.

The Group's Risk Control unit, which continuously monitors market risks and their associated limits, is responsible for reporting on these risk factors to the Board and the Executive Committee.

6.2 Interest rate risk in the banking book

The main market risk in the Aktia Group is the interest rate risk in the banking book, the structural interest rate risk. A structural interest rate risk arises from mismatches between interest-fixing periods and the repricing of assets and liabilities. In addition to matching interest-fixing periods in lending and borrowing through business management, derivative instruments and fixed-rate investments in the liquidity portfolio are utilised, with the aim of maintaining net interest income at a stable level and protecting financial performance against sustained low interest rates. The interest rate risks in the Aktia Group are measured by the change in net interest income and the net present value of the balance sheet. The interest rate risk in the Bank is continuously monitored by the Treasury unit.

6.2.1 Change in expected earnings (net interest income risk)

Changes in expected earnings (i.e. the structural interest rate risk) are simulated using a dynamic asset and liability risk management model. The model takes into account the balance sheet's effects on the structure, starting with planned growth and simulated customer behaviour. In addition, various interest rate scenarios for dynamic or parallel changes in interest rates are applied. Table 6.1 shows the net effect on the net interest of a parallel shift in the interest rate curve by 100 basis points, both up and down. Sensitivity to net interest income (NII) is the result of any mismatch between the interest rate-fixing periods for assets and liabilities. The repricing risk in the Bank's demand deposits is normally an important part of the NII sensitivity analysis. The NII risk is calculated and monitored regularly, at least monthly.

Table 6.1 Structural interest rate risk

Interest sensitivity analysis with a parallel shift in the interest rate curve with 100bps

		Change in net interest income			
		31 Dec 2019		31 Dec 2018	
EUR million Period	Interest rate change	Down	Up	Down	Up
Changes during the next 12 months		0.1	5.1	0.0	8.1
Changes during 12-24 months		0.8	19.0	0.6	22.8

6.2.2 Change in economic value

The change in economic value (EV) method is used to calculate the net present value (NPV) of the Bank's interest rate-sensitive items resulting from interest movements.

The EV method measures the NPV of existing assets and liabilities, ignoring future business flows. However, customer behaviour is taken into account in different interest rate scenarios, e.g. in a low interest rate environment, deposits are modelled to be less sensitive. Customer behaviour for loan prepayments has also been included in the NPV model. To measure the change in the economic value, the 6 standardised scenarios are used, as defined by the Basel Committee on Banking Supervision (BCBS). The bank has established limits for how much the NPV can change (negative values) in stressed interest rate scenarios. Table 6.2 shows the net change in economic value stressed by an interest rate change by 100 basis points, both up and down. The NPV risk is calculated and monitored on a monthly basis.

Table 6.2. Interest rate risk, Net Present Value (NPV)

NPV change in a stressed interest rate scenario with 100 bps both up and down.	Change in economic value comapared with the total own funds in %	
	31 Dec 2019	31 Dec 2018
- 100 bps	10.5%	5.7%
+ 100 bps	5.0%	8.9%

Repricing gap analysis in the Bank Group is presented in table 6.3.

Table 6.3. Repricing gap analysis in the Bank Group

	Interest rate fixing period							
EUR million, 31 Dec 2019	**Within 3 months**	**3-6 months**	**6-12 months**	**1-2 yeras**	**2-5 years**	**>5 years**	**Non-repricing**	**Total**
Interest bearing assets	2,739.0	1,952.7	2,187.0	136.5	752.9	275.9		8,043.9
Non-interest bearing asset							341.8	341.8
Total assets	**2,739.0**	**1,952.7**	**2,187.0**	**136.5**	**752.9**	**275.9**	**341.8**	**8,385.8**
Interest bearing liabilities	1,254.7	662.9	561.0	985.2	3,046.5	1,200.7		7,711.1
Non-interest bearing liabilities							674.7	674.7
Total liabilities and equity	**1,254.7**	**662.9**	**561.0**	**985.2**	**3,046.5**	**1,200.7**	**674.7**	**8,385.8**
Off-balance sheet items, net	**-978.0**	**-874.0**	**76.0**	**61.0**	**1,195.0**	**520.0**		**0.0**
Exposure	**506.2**	**415.7**	**1,701.9**	**-787.7**	**-1,098.6**	**-404.8**	**-332.8**	
Cumulative exposure		**922.0**	**2,623.9**	**1,836.3**	**737.6**	**332.8**	**0.0**	

	Interest rate fixing period							
EUR million, 31 Dec 2018	**Within 3 months**	**3-6 months**	**6-12 months**	**1-2 yeras**	**2-5 years**	**>5 years**	**Non-repricing**	**Total**
Interest bearing assets	2,867.8	1,805.6	2,029.4	155.8	663.3	243.0		7,764.9
Non-interest bearing asset							304.3	304.3
Total assets	**2,867.8**	**1,805.6**	**2,029.4**	**155.8**	**663.3**	**243.0**	**304.3**	**8,069.2**
Interest bearing liabilities	1,184.9	963.7	429.2	1,002.7	3,146.2	680.0		7,406.8
Non-interest bearing liabilities							662.5	662.5
Total liabilities and equity	**1,184.9**	**963.7**	**429.2**	**1,002.7**	**3,146.2**	**680.0**	**662.5**	**8,069.2**
Off-balance sheet items, net	**-934.0**	**-428.0**	**0.0**	**580.0**	**679.0**	**103.0**		**0.0**
Exposure	**748.8**	**413.9**	**1,600.3**	**-266.9**	**-1,803.9**	**-334.0**	**-358.1**	
Cumulative exposure		**1,162.8**	**2,763.0**	**2,496.1**	**692.1**	**358.1**	**0.0**	

6.3 Foreign exchange rate risk

The foreign exchange (FX) risk is the risk of a negative change in the value of the Bank Group's FX positions caused by fluctuations in exchange rates, especially against the euro.

Within the banking business, FX transactions are based on customer requirements, which is why most activity involves the Nordic currencies and the US dollar. Matching is the guiding principle in managing FX risks. The Treasury unit is responsible for managing the Bank's day-to-day FX position, subject to the set limits.

FX exposure is insignificant. At year-end, the Bank Group's total net FX exposure amounted to EUR 4.8 (3.6) million.

6.4 Equity risk

The equity risk relates to changes in value due to share price fluctuations. No equity trading is conducted by the Bank Group.

The exposures for equity holdings are insignificant. At the end of the year, investments in shares necessary for the business amounted to EUR 5.0 (3.6) million.

6.5 Measurement and stress testing of the market risk in financial assets available for sale

Interest rate risk consists of changes in the value of financial assets measured at fair value through other comprehensive income due to interest rate fluctuations or changes in the credit spread. The size and maturity of the liquidity portfolio is restricted, and the risk level is managed with a capital limit based on dynamic interest rate shocks (described in more detail in Section 6.5.1). In line with accounting rules, the impact of the rate shock is taken into account only for financial assets measured at fair value through other comprehensive income.

The size of the credit spread risk depends on the prospects for the counterparty, the instrument's seniority and whether the investment has collateral. Regarding contracts traded on active markets, the market constantly values the risk, making credit spread a component of the instrument's market price, and this credit spread is therefore usually regarded as part of the market risk.

Changes in market interest rates or credit spreads affect the market value of fixed-income securities. Interest rate fluctuations and the ECL (expected credit loss), the market value adjustments according to the IFRS 9 rules, are reported in the fund at fair value after the deduction of deferred tax, while any write-downs are shown in the income statement.

6.5.1 Sensitivity analysis for interest rate risk, credit spread risk and equity

Interest rate risk: In the sensitivity analysis, interest rate risk is stressed through absolute change factors calculated from the Euribor–euro swaps curve for each rate maturity. The factors are determined from historical data and recalibrated annually. The downward stress represents the 0.5th percentile of the absolute change, and the upward stress the 99.5th percentile. However, due to the currently low level of interest rates, a minimum of 100 basis points upwards and 50 basis points downwards is applied for each maturity. Negative result rates are allowed with no flooring, as well as stressing already negative rates.

Credit spread risk: In the sensitivity analysis, credit spread risk is stressed through absolute change factors calculated from a set of collective yield curves from the market. Each security is mapped to the most appropriate curve in the set, using factors such as type of investment and rating. The factors are determined from historical data and recalibrated annually. The (upward) stress represents the 99.5th percentile of the absolute changes of the yield curve level from which the risk-free component has been subtracted.

Equity risk: In the sensitivity analysis, equity risk is calculated simply as a percentage decrease in the market value. The factor is chosen by expert judgement, but it is based on historical data. For listed equities, the factor is 50%, and for non-listed equities, the factor is 60%.

Table 6.4 Sensitivity analysis for market risks

	Assets available for sale			
	2019		**2018**	
Banking Group	**EUR million**	**%**	**EUR million**	**%**
Market value 31.12.	1,027.9		1,124.0	
IR risk up (normal method)	-27.3	-2.7,%	-23.7	-2.1,%
IR risk up (100 bp)	-27.3	-2.7,%	-23.7	-2.1,%
IR risk down (normal method)	22.9	2.2,%	18.1	1.6,%
Spreadrisk	-36.6	-3.6,%	-23.4	-2.1,%
Equity risk	-3.0	-0.3,%	-2.2	-0.2,%
Real estate risk	0.0	0.0,%	0.0	0.0,%

7. Liquidity risk and funding

Aktia's appetite for liquidity risk is low. To ensure sufficient liquidity to support its core operations in stressed financial conditions, the Bank holds a large liquidity reserve.

Liquidity risk is defined as the risk that the Group will not be able to meet its payment obligations as they fall due, or that it will be able to meet liquidity obligations only at increased cost.

7.1 Management, governance and measurement of liquidity risk

In the Bank Group, liquidity risks arise because the maturity structures on the asset and liability sides of the balance sheet do not coincide, as lending is generally longer term than deposits. To ensure market-related refinancing, the Bank strives to maintain a diverse range of funding sources and adequate diversification across different markets and investors. This ensures that the Bank can keep its core business intact for a very long period, even if there is extensive disruption in the financial markets. Liquidity risk also occurs if liquid assets are largely concentrated in certain counterparties, or particular instruments or markets.

7.1.1 Management of liquidity risk

Good diversification between different types of funding source in various markets and forms of funding instruments is a key component of the funding strategy.

The most important sources of funding are deposits from households and small and medium-sized enterprises, as well as covered bonds. During the financial period, Aktia Bank issued a new long-term covered bond with a value of EUR 500 million and a maturity of seven years to replace a covered bond loan of the same size as that repaid during the period. The stock of covered bonds secured by residential real estate totalled EUR 1,583 (1,648) million. At year-end, Aktia Bank's cover pool of eligible assets, mortgage loans, amounted to EUR 4,482 (4,242) million.

Financing is supplemented by other well-diversified borrowing such as bonds and certificates of deposit issued on the domestic market, as well as deposits by Finnish institutional investors. The issue of bonds under the domestic programme amounted to EUR 216 (208) million, which relates to subordinated debts. During the financial period, Aktia Bank issued a Tier 2 loan of 70 million euro on the capital market to achieve the full benefit of the loan in capital adequacy. Subordinated debts have previously been sold to retail customers. The Bank will also receive financing from the European Investment Bank within the framework of its programmes for financing small businesses and environmental projects.

Figure 7.1 Funding sources

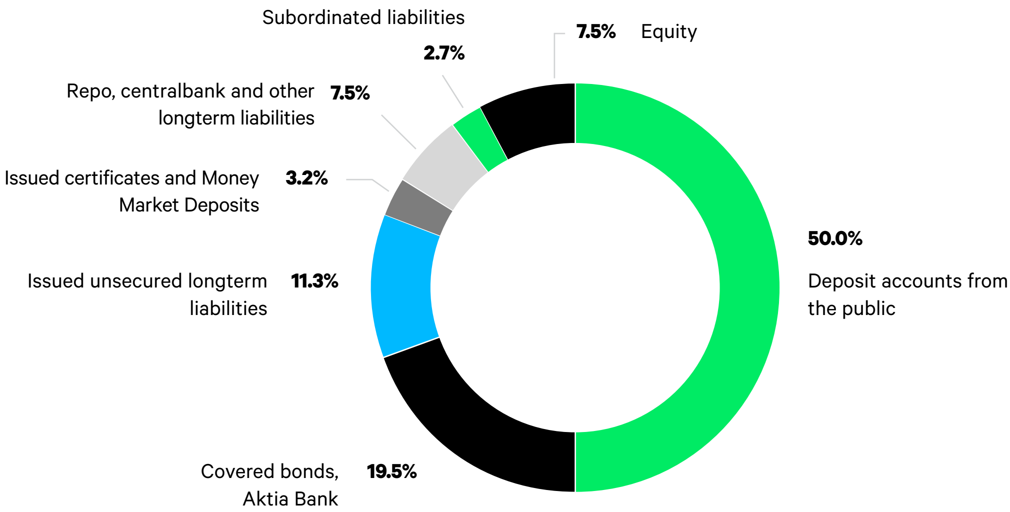
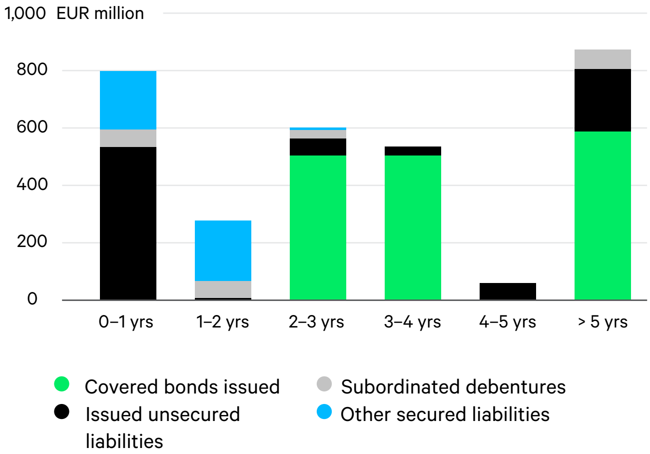


Figure 7.2 Maturity structure for the long-term funding (nominal amount)



To achieve a sound funding balance, Aktia actively works to broaden its refinancing base. Over the financial period, Aktia Bank issued new long-term unsecured senior bonds worth EUR 120 million. The issues were made to ensure that the Bank complied with future regulatory requirements. Long-term unsecured senior bonds amounted to EUR 916 (807) million.

The diversified funding structure is complemented by a liquidity portfolio comprising highly liquid assets. The portfolio acts as a liquidity buffer against short-term liquidity fluctuations and possible market disruptions in the refinancing market, and it can be realised or used as collateral for financing if necessary, either in the market through "repurchase agreements" or by the central bank.

Concentration risks in the liquidity portfolio

The concentration risk in the liquidity portfolio is managed by limits that are prepared by the Group's Asset and Liability Management Committee and thereafter established by the Board of Directors. Limits are set for e.g. country, counterparty, issuer and instrument types.

The distribution of Aktia Bank's funding sources is presented in Figure 7.1, and the maturity of long-term funding in Figure 7.2.

7.1.2 Governance of liquidity risk

Funding and liquidity risk management is governed by policies and limits established by the Board. The Group's Asset and Liability Management Committee is responsible for managing financing and liquidity risks. The Group's Risk Control unit, which continuously monitors liquidity risks and their associated limits, reports on these to the Board and the Executive Committee. The Treasury unit is responsible for maintaining the Bank's day-to-day liquidity, and constantly monitors how Aktia's wholesale assets and liabilities mature. Developments and pricing in the deposit stock are also followed closely. The treasury unit implements the adopted measures to change the liquidity position.

Internal liquidity adequacy assessment process

The Bank Group's liquidity needs are assessed annually in the internal liquidity adequacy assessment process (ILAAP). The Aktia Group's Head of Treasury has the overall responsibility for the ILAAP, including responsibility for the operational liquidity planning and management, as well as the funding strategy, while the Aktia Group's Head of Risk is responsible for ensuring that the Group has an effective control process, including a process for liquidity management. Risk Control assesses whether significant internal or external changes have occurred that would require an update of the ILAAP, which are reported to the executive management.

Contingency plan

The Bank Group has a contingency plan for managing liquidity crises. The contingency plan contains a clear division of responsibility and instructions for how the Bank should improve a possible liquidity deficit. The plan indicates appropriate measures to handle the various types of crisis situation. Risk Control monitors that a financing continuity plan exists, is sufficient in scope, includes adequate measures and is regularly updated. The Bank Group's recovery plan also includes indicators tied to the liquidity situation.

7.1.3 Measurement of liquidity risk

The liquidity risk is measured on both short- and long-term bases. To ensure funding in situations in which Aktia is in urgent need of cash, and normal funding sources do not suffice, Aktia holds a liquidity reserve. The Board of Directors sets the minimum level for the liquidity reserve. The liquidity reserve consists of highly liquid assets that can easily be sold or used as collateral in funding operations.

Liquidity reserve

The liquidity portfolio consists of highly liquid assets for meeting liquidity needs in stressed situations. More than 58% of the liquidity portfolio comprise securities with a AAA rating. The unencumbered financial assets in the liquidity portfolio, which as described above can be used as a liquidity reserve, including cash and holdings in the central bank, amounted to a market value of about EUR 1,104 (965) million.

Table 7.3. Liquidity reserve, market value

EUR million	31 Dec 2019	31 Dec 2018
Cash and holdings in central banks	271.3	246.7
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	194.9	204.7
Securities issued or guaranteed by municipalities or Public sector entities	207.8	236.4
Covered bonds	429.7	240.8
Securities issued by credit institution	0.0	36.6
Securities issued by financial corporates	0.0	0.0
Total	**1,103.6**	**965.1**

Liquidity ratios

Liquidity risks are measured and monitored with the help of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). The LCR measures the short-term liquidity risk and aims to ensure that Aktia Bank's liquidity reserve consisting of unencumbered high-quality assets is sufficiently large to meet short-term net outflows in stressed situations within the next 30 days. The internal LCR limit for the Aktia Group is that the ratio must be equal to or more than 110%.

The NSFR measures the structural liquidity risk by measuring the matching of receivables and liabilities with a maturity of more than one year on Aktia Bank's balance sheet, with the aim of ensuring that long-term lending is financed by long-term funding to a safe extent.

The level of the LCR fluctuates over time, depending, among other things, on what the maturity structure of the Bank's issued securities looks like. Table 7.4 presents the development of the LCR and NSFR in 2019 for Aktia Bank Group.

Table 7.5 presents detailed information about the liquidity coverage ratio (LCR) according to the EBA's guidelines. The figures presented in the table are from the end of each quarter.

Stress tests

Aktia performs stress tests regularly to ensure that liquidity is sufficient even during unfavourable market conditions.

In these tests, the Bank constructs unlikely but still possible adverse scenarios that would trigger a range of risk drivers. The major risk drivers are:

- Withdrawals of deposits by clients
- Severe utilisation of retail customer credit lines
- Higher collateral requirements due to increased margin calls
- Market disruption resulting in a general fall in the prices of the assets in the liquidity portfolio

The stress tests conducted by the Bank have indicated a good payment capacity even should several different events with a negative effect on liquidity were to occur simultaneously.

Table 7.4. LCR and NSFR

	31 Dec 2019	30 Sep 2019	30 Jun 2019	31 Mar 2019	31 Dec 2018
LCR %	118%	133%	115%	113%	134%
NSFR %	118%	128%	129%	130%	119%

EUR million

Liquidity coverage ratio (LCR)	31 Dec 2019	31 Dec 2018
Liquid assets, level 1	1,002.2	808.9
Liquid assets, level 2	47.3	25.8
Total liquid assets	**1,049.5**	**834.7**
Total cash outflows	938.9	747.4
Total cash inflows	45.9	126.6
Net cash outflows	**893.0**	**620.8**
Liquidity coverage ratio (LCR), %	**118%**	**134%**

Net stable funding ratio (NSFR)	31 Dec 2019	31 Dec 2018
NSFR %	**118%**	**119%**
Available Stable Funding, EUR million	**6,534.0**	**6,401.6**
Required Stable Funding, EUR million	**5,527.9**	**5,366.4**

Tabel 7.5 LIQ1, LCR Disclosure

EUR million Quater ending on:	Total unweighted value 31 Mar 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019	Total weighted value 31 Mar 2019	30 Jun 2019	30 Sep 2019	31 Dec 2019
High-quality liquid assets								
Level 1 assets					1,101.7	668.5	650.4	658.6
Level 1CB assets					272.7	225.2	256.0	343.6
Level 2A assets					10.3	20.2	20.5	47.3
Total high-quality liquid assets (HQLA)					**1,384.7**	**913.9**	**926.9**	**1,049.5**
Cash-outflows								
Retail deposits	**3,472.7**	**3,556.8**	**3,529.9**	**3,510.1**	**258.6**	**264.8**	**262.2**	**262.3**
Stable deposits	2,118.8	2,173.9	2,168.8	2,139.3	105.9	108.7	108.4	107.0
Less stable deposits	1,353.9	1,382.9	1,361.1	1,370.8	152.7	156.1	153.7	155.3
Unsecured wholesale funding	**1,255.7**	**651.3**	**926.1**	**748.0**	**1,059.6**	**456.4**	**516.7**	**533.1**
Non-operational deposits (all counterparties)	616.4	14.5	673.8	719.9	432.5	454.2	490.0	517.2
Unsecured debt	639.2	13.5	252.3	28.1	627.1	2.2	26.7	15.9
Secured wholesale funding					**0.0**	**0.0**	**0.0**	**3.7**
Additional requirements	**13.3**	**11.0**	**28.3**	**19.6**	**13.3**	**11.0**	**28.3**	**19.6**
Outflow relared to derivatives and other collateral requirements	13.3	11.0	28.3	19.6	13.3	11.0	28.3	19.6
Other contractual and contingent funging obligation	**361.7**	**799.5**	**572.6**	**907.3**	**44.7**	**123.2**	**68.4**	**120.3**
Total cash outflows					**1,376.2**	**855.3**	**875.6**	**938.9**
Cash inflows								
Inflows from non-financial customers	44.3	26.1	26.5	27.3	24.6	14.8	14.9	15.4
Inflows from financial customers	44.3	24.3	24.7	14.6	44.3	22.9	19.7	14.6
Inflows from securities maturing within 30 days	79.0	25.3	142.7	15.9	79.0	25.3	142.7	15.9
Total cash inflows	**167.5**	**75.8**	**193.8**	**57.8**	**147.9**	**63.0**	**177.3**	**45.9**
Inflows subject to 75% cap	**167.5**	**75.8**	**193.8**	**57.8**	**147.9**	**63.0**	**177.3**	**45.9**
					Total adjusted value			
Total high-quality liquid assets (HQLA)					**1,384.7**	**913.9**	**926.9**	**1,049.5**
Total net cash outflows					**1,228.3**	**792.3**	**698.3**	**893.0**
Liquidity coverage ratio (%)					**113%**	**115%**	**133%**	**118%**

7.2 Asset encumbrance

Another important part of Aktia's liquidity management consists of retaining significant volumes of unutilised collateral that can be used in the event of disruptions in the financial markets. A prerequisite for being able to pledge additional collateral is for the Bank to have collateral at its disposal from the outset. The Bank therefore retains substantial volumes of unencumbered assets that could be used as collateral in the issue of covered bonds and highly liquid securities with high credit ratings. Most of the encumbered assets consist of Aktia Bank's cover pools, which comprise mortgage loans provided as collateral for outstanding covered bonds. Aktia maintains a certain level of over-collateralisation (on top of the level required by the supervisory authority) in the cover pool to ensure it can withstand a significant price fall in the real estate market.

Table 7.6. Disclosure on asset encumbrance, Median value 2019

Assets* **EUR million**	**Carrying amount of encumbered assets**	**of which notionally eligible EHQLA and HQLA**	**Fair value of encumbered assets**	**of which notionally eligible EHQLA and HQLA**	**Carrying amount of unencumbered assets**	**of which EHQLA and HQLA**	**Fair value of unencum-bered assets**	**of which EHQLA and HQLA**
Assets of the reporting institution	**2,809.6**	**478.9**			**5,594.0**	**1,153.8**		
Equity instruments	0.0	0.0			4.4	0.0		
Debt securities	546.1	475.2	556.9	485.6	867.8	820.3	854.8	810.8
of which covered bonds	393.8	393.4	401.8	401.8	320.1	320.1	296.6	296.6
of which issued by general governments	3.3	3.3	3.4	3.4	461.2	461.2	470.8	470.8
of which issued by financial corporations	542.9	471.9	553.6	482.3	361.2	359.1	330.8	328.8
of which issued by non-financial corporations	0.0	0.0	0.0	0.0	74.3	0.0	74.3	0.0
Other assets	2,250.2	3.3			4,681.8	333.5		

Collateral received* **EUR million**	**Fair value of encumbered collateral received or own debt securities issued**	**of which notionally eligible EHQLA and HQLA**	**Fair value of collateral received or own debt securities issued available for encumbrance**	**of which EHQLA and HQLA**
Collateral received by the reporting institution			**82.1**	**82.1**
Other collateral received			82.1	82.1
Total assets, collateral received and own debt securities issued	**2,809.6**	**478.9**		

Sources of encumbrance* **EUR million**	**Matching liabilities, contingent liabilities or securities lent**	**Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered**
Carrying amount of selected financial liabilities	**2,086.8**	**2,809.6**

Information on importance of encumbrance*

The main source of encumbrance for Aktia is covered bond issuance programs where the required overcollateralization levels are defined according to the relevant statutory regimes. Other contributors to encumbrance are derivatives, repos and the intraday facility at the central bank. The main source of the unencumbered assets are loans and debt securities. The rest are equity instruments and other assets.

*Template A, B, C, D of EBA/GL/2014/03

8. Risk and capital in the life insurance business

Aktia Life Insurance Ltd and Försäkringsaktiebolaget Liv-Alandia have agreed the transfer of Alandia's life insurance portfolio to Aktia.

8.1 Risk management system and governance

The board of Aktia Life Insurance is the body with ultimate responsibility for the company's governance and operation. However, as a financial Group, Aktia is governed as an entity, and much of the decision making takes place in the Group's Board of Directors and its relevant committees.

In particular, concerning matters that typically also have an impact on other subsidiaries – such as strategy, risk appetite and ALM – decisions are made at Group level. Many of the written policies are also common to all subsidiaries within the Group. Matters concerning the daily operations of the insurance company – such as insurance production and development, insurance techniques (actuarial matters), sales, etc. – are decided within the insurance company.

The Risk Control unit of Aktia is common to the whole Group, and in practice, the life insurance company's risk control is outsourced to the parent company. The Group has a written policy, in which the responsibilities of the Risk Control function are defined. Risk tolerance limits for the life insurance company are established within the Group's limit policy. The life insurance company also has its own risk management plan, which is mainly concerned with identifying and defining the measurement methods for the risks specifically connected to the life insurance company. This document also sets out how risks are measured in the company's Own Risk and Solvency Assessment (ORSA).

The Risk Control unit is led by the Head of Risk Control, who reports to the Group's Board of Directors. The unit must be organised in such a way that it is independent of the business and the support functions it monitors and controls. It cannot perform the duties it monitors. The Risk Control unit must have adequate and competent resources to reliably perform the control function.

The primary duty of the Risk Control unit is to report on the Group's risk exposure in relation to the risk appetite established under the strategy, independently of the business channels. The unit presents a quarterly overview of the significant risk positions to the Group's Board of Directors and the Risk Committee, and provides an assessment of the risk profile. It also reports quarterly to the board of the Life Insurance Company. A report of all activities during the year is presented annually to the Risk Committee of the Group's Board of Directors, which then presents an assessment of the adequacy of risk management and whether its activities are appropriate.

8.2 Key risks in the life insurance company

In the ORSA of Aktia Life Insurance, the main risk categories are defined as business, insurance (underwriting), operational and market risks. In the 2019 ORSA, market and insurance risks were the dominant risks, representing 65.8% (65.6%) and 32.0% (32.0%) respectively of the total correlated risk sum. The correlated risk sum is referred to as the ORSA capital requirement, and it is calculated alongside the official Solvency II capital requirements. The available capital calculated for the Solvency II framework is compared with these requirements.

The sub-risks for the ORSA capital requirement are calculated using internal methods. For the underwriting risk, the method coincides with the Solvency II framework regarding the life and health risk modules, but the correlation differs. The calculation of the market risk, which is the largest, coincides with the method used for the daily internal market risk limit and is the method used in the sensitivity analysis in Section 6.5.1. The macroeconomic stress parameters used, which are the same for Aktia Bank and the life insurance company, are described in Section 8.2.1.

Aktia acquires Alandia's life insurance portfolio

Aktia Life Insurance Ltd and Försäkringsaktiebolaget Liv-Alandia have agreed the transfer of Alandia's life insurance portfolio to Aktia. It is planned that the transfer will take place during the first quarter of 2020. Aktia is currently handling most of Liv-Alandia's insurance portfolio already. The transfer will still have some implications for the company's risk profile.

8.2.1 Market risk

The market risks considered for the life insurance company are interest rate, spread, currency (FX), equity, real estate and concentration risks. For Solvency II purposes, the risks are calculated using the standard Solvency II formula. For internal purposes, they are calculated using the aforementioned market risk limit stresses as well. This text mainly describes the internal method.

From a risk sensitivity perspective, the largest risks (in this order) are interest rate risk, spread risk and real estate risk. For interest-linked technical provisions, all other risks except interest rate risk are of negligible size, and interest rate risk remains large after the netting effect of the covering portfolio is added. For unit-linked policies, the netting effect is generally much bigger, because the customer bears the largest part of the risk. The largest risk after netting for the unit-linked side is equity risk.

Interest rate risk here refers to the risk of change in the risk-free rate. It is the main risk for the technical provisions. It affects profitability through the spread between rate of return and guaranteed customer rate, but it also affects capital adequacy through the fair value valuation of assets and liabilities imposed by the Solvency II framework. From this perspective, the interest rate risk is the most important ALM risk, and it arises from the difference between incoming and outgoing future cash flows.

In sensitivity analysis, interest rate risk is stressed through percentage change factors calculated from the Euribor–euro swaps curve for each rate maturity. The factors are determined from historical data and recalibrated annually. The downward stress represents the 0.5th percentile of all observed absolute rate changes, and the upward stress the 99.5th percentile. Minimum stresses of at least 100 basis points upwards and 50 basis points downwards are applied for each maturity, with no flooring and allowing the stressing of already negative rates.

Credit spread risk, or simply “spread risk”, is the risk connected to a change (increase) in default risk for a specific counterparty. The spread risks of the life insurance company are mostly implicitly priced by the market by observation of such factors as the security’s seniority, collateralisation and credit rating. Spread risk has grown considerably since 2018, mostly due to portfolio reallocation, and is now the second-largest market risk, totalling EUR 28.7 (15.4) million at year-end. On the asset side, roughly the same instruments (fixed-income securities) are subject to both spread and interest rate risk, but as the interest-linked technical provisions are not subject to spread risk, this risk is one-sided, unlike the interest rate risk. The only practical way to hedge against spread risk is therefore through credit derivatives. However, these are not currently used by the company. As there are no equities in the interest-linked portfolio, a higher spread risk is indeed the natural consequence of a portfolio yielding a higher return. Fixed income still dominates the interest-linked portfolio, with a total of EUR 435.8 (428.8) million, or 80% (78%), at year-end.

In sensitivity analysis, spread risk is stressed through absolute change factors calculated from a set of collective yield curves from the market. Each security is mapped to the most appropriate curve in the set, using factors such as type of investment and rating. The factors are determined from historical data and recalibrated annually. The (upward) stress represents the 99.5th percentile of the absolute changes of the yield curve level, from which the risk-free component has been subtracted.

FX risk arises from changes in the exchange rate against the base currency (the euro). The FX risk on the interest-linked side arises from positions in mutual fixed-income funds investing in emerging markets and high-yield bonds issued in USD and local currencies. Some positions in private equity funds are also held in foreign currencies. On the unit-linked side, exposures arise from mutual funds (interest and equity) investing in foreign currency instruments. Mutual funds investing in a non-euro geographical area but officially denoted in euros typically include currency risk, which is considered in the risk calculation. FX risk is noteworthy from both the interest-linked and unit-linked perspectives.

In sensitivity analysis, each currency is shocked both downwards and upwards, and the worst case for each currency is chosen, after which the effect is summed over all currencies (without correlation). The stress factors are determined from historical data and recalibrated annually, representing the 0.5th percentile and the 99.5th percentile respectively of the percentage changes in the exchange rate. The total FX risk at year-end was EUR 13.4 (13.8) million, of which EUR 9.9 (10.3) million arose in the interest-linked portfolio.

Equity risk reflects possible decreases in the value of equities. In the portfolio covering interest-linked policies, the equity risk has arisen only from private equity funds and similar assets that cannot be sold immediately. The company has discontinued its long-held policy of disposing of these investments, and private equity and private credit are on the rise again. The total position at year-end is now EUR 6.7 (4.5) million. On the unit-linked side, equity risk is the most substantial. This is mostly due to volume: as most unit-linked securities are equity or mixed mutual funds, the company’s share of risk remains substantial even after netting assets and technical provisions. The market value of the unit-linked portfolio was EUR 872.3 (756.8) million at year-end, and the size of the equity risk was EUR 17.0 (16.9) million, of which EUR 13.2 (14.0) million was due to the unit-linked portfolio.

Table 8.1 Allocation of holdings in the interest linked portfolio

EUR million	31 Dec 2019		31 Dec 2018	
Equities	**0.0**	**0.0%**	**0.0**	**0.0%**
Fixed-income	**387.7**	**71.0%**	**428.8**	**77.7%**
Government bonds	112.8	20.7%	84.3	15.3%
Financial sector bonds in total	114.6	21.0%	188.6	34.2%
Covered bonds	88.7	16.3%	165.8	30.1%
Senior bonds	14.4	2.6%	14.7	2.7%
Subsenior bonds	11.5	2.1%	8.1	1.5%
Other corporate in total	80.4	14.7%	61.3	11.1%
Senior bonds	72.5	13.3%	60.8	11.0%
Subsenior bonds	7.9	1.4%	0.5	0.1%
Emerging markets bonds	50.1	9.2%	46.9	8.5%
High yield bonds	19.5	3.6%	19.5	3.5%
Trade Finance	10.3	1.9%	28.2	5.1%
Alternative investments	**6.8**	**1.2%**	**4.5**	**0.8%**
Private Equity & Venture capital	4.3	0.8%	4.5	0.8%
Hedge funds	2.5	0.5%	0.0	0.0%
Real estate	**68.7**	**12.6%**	**67.2**	**12.2%**
Directly owned	42.5	7.8%	38.6	7.0%
Real estate funds	26.2	4.8%	28.5	5.2%
Money market	**48.0**	**8.8%**	**0.0**	**0.0%**
Cash at bank	**34.9**	**6.4%**	**51.1**	**9.3%**
Total	**546.1**	**100.0%**	**551.5**	**100.0%**

Real estate risk reflects possible decreases in the value of owned real estate. The real estate risk of the company arises from positions in real estate funds and physical real estate. At year-end, the total real estate position was EUR 68.7 (67.2) million. Real estate risk is the third largest of the market risks, and it should be noted that leveraging instruments are used for several properties in the portfolio, which increases the risk involved. The actual real-estate risk at year-end was therefore EUR 27.5 (25.2) million, although the multiplicative risk factor used was only 25%. On the unit-linked side, it is of negligible importance.

In sensitivity analysis, equity risk is calculated simply as a percentage decrease in market value. The factor is chosen by expert judgement but based on historical data. For equities, the factor is -50% (listed equity) or -60% (private equity), and -25% for real estate.

8.2.2 Underwriting risk

Aktia Life Insurance provides voluntary pension insurance, life insurance and savings insurance. Due to laws regarding insurance contracts, the company has limited scope to influence premium levels or change the terms of existing contracts. The sufficiency of premiums is monitored annually. For new policies, the company is free to set premium levels, which are decided by the Board after a proposal from the chief actuary. Reinsurance is used to limit the liability, ensure the solvency capital is adequate and prevent the profit from fluctuating too much.

In this context, underwriting risk is the risk that future cash flows from existing insurance policies will not be consistent with those estimated in the valuation of the technical provisions. It is therefore a model risk and represents the risk connecting the actual outcome to the model used for technical provisions.

In the company's ORSA, the primary underwriting risks are estimated using the same method as in the standard Solvency II formula; only the final correlation differs in the order of application. The same methods and parameters are used for the risk analysis within this text. The risks considered are mortality risk and longevity risk, disability risk, lapse risk, expense risk and catastrophe risk, and all the aforementioned are considered separately for policies classified as mainly life or mainly health policies.

At year-end, the total life risk was EUR 54.9 (53.4) million correlated, and EUR 75.0 (72.2) million uncorrelated. The health risk was EUR 16.9 (15.3) million correlated, and EUR 17.2 (15.6) million uncorrelated.

Mortality risk is stressed through a 15% increase in mortality and mostly arises from life insurance policies. At year-end, the risk for life insurance was EUR 6.7 (6.3) million, and for health insurance it was below EUR 0.1 (below 0.1) million.

Table 8.2 Sensitivity analysis for market risk

Life insurance company	Portfolio 31 Dec 2019 EUR million	Portfolio 31 Dec 2018 EUR million	Technical provisions* 31 Dec 2019 EUR million	Technical provisions* 31 Dec 2018 EUR million	Total 31 Dec 2019 EUR million	Total 31 Dec 2019 %**	Total 31 Dec 2018 EUR million	Total 31 Dec 2018 %
Interest linked								
Market value 31 Dec	511.2	500.4	-433.2	-425.9	78.0	61.1%	74.5	61.9%
IR risk up	-17.2	-16.0	40.1	39.1	22.9	17.9%	23.1	19.2%
IR risk down	20.8	17.7	-72.9	-69.6	-52.1	-40.8%	-51.9	-43.1%
Spread risk	-27.1	-14.2	0.2	0.1	-26.9	-21.1%	-14.1	-11.7%
Currency risk	-10.0	-10.0	0.3	0.1	-9.7	-7.6%	-9.9	-8.2%
Equity risk	-4.5	-2.9	0.7	0.0	-3.8	-3.0%	-2.9	-2.4%
Real estate risk	-27.5	-25.2	0.0	0.2	-27.5	-21.6%	-25.0	-20.8%
Unit- and index linked								
Market value 31 Dec	872.3	756.8	-822.7	-711.0	49.6	38.9%	45.8	38.1%
IR risk up	-21.5	-14.4	21.7	14.8	0.2	0.2%	0.4	0.3%
IR risk down	27.1	16.9	-17.4	-10.5	9.7	7.6%	6.4	5.3%
Spread risk	-32.4	-17.8	30.5	16.5	-1.9	-1.5%	-1.3	-1.1%
Currency risk	-64.2	-56.0	60.5	52.1	-3.7	-2.9%	-3.9	-3.2%
Equity risk	-230.6	-200.8	217.4	186.8	-13.2	-10.3%	-14.0	-11.6%
Real estate risk	0.0	0.0	0.0	0.0	0.0	0.0%	0.0	0.0%
Total								
Market value 31 Dec	**1,383.5**	**1,257.2**	**-1,255.9**	**-1,136.9**	**127.6**	**100.0%**	**120.3**	**100.0%**
IR risk up	-38.7	-30.4	61.8	53.9	23.1	18.1%	23.5	19.5%
IR risk down	47.9	34.6	-90.3	-80.1	-42.4	-33.2%	-45.5	-37.8%
Spread risk	-59.5	-32.0	30.7	16.6	-28.8	-22.6%	-15.4	-12.8%
Currency risk	-74.2	-66.0	60.8	52.2	-13.4	-10.5%	-13.8	-11.5%
Equity risk	-235.1	-203.7	218.1	186.8	-17.0	-13.3%	-16.9	-14.0%
Real estate risk	-27.5	-25.2	0.0	0.2	-27.5	-21.6%	-25.0	-20.8%

* The market value of the technical provisions is a risk-neutral value which is obtained by discounting simulated cashflows. Therefore it differs from the book value of the technical provisions.

** The percentage is the portion of the total market value (127.6 for 2019)

Longevity risk is stressed through a 20% decrease in mortality, and mostly arises from pensions and savings policies. At year-end, the risk for life insurance was 7.6 (6.2) million, and for health insurance it was below EUR 0.1 (below 0.1) million.

Disability risk is stressed as a combination of an increase of 35% in the assumed disability rates during the next year and 25% during subsequent years, as well as a decrease of 20% in recovery rates. For health insurance policies, a 5% increase in healthcare expenses is used, combined with a one-percentage point increase in the assumed inflation rate. The risk mainly arises from policies covering disability and health expenses. At year-end, the risk for life insurance was EUR 0.4 (0.5) million, and EUR 14.3 (12.8) million for health insurance.

Lapse risk is calculated as the worst of three stress scenarios: an increase in lapse frequency; a decrease in lapse frequency; and a mass lapse event. This is estimated to be the largest underwriting risk, and at year-end, the risk for life insurance was EUR 40.8 (40.0) million, and EUR 4.4 (3.8) million for health insurance.

Expense risk is stressed through a 10% increase in the assumed future expense combined with a one-percentage point increase in the assumed inflation rate. Expense risk is the second largest of the underwriting risks. At year-end, the risk for life insurance was EUR 15.1 (14.7) million, and EUR 2.8 (2.7) million for health insurance.

Catastrophe risk is stressed through estimated effects on different catastrophic events. For life insurance policies, this consists of an increase of 0.15 percentage points in mortality rates during the following year. For health insurance policies, a combination of a large-scale accident, an accident in a location with a large concentration of policyholders and a pandemic is considered. At year-end, the risks were EUR 4.3 (4.5) million and EUR 0.4 (0.4) million for life and health respectively.

Table 8.3 Technical provisions by policy type and guaranteed rate

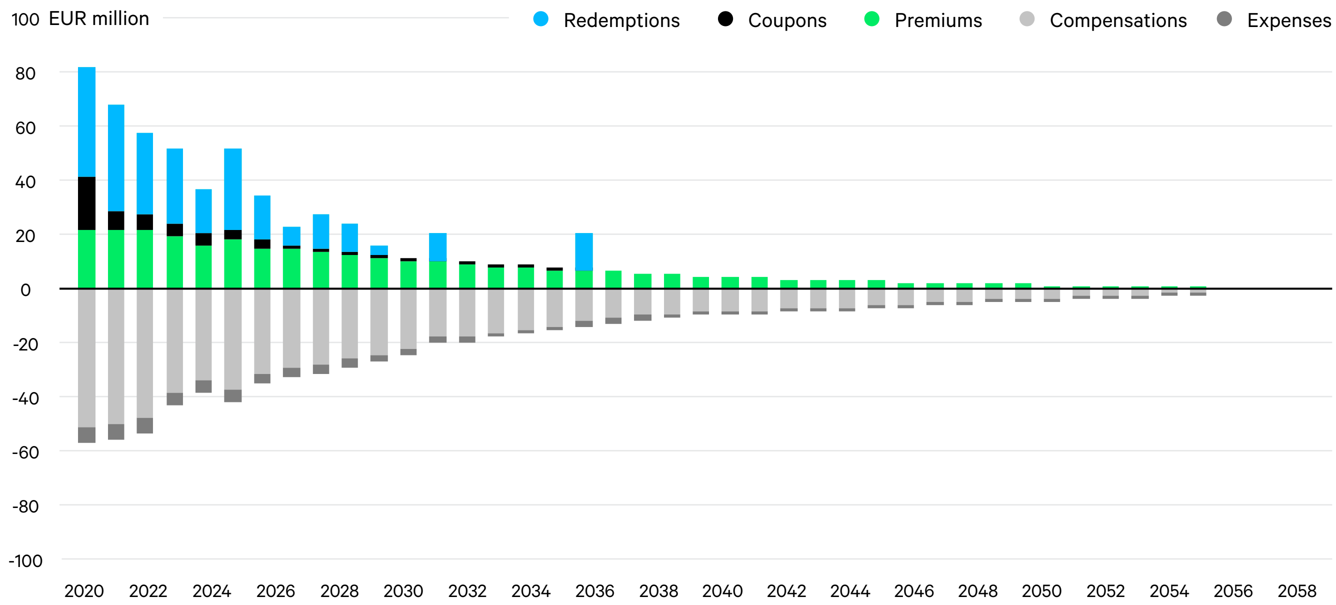
EUR million	TP 31 Dec 2019	%	Premiums	Claims paid	Expense charges	Guaranteed interest	Bonuses	TP 31 Dec 2018
Group pension	**55.9**	**4.0%**	**1.7**	**3.4**	**0.2**	**1.6**	**-**	**55.4**
3.5%	54.0	4.0%	1.7	3.1	0.2	1.6	-	53.8
2.5%	0.1	0.0%	-	-	-	-	-	0.1
1.0%	1.8	0.0%	-	0.3	-	-	-	1.5
Individual pension insurance	**231.5**	**18.0%**	**2.7**	**26.3**	**0.5**	**10.1**	**-**	**247.3**
4.5%	145.4	12.0%	0.1	17.9	0.3	7.5	-	160.5
3.5%	54.5	4.0%	-	5.7	0.1	1.9	-	57.4
2.5%	23.2	2.0%	-	2.5	-	0.6	-	23.6
1.0%	8.3	1.0%	2.6	0.1	0.1	0.1	-	5.8
Savings insurance	**50.8**	**4.0%**	**0.7**	**6.2**	**0.2**	**1.3**	**-**	**52.6**
4.5%	2.9	0.0%	0.1	0.6	-	0.1	-	3.3
3.5%	16.5	1.0%	0.4	3.9	0.1	0.6	-	19.4
2.5%	31.5	2.0%	0.2	1.7	0.1	0.6	-	29.8
Risk insurance	**23.4**	**2.0%**	**19.7**	**9.9**	**6.6**	**0.8**	**-**	**24.7**
Unit linked insurance	**869.4**	**69.0%**	**93.1**	**91.1**	**9.0**	**-**	**-**	**756.8**
Savings insurance	702.0	56.0%	86.4	87.8	7.2	-	-	622.5
Individual pension insurance	150.7	12.0%	5.1	3.1	1.5	-	-	121.1
Group pension	16.7	1.0%	1.6	0.2	0.2	-	-	13.2
Reservation for increased life expectancy	**2.7**	**0.0%**	**-**	**-**	**-**	**-**	**-**	**3.0**
Reservation for lowered discount rate	**26.0**	**2.0%**	**-**	**-**	**-**	**10.0**	**-**	**16.0**
	1,259.8	**100.0%**	**117.9**	**136.9**	**16.4**	**23.8**	**0.1**	**1,155.7**

Table 8.4 Estimated Technical Provisions cash flow distribution (outflows) over time for interest linked policies

31 Dec 2019

EUR million	Duration	2020-2021	2022-2023	2024-2028	2029-2033	2034-2038	2039-2048	2049-2058	2059-
Savings insurance	**11.4**	**12.5**	**7.3**	**13.2**	**8.2**	**6.0**	**6.9**	**3.8**	**3.8**
4.5%	6.5	1.0	0.8	1.5	0.5	0.2	0.2	0.1	0.0
3.5%	11.1	6.9	2.2	4.0	3.0	2.1	2.9	1.6	1.7
2.5%	12.3	4.6	4.2	7.8	4.7	3.7	3.9	2.2	2.2
Pensions	**10.3**	**52.5**	**51.9**	**106.4**	**76.0**	**47.3**	**62.2**	**29.3**	**12.7**
4.5%	6.8	40.4	34.8	64.9	32.6	12.5	6.6	1.6	0.4
3.5%	12.7	16.8	16.6	35.6	31.5	23.3	30.9	15.2	8.4
2.5%	13.8	1.9	3.4	5.9	6.6	5.7	8.1	3.6	0.7
1.0%	17.6	-6.5	-2.9	0.0	5.2	5.9	16.6	9.0	3.2
Other insurance	**9.1**	**7.4**	**-3.9**	**-11.6**	**-10.7**	**-8.3**	**-10.5**	**-4.4**	**-1.1**
Total	**10.2**	**72.5**	**55.3**	**108.1**	**73.5**	**45.1**	**58.6**	**28.7**	**15.5**

Figure 8.5. Cash flow distribution and mismatch of interest linked policies - Technical Provisions vs. portfolio



Mismatch of in- and outflows

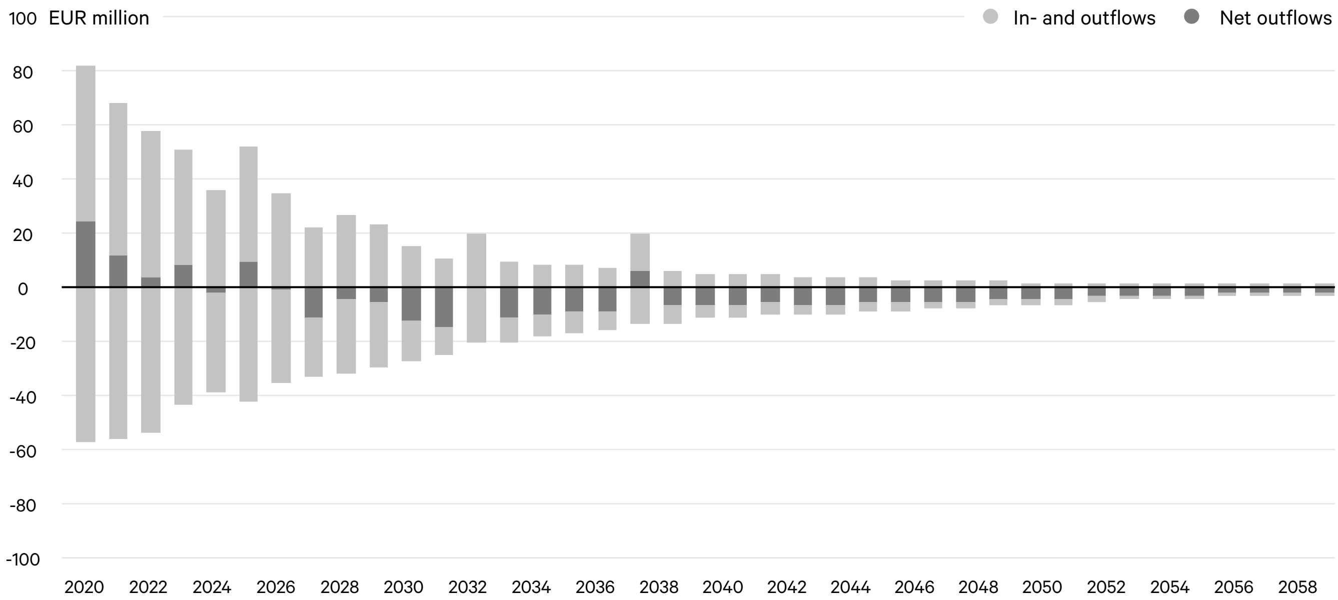
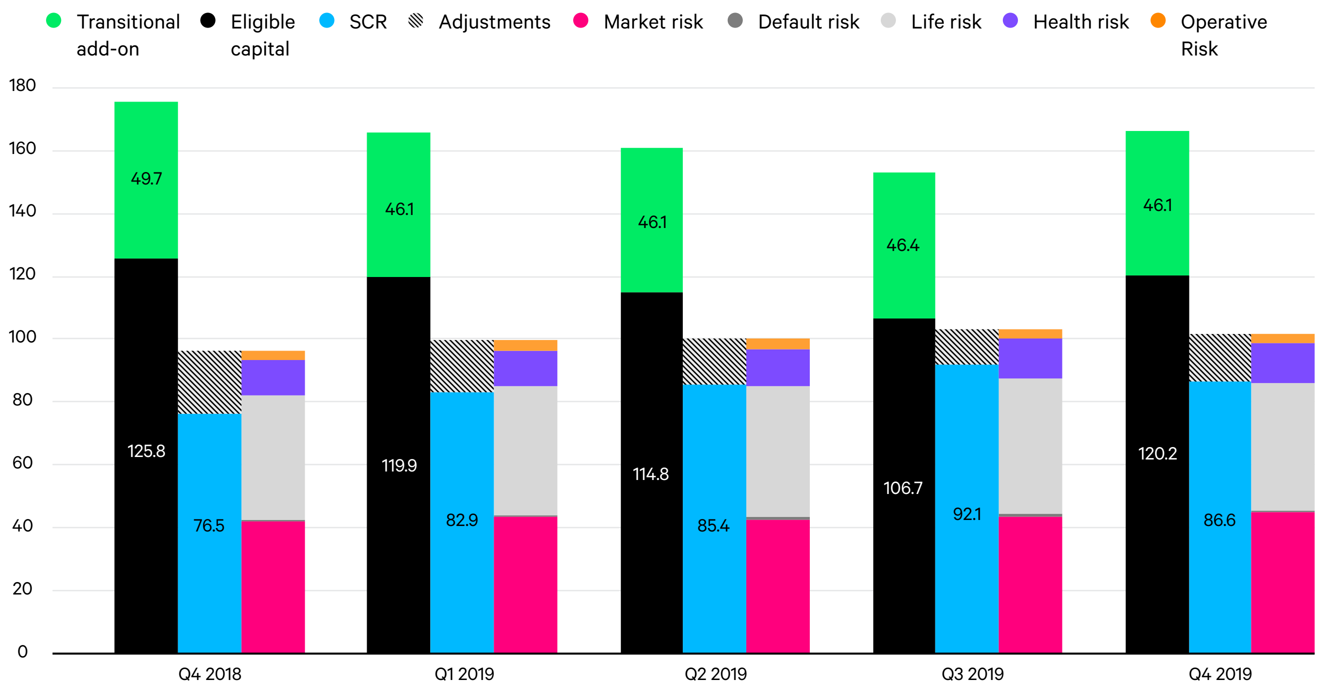


Figure 8.6 Solvency adequacy over time



8.3 Capital management and solvency position

The capital planning process of Aktia Life Insurance is to a large extent subordinated to the Group's process, which is conducted in parallel with the ICAAP planning of Aktia Group. Temporally, the ICAAP planning process coincides with the ORSA planning, which enables parallel work to the extent possible.

The Group's goal is to allocate the capital within the parent company and the subsidiaries to ensure an efficient yet reassuring capitalisation rate can be achieved for all companies. In recent years, the Group's policy has been that the life insurance company maintains sufficient capital to cover the necessary regulatory requirements, but that any surplus capital is transferred to the parent company.

Aktia Life Insurance has been granted permission to use the transition rule for technical provisions in its calculation of the Solvency II available capital, with the limitations in accordance with Article 308d (4) that the Finnish FSA has set out. The capital structure of the company is fairly straightforward, and at year-end, all available capital was Tier 1 capital, eligible for covering both the SCR and MCR. At the end of Q4 2019, the eligible solvency capital was EUR 166.3 (175.5) million, and the SCR was EUR 86.6 (76.3) million, resulting in a solvency ratio of 192.1% (229.8%). The ratio for the MCR of EUR 24.2 (22.7) million was 688.3% (772.9%). Without transition rules, the eligible capital was EUR 120.2 (125.8) million, the SCR was EUR 98.3 (88.9) million, and the solvency ratio was 122.2% (141.5%). The ratio for the MCR of EUR 25.9 (24.7) million was 463.5% (509.6%).

During the year, the company saw a significant decrease in solvency adequacy in the summer, which in particular can be seen in the numbers reported for Q3. This was due to record low levels in interest rates – especially long interest rates – and has caused the company to reconsider interest rate hedging, which will be enforced in 2020. As interest rates recovered during the autumn of 2019, solvency coverage rates have also recovered.

The reserve for interest-linked technical provisions was increased from EUR 16 million to EUR 26.0 million in November 2019 in accordance with a long-term request from the national FSA. The reserve is due to be dissolved in the future at a pace that will guarantee that investment income will cover the expected interest payments from insurance obligations. Taking this dissolvement into account, the yield requirement rate is expected to be 2.3% up to ten years of maturity, and 3.1% thereafter. The company is reviewing the adequacy of the reserve annually and adjusting it when necessary.

9. Operational risk

9.1 The management of operational risks

Operational risks are risks of losses arising from unclear or incomplete internal processes or instructions, deficient or unreliable systems, and inadequate or unreliable information, as well as those caused by staff – including through human error – or external events. Operational risks include legal risks, compliance risks, model risks related to calculation models and information security risks, but not strategic risks. Operational risks are categorised in seven sub-categories based on the risk source.

The realisation of an operational risk could result in direct or indirect economic losses for Aktia, but it could also constitute a threat to the reputation of the Group.

The framework for the management of operational risks in the Group is adopted annually by the Board of Directors. Where applicable, the framework follows the ISO 31000 standard.

The Board of Directors sets the risk appetite for different operational risk categories annually. The risk appetite for operational risk is "normal" in comparison to the activities of Aktia and its competitors, with exceptions in the risk appetite level of information security and compliance risks, which are both expected to be at a "low" level. These levels are achieved through thorough insight into business activities, good and well-functioning internal control mechanisms, risk-aware leadership and competent staff.

The Board of Directors approves key risk indicators (KRIs) for operational risks annually. These indicators reflect the risk appetite and risk tolerance of each risk category. The summary of the realisation of KRIs is reported quarterly by Risk Control function to management and the Board of Directors.

The responsibility for managing operational risks lies with the risk owners, i.e. the management of the different business areas and their respective organisations. Risk owners are responsible for the continuous development of the quality of processes and the internal controls embedded in them, and identifying and mitigating risks.

According to the framework, the critical functions of the Group, including outsourced functions, are to be risk assessed at least annually. Risk assessments are to be performed by the risk owners and their organisation with the support of the Operational Risk Control team within the Risk Control function of the Group in the second line of defence. In accordance with the framework, risk assessments are performed with the aid of a standard risk management tool and groupwide risk library, which can be complemented with function-specific risks. Identified risks are evaluated for their probability and potential impact, given an individual risk's risk level. The risk owner or the appropriate decision-making bodies in the organisation determine how these risks or risk areas are to be managed, and what mitigating actions should be taken. Certain operational risks can also be accepted, as long as the risk level stays within a defined risk tolerance. The identified risks and implementation of the identified risk-mitigating actions are to be followed up by the risk owner regularly, and the required actions are to be taken.

The Operational Risk Control facilitates an annual Group-level risk assessment with management. Based on this assessment and the function-level assessments, a Group-level summary for management and the Board of Directors is produced.

In 2019, special emphasis was placed on information security-related risks and increasing awareness in the entire organisation. Emphasis was also placed on the risk assessment process. A Group-level risk library and a risk management tool were introduced.

Aktia continued its risk-based plan to improve its processes to better combat financial crime. Ongoing due diligence processes were centralised to the Business Risk Management function, and a new and improved solution for the monitoring of suspicious transactions was introduced in the last quarter of the year.

Despite well-functioning internal controls, risk events (incidents) do occur. All functions and branches are required to report both incidents with financial implications and "close calls". The Operational Risk Management team within Risk Control analyses incident information and escalates important issues to the risk owner for action, including the required root cause analysis and risk mitigation measures. If the incident has a data protection impact, the Group's data protection officer (DPO) is always consulted immediately. The data protection officer defines the necessary actions and controls the incident-solving process. For incidents that relate to information security, the Group-level CISO-office is responsible for instructing and controlling the incident-solving process.

Before launching new products, services, or processes or systems, or introducing material changes to previously existing products, services, or processes or systems, a new product approval process is applied to identify the associated risks. The aim is to ensure that the introduction of products, services, or processes or systems has been carefully considered from the compliance and risk management perspective.

Each critical function has an annually updated business continuity plan, and a Group-level annually updated contingency plan is in place.

The responsibility for continuity planning lies with the risk owner, and the Operational Risk Control team is responsible for updating the contingency plan.

The management of each business area is responsible for ensuring that processes and procedures are adapted to Aktia's strategy and the goals established by the Group's executive management, and that the internal instructions are sufficient. As part of an efficient internal control system, process documents are created for critical processes. Each manager is responsible for compliance with the instructions within their managed area.

Adequate internal instructions for functions, processes and staff are in place as a preventive measure to reduce operational risks in central and high-risk areas. Among other things, the instructions cover internal controls, legal risks, staff risks, principles for continuity and contingency planning, measures to prevent money laundering and the financing of terrorism, and the implementation of financial sanctions. In 2019, the information security policy and the most relevant instructions were completely renewed and implemented. The implementation of information security-related instructions will continue in 2020.

In addition to the preventive work aimed at avoiding or mitigating operational risks, efforts are also made within the Group to maintain adequate insurance cover for damage that can occur as a result of the realisation of such risks.

9.2 Information security management system and data protection

The Board of Directors approves annual KRIs for information security, and the CEO annually approves a revised version of the information security policy, which is based on ISO 27001, as well as all relevant regulatory requirements. To further maintain the high level of awareness of information security within the organisation, a training programme for information security awareness exists for all personnel. A process for information security incident management is in place. Information security assessments are conducted regularly both internally and for external third parties.

The information security officer (CISO), who is in the first line of defence but has a direct reporting line to the Group's CEO, is responsible for implementing the IT security framework within Aktia Group. The CISO is responsible for assessing and reporting information concerning security risk levels in relation to the set risk appetite to the Board of Directors. The CISO is also responsible for reporting frequently to management on operational IT security. The assessment of the risk level is based on a set of objectives especially for IT governance and IT processes, as well as for continuity and disaster recovery plans.

Aktia has a data protection officer (DPO) in the second line of defence. The DPO is in charge of monitoring GDPR compliance and other applicable data protection legislation, provides information and advice on data protection-related matters, and is the contact point for the supervisory authority. The DPO reports regularly to management and the Board of Directors.

10. Regulatory development

New regulations keep financial institutions busy.

On 7 June 2019, the proposal of the European Commission to amend Regulation (EU) No. 575/2013 and Directive 2013/36/EU was adopted. This amendment includes e.g. a binding leverage ratio, a binding NSFR, amendments to the large exposures framework and other relevant amendments. The legislative work is now continuing to amend national laws and regulations in accordance with the above-mentioned Directives and regulations. This work is expected to be completed during 2020.

According to this new CRR2/CRD5, the level of leverage ratio will be set at 3%. Aktia reported a leverage ratio of 4.5% at year-end in 2019. According to this new CRR2/CRD5, the NSFR will be set to a minimum level of 100%. Aktia reported an NSFR level of 119% at year-end in 2019.

On 13 December 2019, after a supervisory review, the local supervisor, the Financial Supervisory Authority (FIN-FSA), decided the level of required capital buffers for Aktia. This requirement was set for Aktia at a level of 1.25% (previously 1.75%). It becomes applicable from 30 June 2020.

FIN-FSA has set a minimum risk weight level of 15% for residential mortgage loans applicable to credit institutions that have adopted the internal ratings-based approach for the calculation of capital requirements. The decision on the 15% minimum risk weight entered into force from 1 January 2018 and was renewed during 2019, to be valid until the beginning of 2021. This requirement increased Aktia's risk-weighted assets by EUR 149.5 million on 31 December 2019.

Macroprudential decisions: FIN-FSA decides every three months on the level of the countercyclical buffer. The most recent decision was made on 13 December 2019, and it was 0%. The systemic risk buffer requirement was introduced as part of FIN-FSA's macroprudential toolkit from 1 January 2018. The board of the Financial Supervisory Authority has decided to put in place systemic risk buffer requirements for Finnish credit institutions. According to the Financial Supervisory Authority, the buffer requirement aims to strengthen credit institutions' structural systemic risk tolerance. The requirement varies between credit institutions, and a 1% systemic risk buffer was set for Aktia Bank, which became valid on 1 July 2019. It continues in accordance with the latest FIN-FSA decision made in June 2019, which is valid until 30 June 2021.

In December 2017, the Basel Committee's oversight body, the Group of Central Bank Governors and Heads of Supervision (GHOS), endorsed the outstanding Basel III post-crisis regulatory reforms. This reform will be in the legislative process of the European Commission, European Council and European Parliament during 2020–21. The impact of this reform is presented in the latest EBA impact study, published on 4 December 2019. This revised standard will take effect in accordance with the Basel proposal from 1 January 2022 and will be phased in over five years.

European banking crisis management rules were established at the beginning of 2015. In Finland, local legislation was implemented, and a new authority was established, called the Financial Stability Authority. The Financial Stability Authority has drawn up a resolution plan for Aktia. The updated MREL requirement amounts to 23.37% of total risk-weighted assets (RWA), at least 8% of the balance sheet total. This MREL requirement was 671 million euro, while the Group's own funds and eligible liabilities were 796 million euro.

List of abbreviations

ALCO	Asset and Liability Committee
ALM	Asset and Liability Management
AT1	Additional Tier 1
BRRD	Banking Recovery and Resolution Directive
CCF	Credit conversion factor
CCP	Central counterparty
CET1	Common equity tier 1
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CRD	The EU's Capital Requirements Directive
CRM	Credit risk mitigation
CRR	The EU's Capital Requirements Regulation
CVA	Credit valuation adjustment
DPD	Days past due
DR	Default rate
EAD	Exposure at default
EBA	European Banking Authority
ECL	Expected credit losses
EL	Expected loss
EU	European Union
EV	Economic value
FIN-FSA	Finnish supervisory authority
FIRB	Foundation internal ratings-based approach
FX	Foreign exchange
FVOCI	Fair value through other comprehensive income
FVTPL	Fair value through profit or loss
GDPR	General data protection regulation
HQLA	High-quality liquid assets
ICAAP	Internal Capital Adequacy Assessment Process
IFRS	International Financial Reporting Standard
ILAAP	Internal liquidity adequacy assessment process
IRB	Internal ratings-based approach
IRRBB	Interest rate risk in the banking book
ISDA/CSA	International Swaps and Derivatives Association/ Credit Support Annex
ISO	International Organisation for Standardisation
KYC	Know your customer
LCR	Liquidity coverage ratio
LGD	Loss given default
LTV	Loan-to-value
MCR	Minimum capital requirement
MDB	Multilateral development bank
MREL	Minimum requirement for own funds and eligible liabilities
NII	Net interest income
NSFR	Net stable funding ratio
ORSA	Own Risk and Solvency Assessment
O-SII	Other systemically important institutions
OTC	Over the counter
PD	Probability of default
PFE	Potential future exposure
P&L	Profit and loss
PIT	Point-in-time
PSE	Public sector entity
REA	Risk exposure amount
ROE	Return on equity
RW	Risk weight
RWA	Risk-weighted assets
SA	Standardised approach
SCR	Solvency capital requirement
S&P	Standard & Poor's
SME	Small and medium-sized enterprise
SREP	Supervisory review and evaluation process
SFTs	Securities financing transactions
T2	Tier 2
TTC	Through-the-cycle
TP	Technical provisions
VaR	Value at risk

Appendix

Appendix 1 a. Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories*

31 Dec 2019			**Carrying values of items:**		
EUR million	**Carrying values as reported in published financial statements**	**Carrying values under scope of regulatory consolidation**	**Subject to credit risk framework**	**Subject to counterparty credit risk framework**	**Not subject to capital requirements or subject to deduction from capital**
Cash and balances with central banks	**315.4**	**315.4**	**315.4**	**0.0**	**0.0**
Financial assets available for sale	1,240.3	1,020.6	1,020.6	0.0	0.0
Financial assets held until maturity	336.5	288.6	288.6	0.0	0.0
Derivative instruments	68.1	68.1	0.0	68.1	0.0
Loans and other receivables	6,446.5	6,443.5	6,443.5	0.0	0.0
Investments for unit-linked insurances	1,039.1	5.0	5.0	0.0	0.0
Investments in associated companies	0.1	0.1	0.1	0.0	0.0
Investments in group companies	0.0	46.2	39.5	0.0	6.7
Intangible assets	62.8	62.4	0.0	0.0	62.4
Investment properties	42.2	0.0	0.0	0.0	0.0
Other tangible assets	13.9	13.3	13.3	0.0	0.0
Total other assets	128.9	119.7	119.7	0.0	0.0
Tax receivables	3.3	2.9	2.9	0.0	0.0
Total assets	**9,697.1**	**8,385.8**	**8,248.5**	**68.1**	**69.1**
Liabilities					
Deposits	4,657.5	4,689.4	0	0.0	0
Derivative instruments	9.8	9.8	0	0.0	0
Other financial liabilities	3,023.1	3,038.1	0	52.7	0
Technical provisions	1,259.8	0.0	0	0.0	0
Total other liabilities	81.1	76.7	0	0.0	0
Provisions	1.0	1.0	0	0.0	0
Tax liabilities	54.8	49.7	0	0.0	0
Total liabilities	**9,087.1**	**7,864.8**	**0**	**52.7**	**0**

*Template LI1

Appendix 1b. Main sources of differences between regulatory exposure amounts and carrying values in financial statements

31 Dec 2019

EUR million	Total	Items subject to: Credit risk framework	Counterparty credit risk framework
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	8,316.7	8,248.5	68.1
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	52.7	0.0	52.7
Total net amount under regulatory scope of consolidation	8,369.4	8,248.5	120.9
Off-balance sheet amounts	627.2	369.1	0.0
Differences in derivative exposure amounts	0.0	0.0	17.3
Differences due to consideration of provisions	0.0	26.6	0.0
Credit value adjustment (CVA)	0.0	0.0	17.2
Credit risk mitigation techniques affecting the exposure amount: financial collateral, comprehensive method	0.0	-11.4	-121.0
Other adjustments	0.0	0.8	0.0
Exposure amounts considered for regulatory purposes	0.0	8,633.7	34.4

* Template LI2

Appendix 2. Own funds disclosure template

EUR million, 31 Dec 2019

Transitional own funds disclosure template

Common Equity Tier 1 (CET1) capital: instruments and reserves		**(A) Amount at disclosure date**	**(B) Regulation (EU) No 575/2013 article reference**	**(C) Amounts subject to pre-regulation (EU) No 575/2013 treatment or prescribed residual amount of regulation (EU) No 575/2013**
1	Capital instruments and the related share premium accounts	163.0	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: Share capital	163.0	EBA list 26 (3)	
2	Retained earnings	192.3	26 (1) (c)	
3	Accumulated other comprehencive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	120.1	26 (1)	
3a	Funds for general banking risk	0.0	26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET 1	0.0	486 (2)	
	Public sector capital injection grandfathered until 1 January 2018	0.0	483 (2)	
5	Minority interests (amount allowed in consolidated CET1)	0.0	84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	1.7	26 (2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	477.1		

Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-1.0	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	-60.5	36 (1) (b), 37, 472 (4)	
9	Empty Set in the EU	0.0		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where conditions in Article 38 (3) are met) (negative amount)	0.0	36 (1) (c), 38, 472 (5)	
11	Fair value reserves related to gains or losses on cash flow hedges	0.0	33 (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-20.5	36 (1) (d), 40, 159, 472 (6)	
13	Any increase in equity that result from securitised assets (negative amount)	0.0	32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0.0	33 (b)	
15	Defined-benefit pension fund assets (negative amount)	0.0	36 (1) (e), 41, 472 (7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-0.3	36 (1) (f), 42, 472 (8)	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	0.0	36 (1) (g), 44, 472 (9)	
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	0.0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where th institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-6.7	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	
20	Empty Set in the EU	0.0		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0.0	36 (1) (k)	
20b	of which: qualifing holdings outside the financial sector (negative amount)	0.0	36 (1) (k) (i), 89 to 91	

20c	of which: securitisation positions (negative amounts)	0.0	36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258
20d	of which: free deliveries (negative amount)	0.0	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	0.0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	0.0	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0.0	36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty Set in the EU	0.0	
25	of which: deferred tax assets arising from temporary differences	0.0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)	0.0	36 (1) (a), 472 (3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0.0	36 (1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0.0	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0.0	
	Of which: ... filter for unrealised loss 1	0.0	467
	Of which: ... filter for unrealised loss 2	0.0	467
	Of which: ... filter for unrealised gain 1	0.0	468
	Of which: ... filter for unrealised gain 2	0.0	468
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	0.0	481
	Of which: ...	0.0	481
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0.0	36 (1) (j)
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	-89.0	
29	Common Equity Tier 1 (CET1) capital	388.1	

Additional Tier 1 (AT1) capital: instruments

30	Capital instruments and the related share premium accounts	0.0	51, 52
31	of which: classifies as equity under applicable accounting standards	0.0	
32	of which: classified as liabilities under applicable accounting standards	0.0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0.0	486 (3)
	Public sector capital injections grandfathered until 1 January 2018	0.0	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0.0	85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase out	0.0	486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0.0	

Additional Tier 1 (AT1) capital: regulatory adjustments

37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	0.0	52 (1) (b), 56 (a), 57, 475 (2)
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	56 (b), 58, 475 (3)
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	0.0	56 (c), 59, 60, 79, 475 (4)

40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0.0	56 (d), 59, 79, 475 (4)
41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)	0.0	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0.0	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	0.0	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0.0	477,477 (3), 477 (4) (a)
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	0.0	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0.0	467, 468, 481
	Of which: …possible filter for unrealised losses	0.0	467
	Of which: …possible filter for unrealised gains	0.0	468
	Of which: …	0.0	481
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0.0	56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0.0	
44	Additional Tier 1 (AT1) capital	0.0	
45	Tier 1 capital (T1 = CET1 + AT1)	388.1	

Tier 2 (T2) capital: instruments and provisions

46	Capital instruments and the related share premium accounts	102.6	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0.0	486 (4)
	Public sector capital injections grandfathered until 1 January 2018	0.0	483 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0.0	87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase out	0.0	486 (4)
50	Credit risk adjustments	0.0	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustments	102.6	

Tier 2 (T2) capital: regulatory adjustments

52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0.0	63 (b) (i), 66 (a), 67, 477 (2)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0.0	66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0.0	66 (c), 69, 70, 79, 477 (4)
54a	Of which new holdings not subject to transitional arrangements	0.0	
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	0.0	

55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0.0	66 (d), 69, 79, 477 (4)
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0.0	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0.0	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	0.0	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0.0	475, 475 (2) (a), 475 (3), 475 (4) (a)
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc	0.0	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	0.0	467, 468, 481
	Of which: ...possible filter for unrealised losses	0.0	467
	Of which: ...possible filter for unrealised gains	0.0	468
	Of which: ...	0.0	481
57	Total regulatory adjustments to Tier 2 (T2) capital	0.0	
58	Tier 2 (T2) capital	102.6	
59	Total capital (TC = T1 + T2)	490.7	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	98.7	
	Of which: Residual amounts relating to holdings in significant financial entities not deducted from CET1 capital	98.7	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)
	"Of which: ...items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)"	0.0	475, 475 (2) (b), 475 (2) (c), 275 (4) (b)
	"Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)"	0.0	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	Total risk weighted assets	2,636.9	

Capital ratios and buffers

61	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.72%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	14.72%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	18.61%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	9.555%	CRD 128, 129, 130
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.055%	
67	of which: systemic risk buffer requirement	1.00%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%	CRD 131

68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	10.22%	CRD 128
69	[non relevant in EU regulation]		
70	[non relevant in EU regulation]		
71	[non relevant in EU regulation]		
Amounts below the thresholds for deduction (before risk weighting)			
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0.0	36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	39.5	36 (1) (i), 45, 48, 470, 472 (11)
74	Empty Set in the EU	0.0	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0.0	36 (1) ©, 38, 48, 470, 472 (5)
Applicable caps to the inclusion of provisions in Tier 2			
76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	0.0	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0.0	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0.0	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0.0	62
Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)			
80	Current cap on CET1 instruments subject to phase out arrangements	0.0	484 (3), 486 (2) & (5)
81	Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0.0	484 (3), 486 (2) & (5)
82	Current cap on AT1 instruments subject to phase out arrangements	0.0	484 (4), 486 (3) & (5)
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0.0	484 (4), 486 (3) & (5)
84	Current cap on T2 instruments subject to phase out arrangements	0.0	484 (5), 486 (4) & (5)
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0.0	484 (5), 486 (4) & (5)

Appendix 3. Main features of the CET1 capital instruments, 31 Dec 2019

		Shares
1	Issuer	Aktia Bank Plc
2	Unique identifier	FI4000058870
3	Governing law(s) of the instrument	Finland
Regulatory treatment		
4	Transitional CRR rules	CET1
5	Post-transitional CRR rules	CET1
6	Eligible at solo/ (sub-)consolidated/ solo &(sub-)consolidated	Solo&consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital
8	Amount recognised in regulatory capital (EUR million)	163.0
9	Nominal amount of instrument (EUR million)	N/A
9a	Issue price	N/A
9b	Redemption price	N/A
10	Accounting classification	Shareholders' equity
11	Original date of issuance	N/A
12	Perpetual or dated	Perpetual
13	Original maturity date	No maturity
14	Issuer call subject to prior supervisory approval	No
15	Optional call date, contingent call dates and redemption amount	N/A
16	Subsequent call dates, if applicable	N/A
Coupons/dividends		
17	Fixed or floating dividend/coupon	N/A
18	Coupon rate and any related index	N/A
19	Existence of a dividend stopper	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A
22	Noncumulative or cumulative	N/A
23	Convertible or Non-convertible	N/A
24	If convertible, conversion trigger(s)	N/A
25	If convertible, fully or partially	N/A
26	If convertible, conversion rate	N/A
27	If convertible, mandatory or optional conversion	N/A
28	If convertible, specify instrument type convertible into	N/A
29	If convertible, specify issuer of instrument it converts into	N/A
30	Write-down features	N/A
31	If write-down, write-down trigger(s)	N/A
32	If write-down, full or partial	N/A
33	If write-down, permanent or temporary	N/A
34	If temporary write-down, description of write-up mechanism	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2
36	Non-compliant transitioned features	No
37	If Yes, specify non-compliant features	N/A

Appendix 4. Main features of the Tier 2 capital instruments, 31 Dec 2019

		Tier 2 - Issue 1	Tier 2 - Issue 2	Tier 2 - Issue 3	Tier 2 - Issue 4	Tier 2 - Issue 5
1	Issuer	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000113204	FI4000125315	FI4000148333	FI4000153499	FI4000167176
3	Governing law(s) of the instrument	Finnish law	Finnish law	Finnish law	Finnish law	Finnish law
Regulatory treatment						
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	"Post-transitional CRR rules"	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/ (sub-)consolidated/ solo &(sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (EUR million)	0.01	0.19	0.54	2.28	1.81
9	Nominal amount of instrument (EUR million)	13.15	5.98	8.60	18.23	11.33
9a	Issue price	100%	100%	100%	100%	100%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	20.10.2014	2.1.2015	2.3.2015	27.4.2015	17.8.2015
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	2.1.2020	28.2.2020	24.4.2020	15.8.2020	17.10.2020
14	Issuer call subject to prior supervisory approval	No	No	No	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
Coupons/dividends						
17	Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	3.00	2.75	2.75	2.50	2.50
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured
36	Non-compliant transitioned features	No	No	No	No	No
37	If Yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

Appendix 4, cont.

		Tier 2 - Issue 6	Tier 2 - Issue 7	Tier 2 - Issue 8	Tier 2 - Issue 9	Tier 2 - Issue 10
1	Issuer	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000176433	FI4000188859	FI4000197892	FI4000201702	FI4000219316
3	Governing law(s) of the instrument	Finnish law	Finnish law	Finnish law	Finnish law	Finnish law
Regulatory treatment						
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	"Post-transitional CRR rules"	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/ (sub-)consolidated/ solo &(sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (EUR million)	4.35	2.16	2.07	4.45	4.25
9	Nominal amount of instrument (EUR million)	21.58	9.30	7.91	13.57	11.40
9a	Issue price	100%	100%	100%	100%	100%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	19.10.2015	4.1.2016	29.2.2016	25.4.2016	22.8.2016
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	2.1.2021	27.2.2021	23.4.2021	20.8.2021	11.11.2021
14	Issuer call subject to prior supervisory approval	No	No	No	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
Coupons/dividends						
17	Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	2.50	2.25	2.00	2.00	2.00
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured
36	Non-compliant transitioned features	No	No	No	No	No
37	If Yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

Appendix 4, cont.

		Tier 2 - Issue 11	Tier 2 - Issue 12	Tier 2 - Issue 13
1	Issuer	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000224183	FI4000243142	XS2053056615
3	Governing law(s) of the instrument	Finnish law	Finnish law	English law, except for subordination provisions governed by Finnish law
Regulatory treatment				
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/ (sub-)consolidated/ solo &(sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (EUR million)	5.72	5.43	69.34
9	Nominal amount of instrument (EUR million)	13.28	11.71	70.00
9a	Issue price	100%	100%	99.636%
9b	Redemption price	100%	100%	100%
10	Accounting classification	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	11.11.2016	25.2.2017	18.9.2019
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	25.2.2022	26.4.2022	18.9.2029
14	Issuer call subject to prior supervisory approval	No	No	Yes
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	18.9.2024
16	Subsequent call dates, if applicable	N/A	N/A	18.9.2025, 18.9.2026, 18.9.2027, 18.9.2028
Coupons/dividends				
17	Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	2.00	2.00	1.375
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A
30	Write-down features	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Senior unsecured
36	Non-compliant transitioned features	No	No	No
37	If Yes, specify non-compliant features	N/A	N/A	N/A

Appendix 5. Leverage Ratio – Disclosure Template

Aktia Bank Plc, consolidated, 31 December 2019
Summary reconciliation of accounting assets and leverage ratio exposures*

EUR million		Applicable Amount
1	Total assets as per published financial statements	9,697.1
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-1,311.3
3	(Adjustment for fiduciary assets recognised on the balance sheet pursuant to the applicable accounting framework but excluded from the leverage ratio total exposure measure in accordance with Article 429(13) of Regulation (EU) No 575/2013)	0.0
4	Adjustments for derivative financial instruments	-52.4
5	Adjustment for securities financing transactions (SFTs)	0.0
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	231.2
EU-6a	(Adjustment for intragroup exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(7) of Regulation (EU) No 575/2013)	0.0
EU-6b	(Adjustment for exposures excluded from the leverage ratio total exposure measure in accordance with Article 429(14) of Regulation (EU) No 575/2013)	0.0
7	Other adjustments	-90.1
8	**Leverage ratio total exposure measure**	**8,474.5**

* Table LRSum

Leverage ratio common disclosure*

EUR million		CRR leverage ratio exposures
On-balance sheet exposures (excluding derivatives and SFTs)		
1	On-balance sheet items (excluding derivatives SFTs and fiduciary assets but including collateral)	8,316.6
2	(Asset amounts deducted in determining Tier 1 capital)	-89.0
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	8,227.6
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	0.2
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	18.1
EU-5a	Exposure determined under Original Exposure Method	0.0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0.0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-2.5
8	(Exempted CCP leg of client-cleared trade exposures)	0.0
9	Adjusted effective notional amount of written credit derivatives	0.0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0.0
11	Total derivatives exposures (sum of lines 4 to 10)	15.8
SFT exposures		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0.0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0.0
14	Counterparty credit risk exposure for SFT assets	0.0
EU-14a	Derogation for SFTs: Counterparty credit risk exposure in accordance with Articles 429b(4) and 222 of Regulation (EU) No 575/2013	0.0
15	Agent transaction exposures	0.0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0.0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0.0
Other off-balance sheet exposures		
17	Off-balance sheet exposures at gross notional amount	626.2
18	(Adjustments for conversion to credit equivalent amounts)	-395.0
19	Other off-balance sheet exposures (sum of lines 17 and 18)	231.2
Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)		
EU-19a	(Intragroup exposures (solo basis) exempted in accordance with Article 429(7) of Regulation (EU) No 575/2013 (on and off balance sheet))	
EU-19b	(Exposures exempted in accordance with Article 429 (14) of Regulation (EU) No 575/2013 (on and off balance sheet))	
Capital and total exposure mesure		
20	Tier 1 capital	388.1
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	8,474.5
Leverage ratio		
22	Leverage ratio	4.58%
Choice on transitional arrangements and amount of derecognised fiduciary items		
EU-23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in
EU-24	Amount of derecognised fiduciary items in accordance with Article 429(11) of Regulation (EU) No 575/2013	0.0

* Table LRCom

Split-up of on balance sheet exposures (excluding derivatives, SFTs and exempted exposures)*

EUR million		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	8,316.6
EU-2	Trading book exposures	0.0
EU-3	Banking book exposures, of which:	8,316.6
EU-4	Covered bonds	750.5
EU-5	Exposures treated as sovereigns	759.4
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	0.0
EU-7	Institutions	181.3
EU-8	Secured by mortgages of immovable properties	5,194.1
EU-9	Retail exposures	260.3
EU-10	Corporate	926.1
EU-11	Exposures in default	51.0
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	193.9

* Table LRSpl

Free format text boxes for disclosure on qualitative items*

Description of the processes used to manage the risk of excessive leverage	The risk of excessive leverage is managed as part of the capital management process. The development of leverage ratio is estimated based on the strategic business plan. The plan incorporates the growth targets in exposure amount as well as the anticipated developments in capital measure. As part of the process, the targets for the leverage ratio and the liability structure are also defined. The asset encumbrance ratio is key metric and limits the amount of covered bond funding. The level of leverage is monitored quarterly and reported to the Board of Directors. Leverage ratio is also an indicator in the Group's recovery plan and alarm zones have been set for the ratio. The recovery plan describes actions which the management can take in order to increase capital or reduce the exposures The Bank Group's target for the leverage ratio is 3.5% at a minimum.
Description of the factors that had an impact on the leverage Ratio during the period to which the disclosed leverage Ratio refers	Leverage ratio was 4.6% at the year-end which is little less than the year before. Both the numerator and the denominator changed during the period. The amount of Tier 1 capital increased as a result of growth in retained earnings. The exposure amount increased due to growth in corporate lending.

* Table LRQua

Appendix 6. Navigation

Appendix 6 a. Capital and risk information guide

Capital and Risk information guide

Reference	Capital and Risk management report	Annual Report	www.aktia.com
Quantification	**Chapter number**	**Pages**	
End of Year results	1	62,98-100	
Minimum capital requirements	4	69, 117-132	
Development of RWA	4	69, 117-132	
Development of Own funds	4	69, 117-132	
Capital Ratios	4	69, 117-132	
Leverage ratio	4	117-132	
Capital requirements parameters	4	117-132	
Credit Risk	5	70, 117-132	
Counterparty Credit risk	5	70, 117-132	
Market Risk	6	71-72, 117-132	
Operational Risk	9	117-132	
Liquidity Risk	7	71-72, 117-132	
Frameworks	**Chapter number**	**Pages**	
Credit Risk	5	118	
Counterparty Credit risk	5	118	
Market Risk	6	122-124	
Operational Risk	9	118	
Liquidity Risk	7	121	
Life and Pensions operation	8	124-127	
Capital	4	117	
Capital instruments	4, App 3, 4	-	
New regulations	10	-	
Remuneration	-	127-134	Governance-related information

Appendix 6 b. Navigation for disclosures

Navigation for disclosures

Articles of CRR (EU 575/2013)

Article	Section	Reference/section in CAR/ Annual Report/aktia.com
Article 431		
	1.	This report and disclosures at aktia.com address the requirement
	2.	This report and disclosures at aktia.com address the requirement
	3.	Aktia Bank Plc has adopted a formal policy to assure compliance with the disclosure requirements.
	4.	Can be provided upon request.
Article 432		
Non-material, proprietary or confidential information		
	1.	List can be found in Appendix 6c
	2.	List can be found in Appendix 6c
	3.	List can be found in Appendix 6c
	4.	--
Article 433		
Frequency of disclosure		
		The disclosures are made annually in conjunction with the publication of Aktia's Annual Report
		The disclosures for items where more frequent disclosures are assessed as needed, are published in interim financial reports or on aktia.com.
Article 434		
Means of disclosures		
	1.	This table provides the required information.
	2.	This table provides the required information.
Article 435		
Risk management objectives and policies		
1.		
(a)		3, 4, 5, 6, 7, 8, 9
(b)		3
(c)		3,4,5,6,7,8,9
(d)		3,4,5,6,7,8,9
(e)		2
(f)		3
2.		
(a)		aktia.com
(b)		aktia.com
(c)		aktia.com
(d)		3
(e)		3
Article 436		
Scope of application		
(a)		2
(b)		2
	(i)	2
	(ii)	2
	(iii)	2
	(iv)	2
(c)		4
(d)		N/A
(e)		N/A
Article 437		
Own funds		
1.		
(a)		App 2,3 and 4
(b)		App 3 and 4
(c)		App 3 and 4
(d)		
	(i)	App 4
	(ii)	App 4
	(iii)	App 4
(e)		N/A
(f)		4
Article 438		
Capital requirements		
(a)		4
(b)		N/A
(c)		4
(d)		4
	(i)	N/A
	(ii)	N/A
	(iii)	N/A
	(iv)	4
(d)		4
	(i)	N/A
	(ii)	N/A
	(iii)	N/A
	(iv)	4
(e)		4
(f)		4

Appendix 6 b, cont.

Article	Section	Reference/section in CAR/ Annual Report/aktia.com
Article 439		
Exposure to counterparty credit risk		
(a)		5
(b)		5
(c)		N/A
(d)		N/A
(e)		5
(f)		5
(g)		5
(h)		N/A
(i)		N/A
Article 440		
Capital buffers		
1.		
(a)		4
(b)		4
Article 441		
Indicators of global systemic importance		
1.		N/A
2.		--
Article 442		
Credit risk adjustments		
(a)		5
(b)		5
(c)		5
(d)		5
(e)		5
(f)		5
(g)		
	(i)	5
	(ii)	5
	(iii)	5
(h)		5
(i)		5
	(i)	5
	(ii)	5
	(iii)	5
	(iv)	5
	(v)	5
Article 443		
Unencumbered assets		

Article	Section	Reference/section in CAR/ Annual Report/aktia.com
		7
Article 444		
Use of ECAIs		
(a)		5
(b)		5
(c)		5
(d)		5
(e)		5
Article 445		
Exposure to market risk		
		N/A
Article 446		
Operational risk		
		N/A
Article 447		
Exposures in equities not included in the trading book		
(a)		Annual Report
(b)		Annual Report
(c)		N/A
(d)		N/A
(e)		Annual Report
Article 448		
Exposure to interest rate risk on positions not included in the trading book		
(a)		6
(b)		6
Article 449		
Exposure to securitisation positions		
(a)		4
(b)		N/A
(c)		N/A
(d)		N/A
(e)		N/A
(f)		N/A
(g)		N/A
(h)		N/A
(i)		N/A
(j)		N/A
	(i)	N/A
	(ii)	N/A
	(iii)	N/A
	(iv)	N/A

Appendix 6 b, cont.

Article	Section	Reference/section in CAR/ Annual Report/aktia.com
	(v)	N/A
	(vi)	N/A
(k)		N/A
(l)		N/A
(m)		N/A
(n)		N/A
	(i)	N/A
	(ii)	N/A
	(iii)	N/A
	(iv)	N/A
	(v)	N/A
	(vi)	N/A
(o)		N/A
	(i)	N/A
	(ii)	N/A
(p)		N/A
(q)		N/A
(r)		N/A
Article 450		
Remuneration policy		
(a)		aktia.com
(b)		aktia.com
(c)		aktia.com
(d)		aktia.com
(e)		aktia.com
(f)		aktia.com
(g)		aktia.com
(h)		aktia.com
	(i)	aktia.com
	(ii)	aktia.com
	(iii)	aktia.com
	(iv)	aktia.com
	(v)	aktia.com
	(vi)	aktia.com
(i)		aktia.com
(j)		N/A
2.		N/A
		Aktia has applied this in reporting these issues.
Article 451		
Leverage		
1.		
(a)		4
(b)		4
(c)		N/A

Article	Section	Reference/section in CAR/ Annual Report/aktia.com
(d)		4
(e)		4
Article 452		
Use of the IRB approach to credit risk		
(a)		5
(b)		
	(i)	5
	(ii)	5
	(iii)	5
	(iv)	5
(c)		5
	(i)	N/A
	(ii)	N/A
	(iii)	N/A
	(iv)	5
	(v)	5
(d)		N/A
(e)		
	(i)	5
	(ii)	5
	(iii)	N/A
(f)		5
(g)		5
(h)		5
(i)		5
(j)		
	(i)	N/A
	(ii)	N/A
		5
Article 453		
Use of credit risk mitigation techniques		
(a)		5
(b)		5
(c)		5
(d)		N/A
(e)		5,6
(f)		5
(g)		5

Appendix 6 b, cont.

Article	Section	Reference/section in CAR/ Annual Report/aktia.com
Article 454		N/A
Use of the advanced measurement approaches to operational risk		
Article 455		
Use of internal market risk models		
(a)		N/A
	(i)	N/A
	(ii)	N/A
	(iii)	N/A
	(iv)	N/A
(b)		N/A
(c)		N/A
(d)		N/A
	(i)	N/A
	(ii)	N/A
	(iii)	N/A
(e)		N/A
(f)		N/A
(g)		N/A

Appendix 6 c. Information not disclosed due to non-material-, proprietary- or confidential nature

Information not disclosed due to non-material-, proprietary- or confidential nature

Article reference	Reason for not including	Reference to information provided as complement to the information not included
EU CRB-C Geographical breakdown of exposures, Article 442(d)	Breakdown to geographical areas within Finland is confidential information.	Exposures are provided with other breakdowns in section 5.

Tables and appendixes

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