Capital and Risk Management Report 2020

Aktia

Content

1. Main events

Aktia's funds available to private investors through Nordnet

Aktia signed a fund distribution contract with Nordnet. Nordnet's customers can now invest in ten funds managed by Aktia.

Aktia founded Suomen Yrittäjäturva – a new company specialised in personal insurance

Aktia extends its distribution network for insurances and founded Suomen Yrittäjäturva – a company that specializes in entrepreneurs and their insurances as well as the distribution of the insurances. The new company is owned by Aktia, Veritas and private owners. The new actor offers mainly private insurances for entrepreneurs as well as statutory and voluntary pension insurances.

Change in Aktia's number of shares

Aktia Bank Plc invalidated 7 October 2020, supported by a decision taken by the company's Board of Directors, 717,196 shares. The invalidated shares were shares that the ownercustomers of Veritas Mutual Non-Life Insurance Company received, on the basis of paid insurance premiums, as merger consideration in connection with the merger of Veritas Mutual Non-Life Insurance Company to Aktia Plc on 1 January 2009. The Annual General Meeting decided on 16 April 2020 that the right to unregistered consideration shares were to be forfeited.

Aktia extends its selection of alternative investment products and bought Askel Partners' business

Aktia Fund Management Company Ltd bought the fund business operations of Askel Partners Oy, a provider of fund services. With the purchase Aktia extends its selection of alternative investment products according to its strategy and establishes a Finnish infrastructure fund.

Aktia's funds at the top of the independent Morningstar's ratings

Aktia's funds were at the top when comparing the Morningstar ratings for the funds of different fund management companies in Finland. The average rating for Aktia's funds was 4.20 stars in August 2020, whereas the next best had an average of 3.77. The fund unit type of each fund that has received the most stars has been considered in the comparison based on Morningstar's ratings.

Aktia's acquisition of Alandia's life insurance portfolio completed

Aktia Bank Plc and Alandia Försäkring Abp informed 19 December 2019 that Aktia Life Insurance Ltd and Försäkringsaktiebolaget Liv-Alandia have agreed on the transfer of Alandia's life insurance portfolio to Aktia. Financial Supervisory Authority accepted the transfer, and the acquisition was completed 31 May 2020.

Changes in Aktia's Executive Committee

Anssi Huhta was appointed EVP, Corporate customers and member of the Executive Committee at Aktia as of November 2020. Huhta reports to the CEO Mikko Ayub. Irma Gillberg-Hjelt, Executive Vice President, Corporate Customers, resigned from her duties at Aktia 15 April 2020.

Aktia Asset Management was rewarded in the Refinitiv Lipper Fund Awards 2020

The fund Aktia Corporate Bond+ was rewarded by the Lipper Fund Awards 2020 as the best fund in euro in the series "Bond EUR Global Corporates" in the category "Best Fund Over Past 10 years". The fund award is granted based on the best return development.

Aktia was chosen for the sixth time as the best fixed income fund house in Finland

Aktia won the category of Fixed Income Fund House in Morningstar's Finland Awards 2020, which was published on 11 March 2020. It was already the sixth time that Aktia was awarded as the best asset manager in Finland and the eighth consecutive year Aktia was among the three best fixed income fund houses.

Aktia improved significantly its rating in CDP's corporate responsibility ranking

Aktia reached on 23 January 2020 corporate rating B in CDP's international corporate responsibility ranking, which is over the average in the European financial sector. This is a significant improvement compared to last year's rating D-. CDP (former Carbon Disclosure Project) is a global non-profit organisation that collects and spreads company-specific information among other things on climate change mitigation and greenhouse gas emissions. Receiving the rating B means that Aktia takes the risks and possibilities relating to climate change even better into account and takes actively measures regarding climate matters.

Google Pay available to Aktia's customers

Aktia expanded its service range of mobile payments and made Google Pay available to its customers on 18 February 2020. Aktia's customers can use their Android smart devices for payments by starting to use Google Pay.

Business environment

Finland weathered the corona pandemic year relatively well. Aktia forecasts Finnish GDP to shrink -3,2 % in 2020, while the IMF expects euro area's GDP to shrink by -7,2 %. Unemployment increased to 7,8 percent as various restrictions were implemented to slow the virus from spreading. As vaccinations accelerate and the economy is gradually opened, economic activity will improve and hence unemployment will start to come down. Activity in the real estate market cooled during the spring but picked up towards the end of the year. On average prices of old dwellings increased 1,1 % in 2020, with growing cities posting strongest prices increases. Total number of transactions in old dwellings increased in 2020 from the previous year.

Rating

On 19 May 2020, Standard & Poor's (S&P) changed its view on the outlook for Aktia Bank Plc:s creditworthiness. Along with six other Finnish banks, the outlook was changed from stable to negative. The credit rating for long-term funding is A- and for short-term funding the credit rating is A2.

On 14 September 2020, Moody's Investors Services confirmed Aktia Bank's long-term and short-term credit ratings. The rating for senior preferred bonds was A1 and P-1 for shortterm debt instruments. Moody's Investors Service's rating for Aktia Bank's long-term covered bonds is Aaa. The outlook is stable. Moody's Investors Service changed the outlook on the entire Finnish bank sector from stable to negative on 16 April 2020, but the decision does not affect bank-specific ratings at this point.

Profit 2020

The Group's operating profit decreased to EUR 54.8 (74.8) million and the Group's profit to EUR 42.6 (61.8) million. Comparable operating profit decreased to EUR 55.1 (68.2) million.

Income

The Group's operating income decreased to EUR 201.1 (221.4) million, which includes items affecting comparability for the reference period of EUR 10.1 million. The Group's comparable operating income decreased by 5% to EUR 201.1 (211.4) million, which mainly due to the corona crisis pertains to unrealised value changes in the life insurance company's investment portfolio.

Net interest income increased to EUR 80.7 (77.6) million. Net interest income from borrowing and lending increased by 7% to EUR 78.3 (73.4) million, whereas interest income from hedging measures through interest rate derivatives decreased to EUR 2.2 (4.0) million.

Net commission income from lending decreased to EUR 97.6 (99.1) million. Commission income from mutual funds, asset management and securities brokerage increased to EUR 64.3 (63.9) million. However, commission income from cards, payment services and borrowing decreased by 8% to EUR 26.6 (29.2) million and commission income from lending decreased to EUR 9.1 (9.7) million.

Net income from life insurance decreased to EUR 19.9 (30.0) million. The EUR -4.3 (6.9) million decrease mainly relates to unrealised value changes in the life insurance company's investment portfolio. However, the actuarially calculated result improved by EUR 14.2 million, which mainly pertains to lower interest reservations than last year, the takeover of Liv-Alandia's insurance portfolio, lower paid interest on the interest-linked technical provisions and a better risk result than for the previous year. Sales gains from the investment portfolio decreased to EUR 4.5 (10.3) million.

The net result from financial transactions was EUR 0.6 (2.9) million. The reference period includes an additional income of EUR 0.5 million from the sale of Visa Europe to Visa Inc. and the comparable net income from financial transactions has decreased to EUR 0.6 (2.4) million. The value change in the Visa Inc. shares and the net result from hedge accounting have decreased, whereas net income from derivatives has increased from last year.

Other operating income was EUR 1.9 (11.4) million and dividends EUR 0.4 (0.5) million. The reference period includes a EUR 9.6 million profit from the divestment of the shares in Oy Samlink Ab and the other comparable operating income was EUR 1.9 (1.8) million.

Expenses

Operating expenses amounted to EUR 142.2 (143.9) million, including EUR 0.3 (3.5) million in restructuring expenses. Comparable operating expenses increased to EUR 141.9 (140.4) million.

Staff expenses amounted to EUR 69.1 (69.0) million, including EUR 0.3 (2.2) million in restructuring expenses. Comparable staff expenses increased by 3% to EUR 68.8 (66.8) million and relate to higher running staff expenses.

IT-related expenses were EUR 26.0 (26.2) million. The expenses for IT licenses have increased while the expenses for IT consultants have decreased since last year.

The depreciation of tangible and intangible assets decreased to EUR 18.3 (19.5) million. The depreciation mainly relates to decreased depreciations of right-of-use assets.

Other operating expenses decreased to EUR 28.8 (29.2) million. However, the other comparable operating expenses increased by 3% to EUR 28.8 (27.9) million since the reference period includes EUR 1.3 million restructuring expenses. The increase pertains to the cost for the stability fee, which has increased by EUR 0,8 million from last year.

Impairments on credits and other commitments amounted to EUR -4.0 (-4.5) million, of which the change in the allowance for model-based credit losses (ECL) amounted to EUR -1.7 (-1.1) million. The increase in model-based credit losses (ECL) during the year mainly relates to higher provisions with regards to healthy credits in stage 1 and stage 2 as more information of the consequences of the pandemic have become available for the calculations, when it comes to for example observed customer behaviour and risk assessments, as well as updated macroeconomic assumptions.

Balance sheet and off-balance sheet commitments

The Group's balance sheet total increased to EUR 10,573 (9,697) million. Off-balance sheet commitments, consisting of credit limits, other loan promises, and bank guarantees increased to EUR 699 (641) million.

Borrowing from the public and public-sector entities increased to EUR 4,466 (4,060) million. Aktia's market share of deposits was 3.1% (3.2%) at the end of December. The value of bonds issued by Aktia Bank totalled EUR 2,720 (2,526) million. After an issued retained covered bond was set off, EUR 1,622 (1,613) million consisted of Covered Bonds issued by Aktia Bank.

During the fourth quarter, Aktia Bank issued new long-term unsecured bonds to the value of EUR 166 million within the scope of the bank's EMTN programme. During the period January–December, new long-term unsecured bonds to the total value of EUR 856 million have been issued, partially to replace the unsecured bonds that have been repaid during the period and partially to replace the unsecured bonds that will be repaid during the fourth quarter. In addition, Aktia Bank has issued a retained Covered Bond of EUR 300 million with a maturity of 4 years. The aim of the issue was an exchange of collateral in the central bank.

Group lending to the public and public-sector entities increased by EUR 571 million to EUR 7,000 (6,429) million. Loans to households accounted for EUR 5,083 (4,886) million, or 72.6% (76.0%) of the total loan book.

The housing loan book totalled EUR 5,185 (4,877) million, of which the share for households was EUR 4,178 (4,026) million. Aktia's new lending was EUR 1,199 (1,179) million. At the end of December, Aktia's market share in housing loans to households was 4.1% (4.0%).

Corporate lending accounted for 14.0% (12.0%) of the Aktia Group's loan book. Total corporate lending increased to EUR 979 (771) million. Loans to housing companies increased to EUR 908 (738) million, making up 13.0% (11.5%) of Aktia's total loan book.

The Aktia Group's financial assets consist of the Bank Group's liquidity portfolio amounting to EUR 1,446 (1,326) million, the life insurance company's investment portfolio of EUR 602 (546) million, and the Bank Group's equity holdings of EUR 5 (5) million. In connection with the acquisition of Liv-Alandia's life insurance portfolio, Aktia made a subscription for a subordinated loan to Liv-Alandia, the market value of which was EUR 79 million at the end of the period.

Assets under Management

The Group's total assets under management were EUR 12,712 (11,948) million. Assets under management comprise managed and brokered mutual funds as well as managed capital in the subsidiaries Aktia Asset Management Ltd and Aktia Fund Management Company Ltd. Assets under management presented in the text below reflects net volumes, so that assets under management in multiple companies have been eliminated. Group financial assets include the liquidity portfolio in the Bank Group managed by the treasury function and the life insurance company's investment portfolio.

Table 1.1 Key metrics

EUR million	31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019
Available capital (amounts)					
Common Equity Tier 1 (CET1)	424.3	452.8	447	437	388.1
Tier 1	424.3	452.8	447	437	388.1
Total capital	504.3	537.5	537.1	533.1	490.7
Risk-weighted assets (amounts)					
Total risk-weighted assets (RWA)	3,030	2,900.7	2,844.8	2,746	2,637
Risk-based capital ratios as a percentage of RWA					
Common Equity Tier 1 ratio (%)	14.0	15.6	15.7	15.9	14.7
Tier 1 ratio (%)	14.0	15.6	15.7	15.9	14.7
Total capital ratio (%)	16.6	18.5	18.9	19.4	18.6
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 (%)	0.01	0.01	0.01	0.01	0.05
Pillar 2 requirement (SREP, %)	1.25	1.25	1.25	1.75	1.75
Total of bank 'CET1-specific' buffer requirements (%)	3.76	3.76	3.76	4.26	4.30
CET1 available after meeting the bank's minimum capital requirements (%)	6.3	7.9	8.0	8.2	7.0
EU CRR leverage ratio					
Total EU CRR leverage ratio exposure measure	9,211	9,324	9,085	8,816	8,475
EU CRR leverage ratio (%)	4.6	4.9	4.9	5.0	4.6
Liquidity coverage ratio					
Total HQLA	1,274	1,646	1,486	1,278	1,050
Total net cash outflow	921	1,326	1,081	992	893
LCR ratio (%)	1.38	1.24	1.37	1.29	118
Net stable funding ratio					
Total available stable funding	7,729	7,518	7,118	6,646	6,534
Total required stable funding	6,117	5,916	5,902	5,651	5,528
NSFR ratio	1.26	1.27	1.21	1.18	1.18

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 14.0 (14.7) %. After deductions, Common Equity Tier 1 capital increased by EUR 36,2 million during the period, which affected the CET1 capital ratio by 1.2 percentage points. The maximum 2020 dividend, EUR 0.43 per share, has been deducted from the CET1 capital in accordance with the Board's proposal to Annual General Meeting. Risk-weighted assets increased by EUR 393.1 million, which reduced the CET1 capital ratio by 1.9 percentage points. The increase in risk-weighted assets is mainly pertained to an increase in corporate exposures.

For Aktia Life Insurance, the solvency ratio was 145,9% (192,1%). The solvency ratio without transitional measures was 97,4% (122,2%).

The financial conglomerate's capital adequacy ratio was 126,6% (131,6%). 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 the 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 2020 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 2020 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 wellbeing from one generation to the next for 200 years. We serve our customers in digital channels everywhere and face-to-face at our offices in the Helsinki, Turku, Tampere, Vaasa and Oulu regions. Our award-winning asset management business sells investment funds internationally. We employ approximately 900 people around Finland. Aktia's assets under management (AuM) on 31 December 2020 amounted to EUR 10.4 billion, and the balance sheet total was EUR 10.6 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 is continuing to 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". The 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 risk areas 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 the 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 Fund Management Company Ltd	Investment funds	100%	purchase method	fully consolidated
	Aktia Asset Management Ltd	Asset management	100%	purchase method	fully consolidated
	Aktia Life Insurance Ltd	Insurance	100%	purchase method	not consolidated, holdings partially deducted from own funds
	Askel Infra GP Oy	Other	80%	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
	Asunto Oy Helsingin Tuulensuoja, Helsinki	Real estate	50%	equity 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
	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-effectiveness. 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-effectiveness. 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.

Risks in sustainability of operations, and risks in environmental, social and governance issues affect all Aktia's operations. A comprehensive description is provided in Aktia Bank Plc's Annual and Sustainability Report 2020.

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	Credit risk is defined as the risk of losses brought about by the debtor failing to fulfil obligations towards Aktia, while counterparty risk is defined as the risk of losses or negative valuation differences due to deterioration of the counterparty's creditworthiness.	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. Strong loan-to-value ratios and a low risk level contribute to the high credit quality of Aktia's credit portfolio. 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 risks arise from price and volatility changes in the financial markets. Market risks for Aktia Bank are divided into interest rate, foreign exchange rate and equity risks. The market risks considered for the life insurance company are interest rate, spread, currency (FX), equity, real estate and concentration risks.	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. The Bank Group aims for low market risks and low volatility in its earnings.
Funding and liquidity risk	Funding and liquidity risk imply a risk that the Group will not be able to meet its payment obligations, or could only do so at high cost, and is defined as the availability and cost of refinancing, as well as differences in maturity between assets and liabilities. Funding risk also occurs if funding is largely concentrated in individual counterparties, instruments or markets.	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. Aktia's appetite for liquidity risk is low.
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 are considered to include 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 personnel – including through human error – or external events. Compliance/ legal risks are also considered to be part of operational risks as well as model risks related to calculation models and information security risks. Strategic risks are not part of operational risks.	The Board of Directors confirms the risk appetite for different operational risk categories annually. Aktia identifies risk appetite for operational risks separately for following risk categories: information security, compliance / legal risks and other operational risks. The risk appetite for compliance risks is low. The risk appetite for legal risks is low.The risk appetite for information security is low.For all other operational risk areas, the risk appetite is normal.
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, regulatory system or the banking sector, while reputational risk is a decline in confidence towards the group due to negative publicity. Risks in sustainability of operations, and risks in environmental, social and governance issues effect all operations of Aktia.	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 same measures as mentioned above. Corporate responsibility is a crucial aspect of Aktia's operations in the short term and the long term. Aktia's strategy identifies corporate responsibility as one of the pillars of its operations. Aktia aims to be a solvent, reliable and environmentally responsible partner for economic well-being and the most attractive workplace in the business.

2.3 Legal and governance structure

Figure 2.3 Aktia Group's legal structure

The legal structure of Aktia Group 31 December 2020

Aktia Bank Plc Is listed in Nasdaq Helsinki Ltd	**100%** Aktia Life Insurance Ltd	**100%** Aktia Fund Management Company Ltd	**100%** Aktia Asset Management Ltd*	*Aktia Asset Management Ltd was merged into Aktia Bank Plc on 1 January 2021.

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.

Aktia's Corporate Governance Report, which is part of Aktia's Annual Sustainability Report, presents detailed information about the members of the Board of Directors, Board committees, and the Executive Committee.

Risk management in different risk areas is presented in Chapters 4–9 of this report.

3.1.1 Board of Directors

The Board of Directors of Aktia Bank Plc oversees the efficient management of the 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 CEO.

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. The 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 Risk Committee prepares credits, and risk taking and risk management issues. In addition, the committee considers the central risk-related processes for capital and liquidity, the internal capital adequacy assessment process (ICAAP) and the internal liquidity adequacy assessment (ILAAP), and draws up risk-related matters for the Board of Directors' decision. The committee prepares decisions on the annual plan, and on procedures for the Risk Control and Compliance function to be adopted by the Board, and reviews the reports submitted by Risk Control and Compliance. In 2020, the committee held 11 meetings.

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)

The CEO appoints a committee for asset and liability management (ALM). 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 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 or other mechanisms within the group responsible for the control function. These persons report to the Board of Directors of each of the subsidiaries. In addition, these persons have a dual reporting line to the Chief Risk Officer and coordinate their activities in co-operation with the Group's Risk Control and Compliance unit. The Group's Internal Audit function represents the third line of defence, and the function is responsible for the independent audit of the first and second lines of defence.

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 the 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.

3.1.6 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 various 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 responsible 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.

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. 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, Compliance function and Actuary 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, data protection 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 Group's Data Protection Officer (DPO) forms also a part of the Compliance function. 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 is responsible for an independent assessments and evaluations 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.

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 (until 31.12.2020). Group's Risk Control, in cooperation with the Actuary Function of the Aktia Life Incurance subsidiary, is also responsible for monitoring and reporting risks and limits related to insurance activities to the Board of Directors of Aktia Life Insurance.

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

3.1.7 The Group's Compliance Function

The Group's Compliance function reports independently to the Board of Directors in addition to reporting on compliance risks, significant observations and changes in applicable regulation to the management and the organisation. The role of the Compliance function is to control and evaluate the management of risks related to inadequate compliance. The Compliance function is responsible for ensuring that the rules are adhered to within the Group's activities through its advisory and control tasks, and therefore for supporting the business activities in ensuring that applicable rules are known and duly implemented. The Group's Data Protection Officer (DPO) is also part of the Compliance function.

The Chief Compliance Officer is the primary contact person for the Financial Supervisory Authority (FIN-FSA), and the DPO is the contact person for the Office of the Data Protection Ombudsman.

The Group's Compliance function is part of the Risk & Compliance unit.

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: 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.

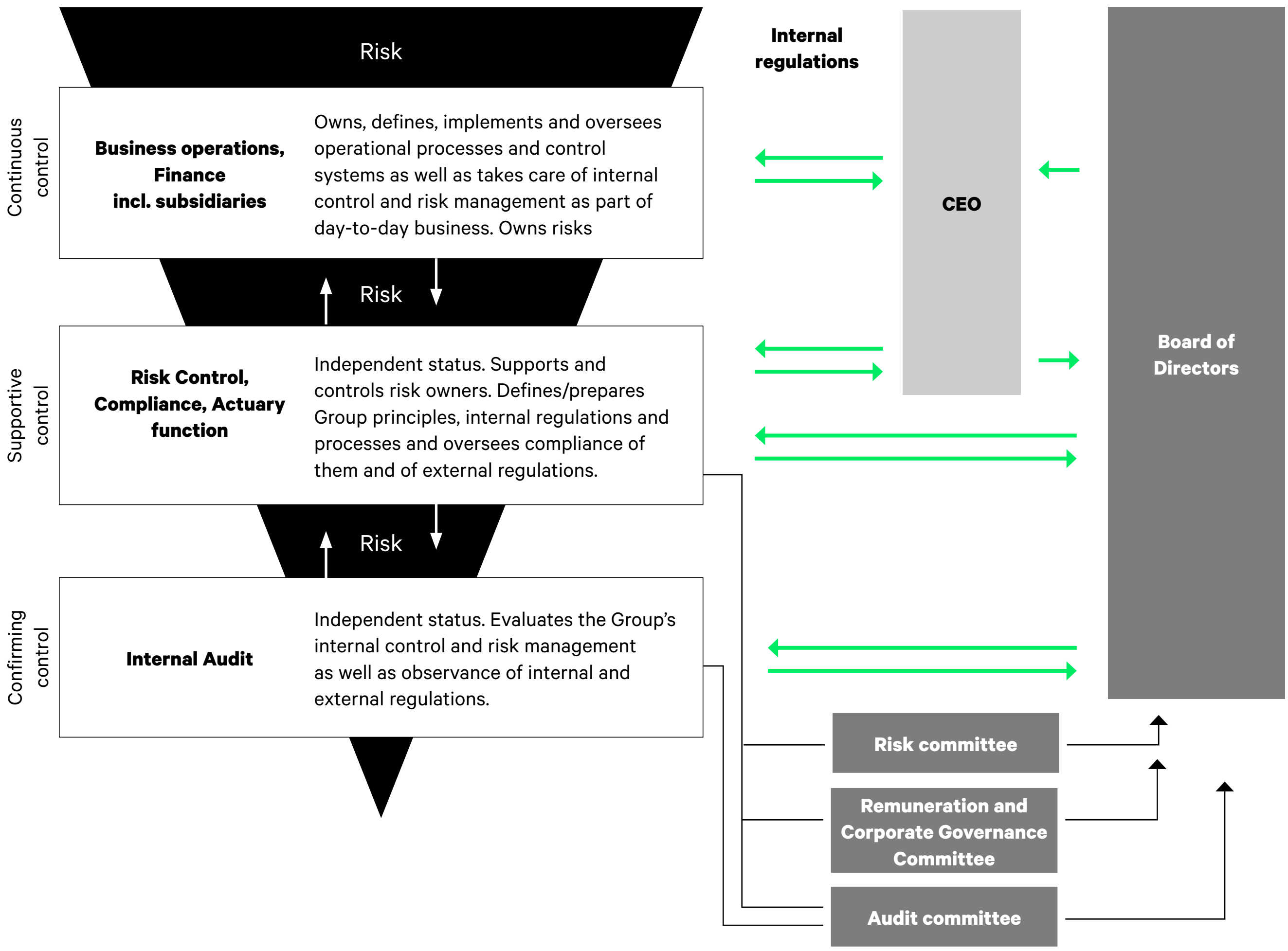
Important parts of current accounting activities in companies within the Aktia Group have been outsourced to external companies that provide accountancy services. These accountancy services also include the maintenance of securities, purchasing and fixed asset ledgers, and the preparation of accounts 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 Figure Taloushallinto 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. The Head of Group Finance's 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 is at a solid level and above the target range. This enabled Aktia to continue to grow on the loan book. The coronavirus pandemic led to a reduction in capital buffer requirements. A reduced dividend pay-out from financial year 2019 contributed to the strengthening of CET1 capital in 2020.

4.1 Capital position

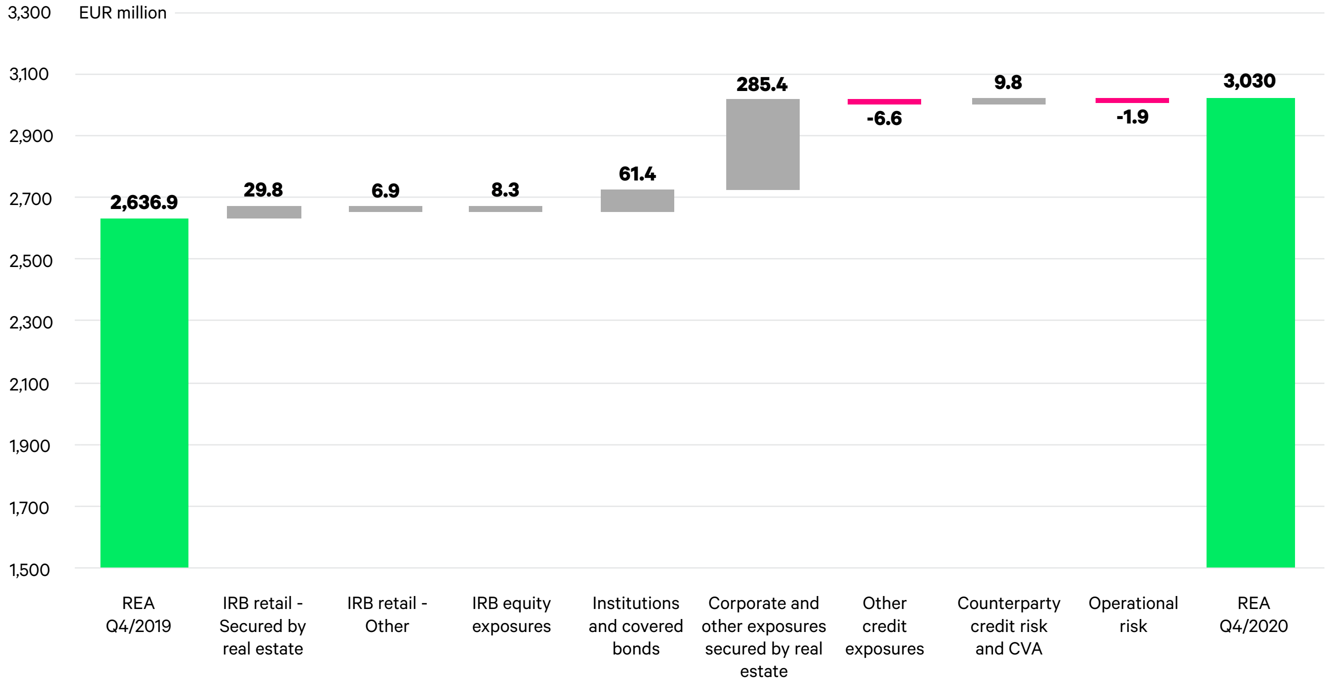
4.1.1 Minimum capital requirements

The regulatory minimum capital requirements for Aktia Bank Group are stated in the EU Capital Requirements Regulation (CRR) (No. 575/2013) and as amended thereafter. CRR 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 for setting the additional buffer requirements in Finland.

Table 4.1 Minimum capital requirements and REA

	31 Dec 2020			31 Dec 2019		
(EUR million)	**Minimum capital requirement**	**REA**	**Credit exposure**	**Minimum capital requirement**	**REA**	**Credit exposure**
Credit risk	**212.1**	**2,651.1**	**9,368.5**	**180.9**	**2,260.9**	**8,623.5**
- of which counterparty credit risk	0.9	11.7	33.7	0.5	6.7	17.2
IRB	**160.5**	**2,006.7**	**6,515.6**	**137.4**	**1,716.9**	**6,018.6**
- of which corporate	**78.7**	**983.4**	**1,311.2**	**59.1**	**738.6**	**998.0**
- of which SME	30.1	376.3	473.7	19.8	247.5	300.6
- of which retail	**71.8**	**897.5**	**5,156.5**	**68.9**	**860.8**	**4,976.0**
- of which secured by immovable property	66.2	826.9	4,950.5	63.8	797.1	4,797.4
- of which other retail	4.2	51.9	174.8	3.6	44.7	149.9
- of which SME	1.5	18.7	31.2	1.5	19.0	28.7
- of which equity	**10.1**	**125.8**	**47.9**	**9.4**	**117.5**	**44.6**
Standardised	**51.6**	**644.4**	**2,853.0**	**43.5**	**544.0**	**2,604.9**
- of which central governments or central banks	0.0	0.0	530.0	0.1	0.8	505.4
- of which regional governments or local authorities	0.1	0.8	207.7	0.0	0.4	284.2
- of which public sector entities	0.0	0.0	0.0	0.0	0.0	0.0
- of which multilateral development banks	0.0	0.0	0.0	0.0	0.0	0.0
- of which international organisations	0.0	0.0	20.1	0.0	0.0	35.3
- of which institutions	8.0	100.5	319.8	4.2	53.0	187.3
- of which corporate	8.1	101.9	105.9	7.1	89.1	90.9
- of which retail	5.5	69.3	95.6	6.4	80.2	111.9
- of which secured by mortgages on immovable property	18.0	224.4	652.0	15.7	196.6	556.9
- of which in default	0.1	0.7	0.5	0.1	0.7	0.5
- of which associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0
- of which covered bonds	6.6	82.2	800.9	6.0	75.1	750.5
- of which securitisation positions	0.0	0.0	0.0	0.0	0.0	0.0
- of which institutions and corporates with a short-term credit assessment	0.0	0.0	0.0	0.0	0.0	0.0
- of which collective investments undertakings (CIU)	0.0	0.0	0.0	0.0	0.0	0.0
- of which equity	0.0	0.0	0.0	0.0	0.0	0.0
- of which other items	5.2	64.7	120.4	3.8	48.1	82.1
Credit value adjustment risk	**1.6**	**19.4**		**1.2**	**14.7**	
Market risk	**0.0**	**0.0**		**0.0**	**0.0**	
Settlement risk	**0.0**	**0.0**		**0.0**	**0.1**	
Operational risk (basic indicator approach)	**28.8**	**359.5**		**28.9**	**361.3**	
Total	**242.4**	**3,030.0**		**211.0**	**2,636.9**	

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. Corporate lending also continued to grow during 2020, which led to a growth in corporate- and real estate-secured REA. The nominal amount of the bank's liquidity portfolio grew during 2020, which increased REA in the institution and covered bond asset classes. The total amount of REA grew by 15% 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 2020. The total amount of the Bank Group's own funds increased by EUR 13.6 million during 2020. The CET1 capital increased by EUR 36.2 million. As part of the process of acquiring the minority share in Aktia Asset Management Ltd, Aktia Bank Plc issued new shares, which increased the share capital by EUR 6.7 million. The retained earnings, after the dividend from financial year 2019 and the maximum proposed dividend from financial year 2020, grew by EUR 16.7 million. 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. Aktia has yet to implement the preferential treatment of prudently valued software assets in the Bank's own funds. 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%.

Aktia issued no new Tier 2 capital in 2020. The amount recognised in the Bank Group's own funds of previously issued Tier 2 instruments decreased by EUR 22.6 million due to the maturity haircut.

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 transitional measures to mitigate the negative impacts of ECL accounting from IFRS 9 on banks' CET1 capital. After the outbreak of the coronavirus pandemic, the transitional period was extended to 2024. Banks can decide if they will apply the transitional measures. Aktia has decided not to apply the transitional measures.

Table 4.3 Non-deducted participations in insurance undertakings *	31 Dec 2020 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)	43
Total RWAs	107

* EU INS1

Table 4.4 Summary of consolidated own funds and movements during 2020

Aktia Bank Group	Own funds 31.12.2019	Development in 2020	Own funds 31.12.2020
Equity	163.0	6.7	169.7
Reserves, retained earnings and profit after dividend	306.7	16.7	323.4
Unrealised gains on FVOCI financial assets	7.7	7.4	15.2
Intangible assets	-60.5	5.3	-55.2
EL shortfall	-20.5	-3.0	-23.6
Significant holdings in financial sector entities	-6.7	3.3	-3.4
Other items	-1.6	-0.3	-1.9
CET1 total	**388.1**	**36.2**	**424.3**
Tier 1 capital	**388.1**	**36.2**	**424.3**
Tier 2 instruments	102.6	-22.6	80.1
Own funds	**490.7**	**13.6**	**504.3**

Table 4.5 Combined capital requirement as of 31 Dec 2020

			Buffer requirements				
	Pillar 1 minimum requirement	Pillar 2 requirement	Capital Conservation	Counter-cyclical	O-SII	Systemic risk	Total capital requirement
CET1 capital	4.50	1.25	2.50	0.01	0.00	0.00	8.26
AT1 capital	1.50	0.00					1.50
Tier 2 capital	2.00	0.00					2.00
Total	**8.00**						**11.76**

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.

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. Table 4.5 illustrates Aktia's current buffer requirements.

On 13 December 2019, the FIN-FSA determined a new Pillar 2 requirement of 1.25% (previously 1.75) for Aktia. The Pillar 2 requirement must be met with CET1 capital. The new requirement entered into force on 30 June 2020.

The authorities have reduced capital requirements in Europe to ease the negative effects of the coronavirus pandemic. In Finland, the FIN-FSA has decided to abolish the requirement of a system risk buffer for Finnish credit institutions as of 6 April 2020, which reduced Aktia's capital requirement by 1%. 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 FIN-FSA has kept the countercyclical capital buffer requirement at 0%. In many countries, the countercyclical capital buffer requirement was reduced to 0% during 2020. Tables 4.6 and 4.7 summarise the calculation of the institution-specific countercyclical capital buffer requirement, as stipulated in EU Regulation 2015/1555.

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

31 Dec 2020

	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	1,082.5	6,495.5	0.0	0.0	0.0	0.0	183.6	0.0	0.0	183.6	90.0,%	0.000,%
Norway	191.6	1.4	0.0	0.0	0.0	0.0	1.6	0.0	0.0	1.6	0.8,%	1.000,%
Sweden	145.2	12.0	0.0	0.0	0.0	0.0	1.4	0.0	0.0	1.4	0.7,%	0.000,%
Hong Kong	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0,%	1.000,%
Czech Republic	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0,%	0.500,%
Iceland	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0,%	0.000,%
United Kingdom	18.5	3.6	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.2	0.1,%	0.000,%
Slovakia	35.5	0.1	0.0	0.0	0.0	0.0	0.3	0.0	0.0	0.3	0.1,%	1.000,%
Lithuania	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0,%	0.000,%
Denmark	5.1	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0,%	0.000,%
France	121.3	0.8	0.0	0.0	0.0	0.0	1.0	0.0	0.0	1.0	0.5,%	0.000,%
Ireland	0.0	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0,%	0.000,%
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,%
Luxembourg	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0,%	0.250,%
Other countries	452.7	89.7	0.0	0.0	0.0	0.0	15.8	0.0	0.0	15.8	7.8,%	0.000,%
Total	**2,052.4**	**6,606.6**	**0.0**	**0.0**	**0.0**	**0.0**	**204.0**	**0.0**	**0.0**	**204.0**	**100.0,%**	

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

EUR million	31 Dec 2020
Total risk exposure amount	3,030.0
Institution specific countercyclical buffer rate	0.01%
Institution specific countercyclical buffer requirement	0.27

4.1.4 Capital ratios and leverage ratio

Table 4.8 shows the development of capital ratios. The consolidated CET1 capital ratio decreased by 0.7% during the period. The increase in the CET1 capital improved the ratio by 1.2%, and the growth in the REA reduced the CET1 capital ratio by 1.9%.

The development of the leverage ratio is presented in Table 4.9. The leverage ratio remained at the same level as the previous year after deducting the Board's maximum dividend proposal for financial year 2020 from the capital amount. Both the Tier 1 capital and the exposure amount grew by 9% during the period. 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. 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 FIN-FSA.

At the end of the period, SCR amounted to EUR 109.0 (86.6) million, MCR to EUR 28.2 (24.2) million, and the eligible capital to EUR 159.1 (166.3) million. The solvency ratio was therefore 145.9% (192.1%). Without transitional measures, SCR amounted to EUR 119.4 (98.3) million, MCR to EUR 29.5 (25.9) million, and the eligible capital to EUR 116.2 (120.2) million. The solvency ratio without transitional measures was 97.4% (122.2%). The increase in the solvency requirement during the period pertains to Aktia's acquisition of Liv-Alandia's life insurance portfolio.

The financial conglomerate's capital adequacy ratio was 126.6% (131.6%). The financial conglomerate's capital adequacy decreased during the period, mainly due to an increase in the capital requirements of both the banking and life insurance businesses. 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 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019
Aktia Bank Group					
CET1 capital ratio	14.0	15.6	15.7	15.9	14.7
Tier 1 capital ratio	14.0	15.6	15.7	15.9	14.7
Total capital ratio	16.6	18.5	18.9	19.4	18.6
Aktia Bank					
CET1 capital ratio	13.7	15.8	15.7	15.8	14.1
Tier 1 capital ratio	13.7	15.8	15.7	15.8	14.1
Total capital ratio	16.3	18.8	18.9	19.3	18.1
Aktia Asset Management					
CET1 capital ratio	57.8	15.8	15.7	16.0	12.3
Tier 1 capital ratio	57.8	15.8	15.7	16.0	12.3
Total capital ratio	57.8	15.8	15.7	16.0	12.3

Table 4.9 Development of Leverage ratio

Aktia Bank Group

EUR million	31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019
Tier 1 capital, fully phased	424	453	447	437	388
Total exposure	9,211	9,324	9,085	8,816	8,474
Leverage ratio, %	**4.6**	**4.9**	**4.9**	**5.0**	**4.6**

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% 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% above regulatory requirements. For total capital ratio, the target is set at 2.0–3.5% above regulatory requirements. The Bank Group's target for the leverage ratio is set at a minimum of 3.5%.

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 therefore 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 by internal capital requirements for other risks, as well as areas that are covered insufficiently under Pillar 1.

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 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 increasing 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 with 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. Declining real estate prices combined with increasing default rates therefore 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.

Other key stress factors are related to the development of business volumes on and off the balance sheet, and their pricing. Increasing 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 stress-testing requirements. Various 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 interest income estimate is adjusted to incorporate the loss rates of the selected credit risk scenario. 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, an REA estimate is obtained.

Figure 4.10 Internal capital requirement by risk type

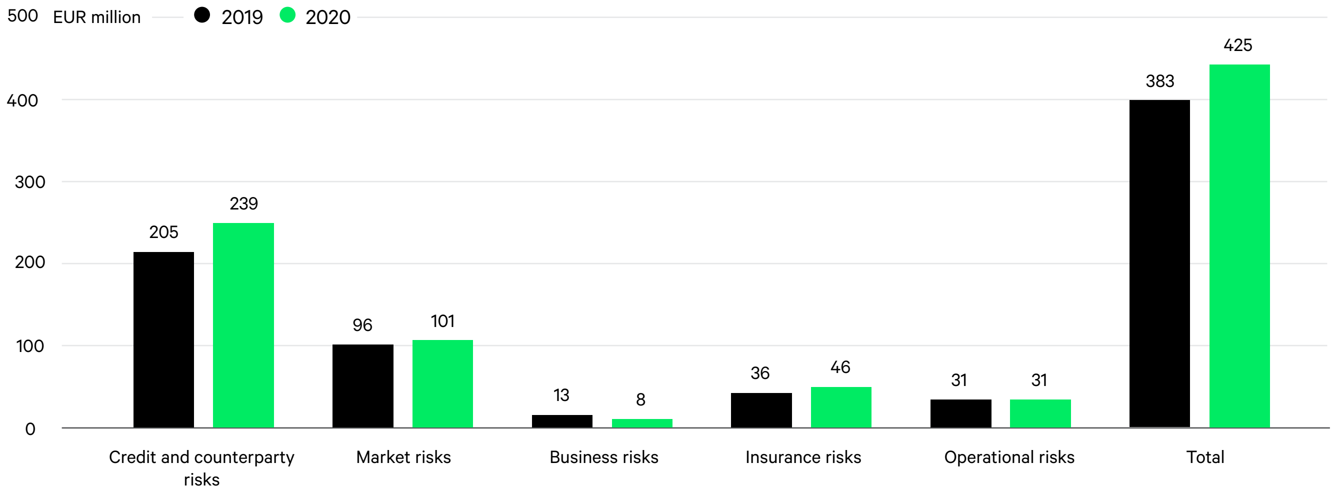
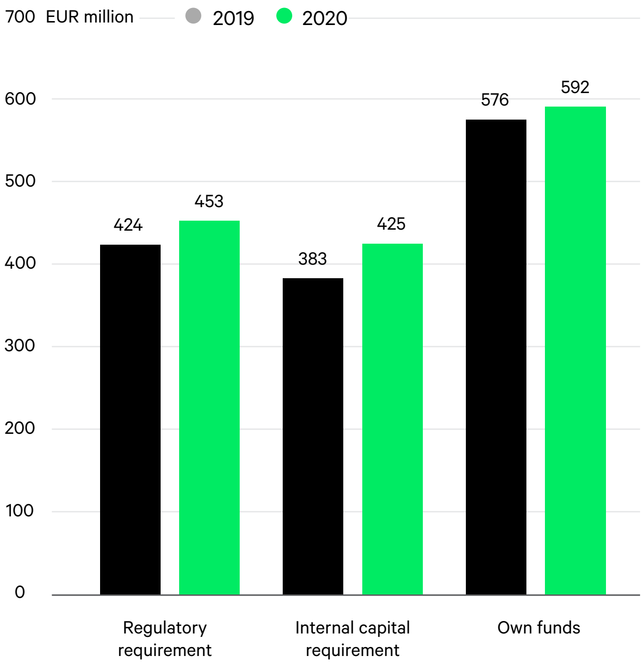


Figure 4.11 Group's own funds compared to internal capital requirement



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 with 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. The 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 various 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 warning thresholds 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 Authority 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 BRRD II directive will be implemented in Finnish legislation in 2021. Aktia expects to receive a renewed MREL requirement during 2021.

Table 4.12 Consolidated MREL requirement

(EUR million)	31 Dec 2020	31 Dec 2019
MREL requirement	**727.3**	**670.9**
Own funds and eligible liabilities		
CET1	424.3	388.1
AT1 instruments	0.0	0.0
Tier 2 instruments	95.6	160.4
Other liabilities	1,082.4	247.9
Total	**1,602.3**	**796.4**

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 risk policy, including risk appetite, risk tolerance 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 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 states the appetite for credit risk. Loans are provided to households and corporates – 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 9,755.9 (9,013.7) 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, a 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 – EU CRB-B – Total and average net amount of exposures *

31 Dec 2020

EUR million	Net value of exposures at the end of the period	Average net exposures over the period
Corporates	1,402.2	1,274.1
Of which: SMEs	511.8	513.5
Retail	5,156.5	5,067.4
Secured by real estate property	4,950.5	4,863.3
SMEs	149.7	155.4
Non-SMEs	4,800.7	4,708.0
Other retail	206.0	204.0
SMEs	31.2	30.9
Non-SMEs	174.8	173.1
Equity	47.9	49.1
Total IRB approach	**6,606.6**	**6,390.6**
Central governments or central banks	482.7	637.5
Regional governments or local authorities	186.5	163.4
Multilateral development banks	0.0	0.0
International organisations	20.1	20.0
Institutions	407.7	360.9
Corporates	201.0	175.1
Of which SMEs	56.4	55.3
Retail	239.5	240.3
Of which SMEs	15.4	21.6
Secured by mortgages on immovable property	690.1	680.5
Of which SMEs	359.3	323.4
Exposures in default	0.5	0.8
Covered bonds	800.9	838.5
Other exposures	120.4	113.3
Total standardised approach	**3,149.3**	**3,230.3**
Total	**9,755.9**	**9,620.9**

*EU CRB-B

Table 5.2 – EU CRB-C – Geographical breakdown of exposures *

31 Dec 2020

	Net value													
Exposure classes, EUR million	**Finland**	**Sweden**	**France**	**Norway**	**Spain**	**Canada**	**Poland**	**Portugal**	**Slovakia**	**United Kingdom**	**Austria**	**Belgium**	**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	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	0.0
Corporates	1,402.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,402.2
Retail	5,111.9	11.8	0.8	1.4	2.0	0.9	0.4	0.8	0.1	3.6	0.2	0.7	22.0	5,156.5
Equity	43.6	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	4.0	47.9
Total IRB approach	**6,557.7**	**12.0**	**0.8**	**1.4**	**2.0**	**0.9**	**0.4**	**0.8**	**0.1**	**3.6**	**0.2**	**0.8**	**26.0**	**6,606.6**
Central governments or central banks	301.9	0.0	49.7	0.0	73.4	0.0	1.0	53.6	0.0	0.0	0.0	0.0	3.0	482.7
Regional governments or local authorities	186.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	186.5
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
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
International organisations	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.1	20.1
Institutions	91.8	80.0	47.9	0.0	5.1	109.4	0.0	0.0	5.0	15.9	10.6	0.0	42.0	407.7
Corporates	198.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.1	201.0
Retail	237.3	0.6	0.1	0.1	0.1	0.0	0.0	0.1	0.0	0.1	0.0	0.1	1.0	239.5
Secured by mortgages on immovable property	688.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	690.1
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	0.0	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	0.0
Covered bonds	132.0	143.0	120.8	191.2	40.2	0.0	67.1	0.0	35.5	17.1	12.3	21.5	20.3	800.9
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
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
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	0.0
Other exposures	98.6	2.0	0.4	0.4	0.0	0.1	0.0	0.0	0.0	1.4	0.0	0.0	17.4	120.4
Total standardised approach	**1,935.9**	**225.6**	**218.9**	**191.7**	**118.8**	**109.5**	**68.1**	**53.7**	**40.5**	**34.5**	**22.9**	**21.6**	**107.6**	**3,149.3**
Total	**8,493.6**	**237.6**	**219.8**	**193.0**	**120.7**	**110.4**	**68.5**	**54.5**	**40.6**	**38.1**	**23.0**	**22.4**	**133.6**	**9,755.9**

* EU CRB-C

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

31 Dec 2020

EUR million	Total IRB approach: Corporates	Total IRB approach: Retail	Total IRB approach: Equity	Total standardised approach: Institutions	Total standardised approach: Corporates	Total standardised approach: Retail	Total standardised approach: Secured by mortgages on immovable property	Total standardised approach: Exposures in default	Total standardised approach: Covered bonds	Total standardised approach: Other exposures	Total
Agriculture, forestry and fishing	8.9	57.1	0.0	0.0	2.6	3.3	32.9	0.0	0.0	0.0	**104.7**
Mining and quarrying	6.6	0.1	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	**6.9**
Manufacturing	71.8	12.2	0.0	0.0	7.9	1.7	0.0	0.0	0.0	0.0	**93.5**
Electricity, gas, steam and air conditioning supply	85.8	0.3	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	**86.2**
Water supply	5.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**6.4**
Construction	68.1	19.9	0.0	0.0	0.8	3.8	0.5	0.0	0.0	0.0	**93.2**
Wholesale and retail trade	27.3	25.2	0.0	0.0	1.0	0.8	0.0	0.0	0.0	0.0	**54.3**
Transport and storage	20.1	12.0	0.0	0.0	0.0	6.0	0.0	0.0	0.0	0.0	**38.1**
Accommodation and food service activities	4.9	6.9	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	**11.9**
Information and communication	3.1	3.9	0.4	0.0	0.0	0.2	0.4	0.0	0.0	0.0	**8.0**
Finance and Insurance	491.7	2.8	47.1	407.7	7.6	0.0	0.0	0.0	800.9	0.0	**1,757.7**
Real estate activities	516.5	82.6	0.2	0.0	149.3	0.2	582.5	0.0	0.0	0.0	**1,331.2**
Professional, scientific and technical activities	30.5	16.3	0.2	0.0	0.8	0.9	0.0	0.0	0.0	0.0	**48.6**
Administrative and support service activities	16.5	4.9	0.0	0.0	3.7	0.9	0.0	0.0	0.0	0.0	**25.9**
Public administration and defence, compulsory social security	0.0	3.1	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	**3.3**
Education	3.6	1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**5.3**
Human health services and social work activities	16.6	6.8	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	**23.6**
Arts, entertainment and recreation	14.1	6.1	0.0	0.0	0.0	0.3	0.0	0.0	0.0	0.0	**20.5**
Other services	9.7	8.4	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	**18.3**
Households	0.0	4,885.7	0.0	0.0	17.0	220.5	73.8	0.5	0.0	0.0	**5,197.3**
Central and regional governments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	669.1	**669.1**
Multilateral developments banks and international institutions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.1	**20.1**
Other	0.8	0.0	0.0	0.0	10.3	0.0	0.0	0.0	0.0	120.4	**131.5**
Total	**1,402.2**	**5,156.5**	**47.9**	**407.7**	**201.0**	**239.5**	**690.1**	**0.5**	**800.9**	**809.6**	**9,755.9**

* EU CRB-D

Table 5.4 – CRB-E – Maturity of exposures *

31 Dec 2020	Net exposure value					
EUR million	**On demand**	**< = 1 year**	**> 1 year < = 5 years**	**> 5 years**	**No stated maturity**	**Total**
Corporates	13.5	126.6	544.7	447.2	0.0	1,132.0
Of which: SMEs	13.0	33.1	161.5	227.9	0.0	435.5
Retail	25.6	57.2	237.6	4,711.9	0.0	5,032.2
Of which: Secured by real estate property	20.6	54.0	208.4	4,573.2	0.0	4,856.2
Equity	0.0	0.0	0.0	0.0	47.9	47.9
Total IRB approach	**39.1**	**183.8**	**782.2**	**5,159.1**	**47.9**	**6,212.1**
Central governments or central banks	297.3	2.2	52.8	127.4	3.0	482.7
Regional governments or local authorities	0.0	80.8	75.5	26.9	0.0	183.2
International organisations	0.0	0.0	0.0	20.1	0.0	20.1
Institutions	0.9	26.2	292.0	88.3	0.0	407.4
Corporates	0.5	0.1	56.2	61.2	0.0	118.1
Retail	0.0	1.1	12.1	81.0	0.0	94.3
Secured by mortgages on immovable property	7.9	3.8	77.3	536.9	0.0	625.9
Exposures in default	0.4	0.0	0.0	0.1	0.0	0.5
Covered bonds	0.0	81.3	588.2	131.3	0.0	800.9
Other exposures	23.2	0.0	0.0	0.0	97.3	120.4
Total standardised approach	**330.2**	**195.6**	**1,154.0**	**1,073.3**	**100.2**	**2,853.4**
Total	**369.3**	**379.4**	**1,936.3**	**6,232.4**	**148.1**	**9,065.5**

* 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 2020

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	520.5	-8.8	511.8	-22.9	488.9	0.0	488.9	376.3	30.1
Corporates - Other	893.6	-3.1	890.5	-5.8	884.6	0.0	884.6	607.1	48.6
Retail, secured by immovable property non-SME	4,810.6	-9.9	4,800.7	0.0	4,800.7	0.0	4,800.7	656.8	52.5
Retail, secured by immovable property SME	151.3	-1.6	149.7	0.0	149.7	0.0	149.7	73.1	5.9
Retail, other non-SME	178.5	-3.7	174.8	0.0	174.8	0.0	174.8	51.9	4.2
Retail, other SME	33.0	-1.8	31.2	0.0	31.2	0.0	31.2	18.7	1.5
Retail, residential mortgages, risk-weight 15%	0.0	0.0	0.0	0.0	0.0	0.0	0.0	96.9	7.8
Equity exposures	47.9	0.0	47.9	0.0	47.9	0.0	47.9	125.8	10.1
Total exposures, IRB approach	**6,635.5**	**-28.9**	**6,606.6**	**-28.7**	**6,578.0**	**0.0**	**6,578.0**	**2,006.7**	**160.5**
Credit risk, standardised approach									
Central governments and central banks	482.7	0.0	482.7	47.5	530.2	0.0	530.2	0.0	0.0
Regional governments and local authorities	186.5	0.0	186.5	22.9	209.4	0.0	209.4	0.8	0.1
Multilateral development banks	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
International organisations	20.1	0.0	20.1	0.0	20.1	0.0	20.1	0.0	0.0
Credit institutions	407.8	-0.1	407.7	-12.1	395.6	-75.7	319.9	100.5	8.0
Corporates	202.4	-1.4	201.0	-29.7	171.3	-11.6	159.7	101.9	8.1
Retail exposures	240.0	-0.5	239.5	0.0	239.5	0.0	239.5	69.3	5.5
Secured by immovable property	690.1	0.0	690.1	0.0	690.1	0.0	690.1	224.4	18.0
Exposures in default	0.6	-0.1	0.5	0.0	0.5	0.0	0.5	0.7	0.1
Covered bonds	800.9	0.0	800.9	0.0	800.9	0.0	800.9	82.2	6.6
Other items	120.4	0.0	120.4	0.0	120.4	0.0	120.4	64.7	5.2
Total exposures, standardised approach	**3,151.4**	**-2.2**	**3,149.3**	**28.7**	**3,177.9**	**-87.3**	**3,090.6**	**644.4**	**51.6**
Total exposures	**9,786.9**	**-31.0**	**9,755.9**	**0.0**	**9,755.9**	**-87.3**	**9,668.6**	**2,651.1**	**212.1**

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. 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 7,000 (6,429) million at the end of 2020, an increase of EUR 571 million. Loans to private households accounted for EUR 5,083 (4,886) million, or 72.6% (76.0%) of the loan book. The housing loan book totalled EUR 5,185 (4,877) million, of which households accounted for EUR 4,178 (4,026) million. Aktia's new lending to households amounted to EUR 1,199 (1,179) million.

5.3.2 Corporate lending

Corporate lending accounted for 14.0% (12.0%) of the Aktia Group's loan book. Total corporate lending increased to EUR 979 (771) million. Loans to housing companies increased to EUR 908 (738) million, making up 13.0% (11.5%) 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 2020

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**	694.5	7,000.5	6,376.0	313.3	0
Total debt securities	1,416.6	12.1	-	12.1	0
Total exposures	**2,111.1**	**7,012.5**	**6,376.0**	**325.4**	**0**
Of which defaulted	1.1	46.9	44.8	2.1	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 2020 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	520.5	-8.8	511.8	22.9	239.4	38.5%
Corporates - Other	893.6	-3.1	890.5	5.8	531.2	35.6%
Retail - Secured by immovable property non-SME	4,810.6	-9.9	4,800.7	-	4,737.8	17.5%
Retail - Secured by immovable property SME	151.3	-1.6	149.7	-	144.1	26.2%
Retail - Other non-SME	178.5	-3.7	174.8	-	17.2	26.2%
Retail - Other SME	33.0	-1.8	31.2	-	4.8	48.5%
Equity exposures	47.9	-	47.9	-	-	
Total exposures, IRB approach	**6,635.5**	**-28.9**	**6,606.6**	**28.7**	**5,674.3**	
Credit risk, standardised approach						
Central governments and central banks	482.7	-	482.7	-	-	
Regional governments and local authorities	186.5	-0.0	186.5	-	-	
Multilateral development banks	-	-	-	-	-	
International organisations	20.1	-	20.1	-	-	
Credit institutions	407.8	-0.1	407.7	12.1	0.0	
Corporates	202.4	-1.4	201.0	29.7	11.6	
Retail exposures	240.0	-0.5	239.5	-	-	
Secured by immovable property	690.1	-	690.1	-	690.1	
Exposures in default	0.6	-0.1	0.5	-	-	
Covered bonds	800.9	-	800.9	-	-	
Other items	120.4	-	120.4	-	-	
Total exposures, standardised approach	**3,151.4**	**-2.2**	**3,149.3**	**41.8**	**701.7**	
Total exposures	**9,786.9**	**-31.0**	**9,755.9**	**70.4**	**6,376.0**	

Table 5.8 EU CR4 – Standardised approach – Credit risk exposure and CRM effects *

31 Dec 2020	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	482.7	0.0	529.8	0.2	0.0	0%
Regional governments or local authorities	183.2	3.2	206.1	1.6	0.8	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	20.1	0.0	20.1	0.0	0.0	0%
Institutions	407.4	0.2	319.7	0.1	100.5	31%
Corporates	118.1	83.0	79.2	26.7	101.9	96%
Retail	94.3	145.2	94.3	1.3	69.3	72%
Secured by mortgages on immovable property	625.9	64.1	625.9	26.1	224.4	34%
Exposures in default	0.5	0.0	0.5	0.0	0.7	141%
Higher-risk categories	0.0	0.0	0.0	0.0	0.0	0%
Covered bonds	800.9	0.0	800.9	0.0	82.2	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	120.4	0.0	120.4	0.0	64.7	54%
Total	**2,853.4**	**295.8**	**2,796.8**	**56.1**	**644.4**	**23%**

* EU-CR4

Table 5.9 EU CR5 – Standardised approach - exposures by asset classes and risk weights *

31 Dec 2020

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	530.0	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	530.0	0.0
Regional governments or local authorities	203.9	0.0	0.0	0.0	3.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	207.7	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	20.1	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	20.1	0.0
Institutions	0.0	0.0	0.0	0.0	198.1	0.0	121.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	319.8	2.7
Corporates	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	105.9	0.0	0.0	0.0	0.0	0.0	0.0	105.9	105.9
Retail	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	95.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	95.6	95.6
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	0.0	537.1	115.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	652.0	652.0
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	779.4	21.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	800.9	83.9
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	1.3	0.0	0.0	0.0	68.1	0.0	0.0	0.0	0.0	51.0	0.0	0.0	0.0	0.0	0.0	0.0	120.4	120.4
Total	**755.3**	**0.0**	**0.0**	**779.4**	**291.5**	**537.1**	**236.7**	**0.0**	**95.6**	**157.0**	**0.4**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2,853.0**	**1,061.1**

* 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 sub-portfolio 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 consider 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 by 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 2020

	Credit quality step					
Exposure classes, EUR million	**1**	**2**	**3**	**4 to 6**	**Unrated**	**Total**
Central governments or central banks *	482.7	0.0	0.0	0.0	0.0	482.7
Regional governments or local authorities *	186.5	0.0	0.0	0.0	0.0	186.5
Multilateral development banks *	0.0	0.0	0.0	0.0	0.0	0.0
International organisations *	20.1	0.0	0.0	0.0	0.0	20.1
Institutions	248.3	139.7	17.2	0.0	2.4	407.7
Corporates	0.0	0.0	0.0	0.0	201.0	201.0
Retail	0.0	0.0	0.0	0.0	239.5	239.5
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	690.1	690.1
Exposures in default	0.0	0.0	0.0	0.0	0.5	0.5
Covered bonds	695.5	21.5	0.0	0.0	83.9	800.9
Other items	0.0	0.0	0.0	0.0	120.4	120.4
Total	**1,633.0**	**161.2**	**17.2**	**0.0**	**1,337.8**	**3,149.3**

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	4.1	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	120.7	319.7
Corporates	0.0	0.0	0.0	0.0	0.0	162.7
Retail	0.0	0.0	0.0	0.0	0.0	252.2
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	0.0	587.8
Exposures in default	0.0	0.0	0.0	0.0	0.0	0.5
Covered bonds	681.9	0.0	0.0	0.0	0.0	750.5
Other items	0.0	0.0	0.0	0.0	0.0	82.1
Total	**1,611.6**	**124.8**	**0.0**	**0.0**	**124.8**	**2,919.8**

*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 2020

	Credit quality step					
Exposure classes, EUR million	**1**	**2**	**3**	**4 to 6**	**Unrated**	**Total**
Central governments or central banks *	530.2	0.0	0.0	0.0	0.0	530.2
Regional governments or local authorities *	209.4	0.0	0.0	0.0	0.0	209.4
Multilateral development banks *	0.0	0.0	0.0	0.0	0.0	0.0
International organisations *	20.1	0.0	0.0	0.0	0.0	20.1
Institutions	195.5	110.3	11.4	0.0	2.7	319.9
Corporates	0.0	0.0	0.0	0.0	159.7	159.7
Retail	0.0	0.0	0.0	0.0	239.5	239.5
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	690.1	690.1
Exposures in default	0.0	0.0	0.0	0.0	0.5	0.5
Covered bonds	695.5	21.5	0.0	0.0	83.9	800.9
Other items	0.0	0.0	0.0	0.0	120.4	120.4
Total	**1,650.6**	**131.8**	**11.4**	**0.0**	**1,296.8**	**3,090.6**

31 Dec 2019

	Credit quality step					
Exposure classes, EUR million	**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**

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

Table 5.12 EU CR8 – RWA flow statements of credit risk exposures under the IRB approach *

31 Dec 2020

EUR million	**RWA amounts**	**Capital requirements**
RWAs as at the end of the previous reporting period	**1,716.9**	**137.4**
Asset size	260.4	20.8
Asset quality **	82.1	6.6
Model updates	0.0	0.0
Methodology and policy ***	0.0	0.0
Acquisitions and disposals	0.0	0.0
Foreign exchange movements	0.0	0.0
Other ****	-52.6	-4.2
RWAs as at the end of the reporting period	**2,006.7**	**160.5**

* 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 EU CR6 – IRB approach – Credit risk exposures by exposure class and PD range *

31 Dec 2020

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	14	0	0%	14	0%	1	35%	2.5	2	0%	0	
0.15 to < 0.25	8	0	0%	7	0%	4	39%	2.5	2	28%	0	
0.25 to < 0.50	79	9	75%	85	0%	10	36%	2.5	32	37%	0	
0.50 to < 0.75	20	14	78%	29	1%	19	35%	2.5	16	53%	0	
0.75 to < 2.50	69	6	84%	72	2%	57	38%	2.5	47	66%	0	
2.50 to < 10.00	179	35	81%	196	5%	158	40%	2.5	180	92%	4	
10.00 to < 100.00	65	12	83%	69	21%	78	39%	2.5	97	141%	6	
100.00 (Default)	11	1	86%	11	100%	10	42%	2.5	0	0%	5	
Sub-total	**444**	**77**	**80%**	**482**	**8%**	**337**	**39%**	**2.5**	**376**	**78%**	**15**	**-9**

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	35	0	0%	31	0%	2	41%	2,5	10	32%	0	
0.15 to < 0.25	6	0	0%	6	0%	1	35%	2,5	2	34%	0	
0.25 to < 0.50	332	60	75%	377	0%	18	37%	2,5	204	54%	1	
0.50 to < 0.75	160	42	78%	193	1%	17	32%	2,5	133	69%	1	
0.75 to < 2.50	111	59	75%	155	2%	46	34%	2,5	150	97%	1	
2.50 to < 10.00	50	34	75%	73	5%	34	38%	2,5	102	139%	1	
10.00 to < 100.00	3	0	75%	3	17%	7	40%	2,5	6	211%	0	
100.00 (Default)	2	0	0%	2	100%	4	41%	2,5	0	0%	1	
Sub-total	**699**	**194**	**76%**	**841**	**1%**	**129**	**36%**	**2,5**	**607**	**72%**	**5**	**-3**
Total FIRB corporate portfolios	**1 143**	**271**	**77%**	**1 323**	**4%**	**463**	**37%**	**2,5**	**983**	**74%**	**20**	**-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	0.11%	54	23.98%		0	5%	0	
0.15 to < 0.25	1	0	100%	1	0.21%	53	24.63%		0	8%	0	
0.25 to < 0.50	2	1	100%	3	0.40%	134	26.30%		0	14%	0	
0.50 to < 0.75	8	2	100%	10	0.63%	266	26.59%		2	20%	0	
0.75 to < 2.50	67	9	100%	76	1.39%	1 158	26.88%		25	33%	0	
2.50 to < 10.00	40	4	100%	44	4.44%	604	24.59%		26	60%	0	
10.00 to < 100.00	12	1	100%	13	24.11%	180	23.83%		13	100%	1	
100.00 (Default)	5	0	100%	5	100.00%	76	35.09%		7	141%	2	
Sub-total	**134**	**18**	**100%**	**151**	**7.13%**	**2 525**	**26.15%**		**73**	**48%**	**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 - Secured by immovable property non-SME												
0.00 to < 0.15	2,663	35	100%	2,698	0.08%	24,526	16.90%		92	3%	0	
0.15 to < 0.25	597	5	100%	602	0.18%	7,999	18.00%		42	7%	0	
0.25 to < 0.50	474	5	100%	478	0.33%	5,901	17.67%		52	11%	0	
0.50 to < 0.75	203	8	100%	211	0.55%	2,307	18.18%		34	16%	0	
0.75 to < 2.50	446	21	100%	467	1.44%	5,820	18.15%		141	30%	1	
2.50 to < 10.00	199	3	100%	202	4.78%	2,377	19.28%		129	64%	2	
10.00 to < 100.00	109	0	100%	109	36.59%	1,438	18.71%		105	96%	7	
100.00 (Default)	43	0	100%	43	100.00%	549	28.70%		63	146%	10	
Sub-total	**4,734**	**77**	**100%**	**4,811**	**2.20%**	**44,197**	**17.54%**		**657**	**14%**	**22**	**-10**

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	0.09%	16	77.01%		0	14%	0	
0.15 to < 0.25	0	0	100%	0	0.22%	12	39.40%		0	14%	0	
0.25 to < 0.50	0	0	100%	0	0.33%	26	44.57%		0	20%	0	
0.50 to < 0.75	1	1	100%	2	0.61%	41	58.84%		1	38%	0	
0.75 to < 2.50	10	3	100%	14	1.53%	274	45.99%		6	44%	0	
2.50 to < 10.00	10	1	100%	11	4.86%	190	44.14%		6	53%	0	
10.00 to < 100.00	3	0	100%	3	18.63%	85	47.65%		2	81%	0	
100.00 (Default)	2	0	100%	2	100.00%	109	75.08%		4	157%	2	
Sub-total	**26**	**7**	**100%**	**33**	**10.62%**	**753**	**48.47%**		**19**	**57%**	**2**	**-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	12	3	100%	15	0.10%	1,174	48.17%		2	12%	0	
0.15 to < 0.25	4	2	100%	7	0.21%	343	58.31%		2	25%	0	
0.25 to < 0.50	3	2	100%	5	0.35%	324	54.47%		2	33%	0	
0.50 to < 0.75	29	1	100%	30	0.62%	2,537	12.76%		3	11%	0	
0.75 to < 2.50	84	10	100%	95	1.35%	8,479	17.28%		20	21%	0	
2.50 to < 10.00	10	5	100%	15	4.67%	1,355	44.38%		11	73%	0	
10.00 to < 100.00	6	1	100%	7	27.90%	6,376	31.23%		6	84%	1	
100.00 (Default)	5	0	100%	5	100.00%	417	75.70%		7	135%	4	
Sub-total	**155**	**24**	**100%**	**178**	**5.14%**	**17,720**	**26.16%**		**52**	**29%**	**5**	**-4**
Total Retail IRB portfolios	**5,049**	**124**	**100%**	**5,173**	**2%**	**61 419**	**18%**		**801**	**15%**	**32**	**-17**

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												
	48	0		48					126	263%	0	

Table 5.14 EU CR10 – IRB (specialised lending and equities)

31 Dec 2020

	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%	0.0	0.1	0.0
Private equity exposures	0.0	0.0	290%	0.0	0.0	0.0
Other equity exposures	46.2	0.0	250%	42.8	106.9	8.6
Other equity exposures	5.1	0.0	370%	5.1	18.8	1.5
Total	**51.3**	**0.0**		**47.9**	**125.8**	**10.1**

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

31 Dec 2020

Retail portfolio	**Estimated PD***	**Average Default Rate**	**Estimated LGD***	**Realized LGD**
Household loans	1.29%	0.57%	38.0%	8.4%
Retail SME	3.15%	1.31%	59.9%	18.8%
Other Retail	5.08%	2.02%	22.1%	1.9%

* 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 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 considered 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 considering 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 considered.

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 therefore important factors in the Bank's risk profile. During 2020, 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 2020**
0-50%	81.7%
50-60%	8.2%
60-70%	4.8%
70-80%	1.2%
80-90%	1.2%
90-100%	0.4%
>100%	2.4%
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 unit, and it includes both quantitative and qualitative assessments of model performance and parameters. Most quantitative tests performed during annual validation are performed and analysed quarterly by the Risk Control unit. 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 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 the 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.

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

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

The 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 EU CR1-A – Credit quality of exposures by exposure class and instrument *

31 Dec 2020

	Gross carrying values of					
EUR million	**Defaulted exposures**	**Non-defaulted exposures**	**Specific credit risk adjustment**	**Accumulated write-offs**	**Credit risk adjustment charges of the period**	**Net values (a+b-c-d)**
Corporates	14.2	1,400.0	11.9			1,402.2
Of which: SMEs	11.7	508.8	8.8			511.8
Retail	55.2	5,118.3	17.0			5,156.5
Secured by real estate property	48.0	4,913.9	11.4			4,950.5
SMEs	4.6	146.7	1.6			149.7
Non-SMEs	43.4	4,767.2	9.9			4,800.7
Other retail	7.2	204.4	5.5			206.0
SMEs	2.2	30.8	1.8			31.2
Non-SMEs	4.9	173.6	3.7			174.8
Equity	0.0	47.9	0.0			47.9
Total IRB approach	**69.3**	**6,566.1**	**28.9**	**1.7**	**-3.3**	**6,606.6**
Central governments or central banks	0.0	482.7	0.0			482.7
Regional governments or local authorities	0.0	186.5	0.0			186.5
International organisations	0.0	20.1	0.0			20.1
Institutions	0.0	407.8	0.1			407.7
Corporates	0.0	202.4	1.4			201.0
Of which: SMEs	0.0	56.8	0.4			56.4
Retail	0.0	240.0	0.5			239.5
Of which: SMEs	0.0	15.5	0.1			15.4
Secured by mortgages on immovable property	0.0	690.1	0.0			690.1
Of which: SMEs	0.0	359.3	0.0			359.3
Exposures in default	0.6	0.0	0.1			0.5
Covered bonds	0.0	800.9	0.0			800.9
Other exposures	0.0	120.4	0.0			120.4
Total standardised approach	**0.6**	**3,150.9**	**2.2**	**0.7**	**-0.6**	**3,149.3**
Total	**69.9**	**9,717.0**	**31.0**	**2.4**	**-4.0**	**9,755.9**
Of which: Loans	69.0	6,965.2	29.6	2.4	-3.8	7,004.6
Of which: Debt securities	0.0	1,428.8	0.1	0.0	0.1	1,428.7
Of which: Off-balance-sheet exposures	0.9	690.8	1.3	0.0	-0.3	690.4

* EU CR1-A

Table 5.18 EU CR1-B – Credit quality of exposures by industry or counterparty types *

31 Dec 2020

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	2.3	103.2	0.8	0.2	0.3	104.7
Mining and quarrying	0.0	7.0	0.0	0.0	0.0	6.9
Manufacturing	2.8	92.5	1.8	0.0	-0.3	93.5
Electricity, gas, steam and air conditioning supply	0.0	86.3	0.1	0.0	-0.1	86.2
Water supply	0.1	6.5	0.3	0.0	-0.3	6.4
Construction	2.3	93.3	2.5	0.0	0.0	93.2
Wholesale and retail trade	1.0	54.4	1.1	0.0	-0.3	54.3
Transport and storage	0.7	37.9	0.5	0.0	0.0	38.1
Accommodation and food service activities	2.1	10.8	1.1	0.0	-0.1	11.9
Information and communication	0.0	8.0	0.1	0.9	0.0	8.0
Finance and Insurance	0.7	1,758.3	1.3	0.0	-0.2	1,757.7
Real estate activities	2.6	1,330.7	2.0	0.0	-0.3	1,331.2
Professional, scientific and technical activities	1.8	48.6	1.8	0.0	0.0	48.6
Administrative and support service activities	0.2	25.9	0.1	0.0	0.0	25.9
Public administration and defence, compulsory social security	0.2	3.2	0.1	0.0	0.0	3.3
Education	0.2	5.2	0.2	0.0	0.0	5.3
Human health services and social work activities	0.7	23.4	0.4	0.0	-0.2	23.6
Arts, entertainment and recreation	4.4	18.4	2.3	0.0	0.3	20.5
Other services	0.0	18.4	0.1	0.0	0.0	18.3
Households	47.7	5,164.3	14.7	1.3	-2.6	5,197.3
Central and regional governments	0.0	669.1	0.0	0.0	0.1	669.1
Multilateral developments banks and international institutions	0.0	20.1	0.0	0.0	0.0	20.1
Other	0.0	131.5	0.0	0.0	-0.3	131.5
Total	**69.9**	**9,717.0**	**31.0**	**2.4**	**-4.0**	**9,755.9**

* EU CR1-B

Table 5.19 EU CR1-C – Credit quality of exposures by geography *

31 Dec 2020

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	69.9	8,454.7	31.0	2.4	-4.0	8,493.6
Sweden	0.0	237.6	0.0	0.0	0.0	237.6
France	0.0	219.8	0.0	0.0	0.0	219.8
Norway	0.0	193.0	0.0	0.0	0.0	193.0
Spain	0.0	120.7	0.0	0.0	0.0	120.7
Canada	0.0	110.4	0.0	0.0	0.0	110.4
Poland	0.0	68.5	0.0	0.0	0.0	68.5
Portugal	0.0	54.5	0.0	0.0	0.0	54.5
Slovakia	0.0	40.6	0.0	0.0	0.0	40.6
United Kingdom	0.0	38.1	0.0	0.0	0.0	38.1
Austria	0.0	23.0	0.0	0.0	0.0	23.0
Other countries	0.0	156.0	0.0	0.0	0.0	156.0
Total	**69.9**	**9,717.0**	**31.0**	**2.4**	**-4.0**	**9,755.9**

* EU CR1-C

Table 5.20 EU CR1-D – Ageing of past-due exposures *

31 Dec 2020

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	51.1	18.9	4.3	10.8	9.9	37.5
Debt securities	0.0	0.0	0.0	0.0	0.0	0.0
Total exposures	**51.1**	**18.9**	**4.3**	**10.8**	**9.9**	**37.5**

* EU CR1-D

Table 5.21 EU CR1-E – Non-performing and forborne exposures *

31 Dec 2020

	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	1,428.8	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Loans and advances	7,034.2	15.9	143.7	79.8	69.0	68.6	9.8	7.8	0.0	21.8	4.1	52.6	142.7
Off-balance-sheet exposures	691.6	0.0	0.0	0.0	0.9	0.0	0.0	1.3	0.0	0.0	0.0	0.0	0.0

* EU CR1-E

Table 5.22 EU CR2-A – Changes in the stock of general and specific credit risk adjustments *

31 Dec 2020

EUR million	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
Opening balance	**29.3**	**0.0**
Increases due to amounts set aside for estimated loan losses during the period	10.4	0.0
Decreases due to amounts reversed for estimated loan losses during the period	-7.3	0.0
Decreases due to amounts taken against accumulated credit risk adjustments	-1.4	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	0.0	0.0
Closing balance	**31.0**	**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 EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities*

31 Dec 2020

EUR million	Gross carrying value defaulted exposures
Opening balance	**72.4**
Loans and debt securities that have defaulted or impaired since the last reporting period	17.8
Returned to non-defaulted status	12.9
Amounts written off	2.4
Other changes	-5.0
Closing balance	**69.9**

* EU CR2-B

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

31 Dec 2020

Days, EUR million	Stage 1	Stage 2	Stage 3	Totalt
≤ 30	25.6	24.6	0.7	50.9
of which households	19.0	23.0	0.6	42.6
> 30 ≤ 90	0.0	22.0	0.9	22.9
of which households	0.0	21.3	0.4	21.7
> 90	0.0	0.0	40.8	40.8
of which households	0.0	0.0	34.5	34.5

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	209.71	0.00	0.00	209.71
PD grades B	866.51	0.00	0.00	866.51
PD grades C	759.73	37.24	0.00	796.97
Default	0.00	0.00	27.37	27.37
	1,835.95	37.24	27.37	1,900.56
Loss allowance (ECL)	-3.12	-1.82	-10.02	-14.96
Carrying amount	1,832.83	35.42	17.35	1,885.60
Households				
PD grades A	3,240.80	78.95	0.00	3,319.75
PD grades B	1,055.81	74.56	0.00	1,130.37
PD grades C	757.87	150.66	0.00	908.53
Default	0.00	0.00	41.74	41.74
	5,054.48	304.17	41.74	5,400.39
Loss allowance (ECL)	-0.91	-3.48	-11.09	-15.48
Carrying amount	5,053.57	300.69	30.64	5,384.91
Other				
PD grades A	29.67	0.23	0.00	29.90
PD grades B	347.98	0.01	0.00	347.99
PD grades C	78.16	0.97	0.00	79.13
Default	0.00	0.00	0.55	0.55
	455.81	1.21	0.55	457.57
Loss allowance (ECL)	-0.23	-0.03	-0.20	-0.46
Carrying amount	455.58	1.18	0.35	457.11

*) 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	0.50	0.50
LGD class 2	45.76	0.30	1.33	47.39
LGD class 3	1,356.18	31.87	1.91	1,389.96
LGD class 4	152.57	4.15	0.89	157.61
LGD class 5 (high)	281.44	0.93	22.73	305.10
	1,835.95	37.25	27.36	1,900.56
Loss allowance (ECL)	-3.12	-1.82	-10.02	-14.96
Carrying amount	1,832.83	35.43	17.34	1,885.60
Households				
LGD class 1 (low)	115.55	2.76	7.40	125.71
LGD class 2	2,227.84	102.19	9.72	2,339.75
LGD class 3	2,427.65	190.30	11.52	2,629.47
LGD class 4	24.98	2.50	6.99	34.47
LGD class 5 (high)	258.45	6.42	6.12	270.99
	5,054.47	304.17	41.75	5,400.39
Loss allowance (ECL)	-0.91	-3.48	-11.09	-15.48
Carrying amount	5,053.56	300.69	30.65	5,384.91
Other				
LGD class 1 (low)	5.17	0.30	0.01	5.48
LGD class 2	77.33	0.36	0.00	77.69
LGD class 3	326.02	0.44	0.00	326.46
LGD class 4	22.81	0.00	0.00	22.81
LGD class 5 (high)	24.49	0.11	0.54	25.14
	455.82	1.21	0.55	457.57
Loss allowance (ECL)	-0.23	-0.03	-0.20	-0.46
Carrying amount	455.59	1.18	0.35	457.11

Class 1	Risk free, e.g. state guarantee
Class 2	Low risk, e.g. shares in housing co-operatives
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 2020

EUR million	Exposure	ECL
Corporate		
Stage 1	1,836.0	3.1
Stage 2: 30 DPD*	0.9	0.1
Stage 2: Other	36.4	1.7
Stage 3	27.4	10.0
Total	**1,900.6**	**15.0**
Households		
Stage 1	5,054.5	0.9
Stage 2: 30 DPD*	24.1	0.3
Stage 2: Other	280.1	3.2
Stage 3	41.7	11.1
Total	**5,400.4**	**15.5**
Other		
Stage 1	455.8	0.2
Stage 2: 30 DPD*	0.2	0.0
Stage 2: Other	1.0	0.0
Stage 3	0.6	0.2
Total	**457.6**	**0.5**

* Days past due

5.8 Counterparty credit risk in the treasury activities

Aktia Bank's counterparty credit risk arise from holdings of financial instruments as part of the daily liquidity management. The instruments mainly comprise bonds that the Bank holds in its liquidity portfolio and largely consist of covered bonds and sovereign bonds, as well as domestic municipal bonds. Risk tolerance for counterparty risk is generally low. Exposures to counterparties, asset classes and countries are approved and limited by the Board, and existing limits are reviewed and decided each year. Limits are set for exposure values and tenors.

Counterparty risk also arises from the derivative operations. 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. Aktia has no rating-based triggers in CSA agreements, and a credit rating downgrade would therefore not trigger a requirement for additional collateral.

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.

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.

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 1.6 (1.2) 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 2020

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	33.7	19.4
Total subject to the CVA capital charge	**33.7**	**19.4**

*EU-CCR2

Table 5.29. Derivative contracts

Credit risk mitigation effects, EUR million	31 Dec 2020	31 Dec 2019
Gross positive fair value of contracts	76.1	68.1
Close out netting benefits	-6.4	0.0
Value after close out netting benefits	**69.7**	**68.1**
Received collaterals	-64.6	-69.5
Value after close out netting and received collaterals	**5.0**	**-1.3**

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	64.6	0.0	1.9	11.4	0.0
Covered bonds	0.0	0.0	0.0	0.0	0.0	11.3
Total	**0.0**	**64.6**	**0.0**	**1.9**	**11.4**	**11.3**

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 risk appetite and the 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, and the risk is primarily of a structural nature. The interest rate risk in the banking book is the current or prospected risk to earnings or capital arising from adverse movements in interest rates. 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. 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 (NII) 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. NII risk is measured using the six standardised interest rate shock scenarios set out in the EBA's guideline along with some of the Bank's own internally determined interest rate shock scenarios.

Limits have been set for how much the NII changes compare with the base scenario, both for the next twelve months and the next twenty-four months. 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. Earningsrisk at interest rate stress

EUR million Interest rate stress scenario	Change in net interest income (next twelve months)
Parallel shock up +100	0.5
Parallel shock down -100	3.2
Steepner shock	1.5
Flattener shock	-7.1
Short rate shock up	-6.5
Short rate shock down	1.7

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.

Stress tests regarding the economic value of equity take into account changes in the economic value of banking book assets, liabilities and interest-bearing derivative exposures resulting from interest rate movements, independently of accounting classification. The model assumes a run-off balance sheet and includes behavioural modelling for non-maturing deposits and prepayments. To measure the change in the economic value, the interest rate risk is measured, similarly to NII, according to the six standardised interest rate shock scenarios set out in the EBA's guideline. The Bank has established limits for how much the NPV can change (negative values) in stressed interest rate scenarios. The NPV risk is calculated and monitored on a monthly basis.

Tables 6.1 and 6.2 show the net effect on NII and EVE according to the abovementioned six standardised interest rate shock scenarios specified in the EBA guidelines. To ensure a minimum level of prudence, a floor of -100 bps has been applied in a downward scenario. Consequently, as a parallel shock, a stress of 100 bps upwards and downwards has been chosen.

Table 6.2. Change in economic value after interest rate stress

EUR million **Interest rate stress scenario**	**Change in economic value**
Parallel shock up +100	22.1
Parallel shock down -100	3.3
Steepner shock	17.0
Flattener shock	22.3
Short rate shock up	15.3
Short rate shock down	14.6

A 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 2020	**Within 3 months**	**3-6 months**	**6-12 months**	**1-2 yeras**	**2-5 years**	**>5 years**	**Non-repricing**	**Total**
Interest bearing assets	2,809.0	2,242.4	2,237.6	333.1	741.9	383.7		8,747.8
Non-interest bearing asset							343.6	343.6
Total assets	**2,809.0**	**2,242.4**	**2,237.6**	**333.1**	**741.9**	**383.7**	**343.6**	**9,091.4**
Interest bearing liabilities	658.1	508.4	552.2	1,592.1	3,612.9	1,450.8		8,374.6
Non-interest bearing liabilities							716.8	716.8
Total liabilities and equity	**658.1**	**508.4**	**552.2**	**1,592.1**	**3,612.9**	**1,450.8**	**716.8**	**9,091.4**
Derivatives, net	**-1,336.4**	**-884.0**	**-39.0**	**547.0**	**1,032.6**	**679.8**		**0.0**
Exposure	**814.5**	**850.0**	**1,646.4**	**-712.0**	**-1,838.4**	**-387.4**	**-373.2**	
Cumulative exposure		**1,664.5**	**3,311.0**	**2,599.0**	**760.6**	**373.2**	**0.0**	

	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**	

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 3.9 (4.8) 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.

Exposures for equity holdings are insignificant. At the end of the year, investments in shares necessary for the business amounted to EUR 5.0 (5.0) 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 current low level of interest rates, a minimum of 100 basis points upwards and 50 basis points downwards is applied for each maturity. Negative stressed 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			
	2020		**2019**	
Banking Group	**EUR million**	**%**	**EUR million**	**%**
Market value 31.12.	1,056.1		1,027.9	
IR risk up (normal method)	-28.9	-2.7,%	-27.3	-2.7,%
IR risk up (100 bp)	-28.9	-2.7,%	-27.3	-2.7,%
IR risk down (normal method)	24.3	2.3,%	22.9	2.2,%
Spreadrisk	-41.1	-3.9,%	-36.6	-3.6,%
Equity risk	-3.0	-0.3,%	-3.0	-0.3,%
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 be unable 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.

Aktia's objective is to achieve a well-diversified financing profile and a competitive price for financing to ensure the competitiveness of its core business. The most important sources of funding are deposits from households and small and medium-sized enterprises, as well as covered bonds. The target is that the abovementioned financing should account for more than 70% of the Bank's financing needs. The financing is supplemented by other long-term financing (EMTN programmes and Private Placement loan agreements), as well as with short-term financing from the capital market and the Central Bank.

During the financial period, Aktia Bank issued a retained covered bond with a value of EUR 300 million and a maturity of four years. The aim of the issue was to replace collateral of high liquid assets in the Central Bank to the full amount with the issued retained covered bond. The stock of covered bonds secured by residential real estate totalled EUR 1,583 (1,583) million after the offset of the issued covered bond for the Bank's own use (retained covered bond). At year-end, Aktia Bank's cover pool of eligible assets, mortgage loans, amounted to EUR 5,192 (4,482) million.

Figure 7.1 Funding sources

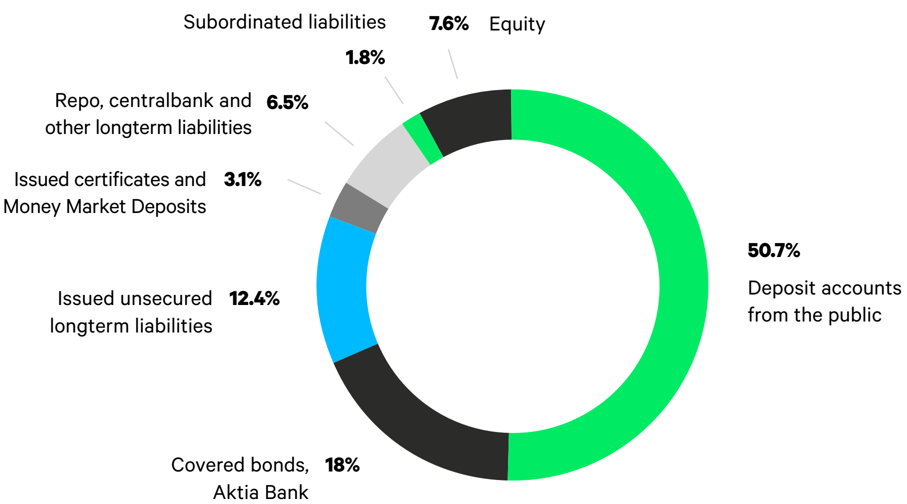
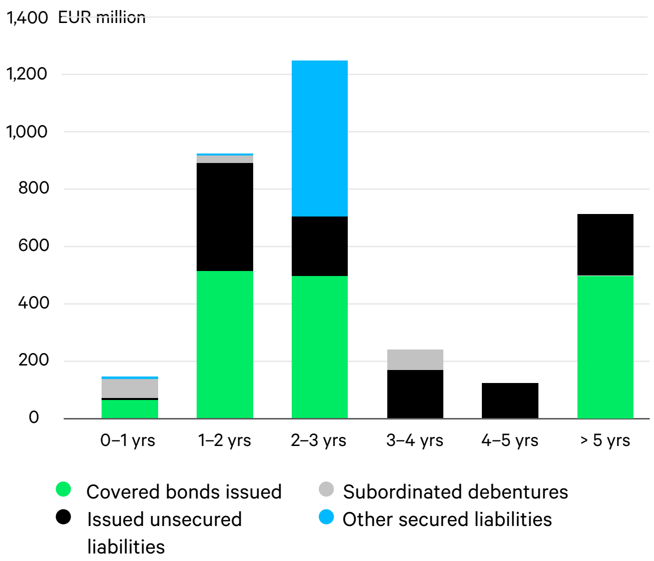


Figure 7.2 Maturity structure for the long-term funding (nominal amount)



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 159 (216) million, which is related to subordinated debts, and in 2019, to the issued Tier 2 loan of 70 million euro on the capital market, which was made 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.

To achieve a sound funding balance, Aktia is actively working to broaden its refinancing base. Over the financial period, Aktia Bank issued new preferred senior bonds worth EUR 856 million. The issues were made to ensure that the Bank complied with future regulatory requirements, e.g. to ensure that the renewed MREL requirement was met. Long-term preferred senior bonds and other long-term unsecured loans amounted to EUR 1,104 (922) million. As of year-end 2020, Aktia fulfils the MREL requirement with a substantial buffer.

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. One of the most important criteria for selecting assets for the liquidity portfolio is that the security be accepted as collateral 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. The Retained covered bond amounting to EUR 300 million is offset from the figures to correspond with the reported figures in the Annual Report.

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 are maturing. 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 operational liquidity planning and management, as well as the funding strategy, while the Aktia Group's Chief Risk Officer 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, for which the Board of Directors sets the minimum level. 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 54% of the liquidity portfolio comprises securities with an 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 1,368 (1,104) million.

Table 7.3. Liquidity reserve, market value

EUR million	31 Dec 2020	31 Dec 2019
Cash and holdings in central banks	249.6	271.3
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	225.9	194.9
Securities issued or guaranteed by municipalities or Public sector entities	131.7	207.8
Covered bonds	754.9	429.7
Securities issued by credit institution	5.5	0.0
Securities issued by financial corporates	0.0	0.0
Total	**1,367.7**	**1,103.6**
of which LCR-qualfied	1,362	1,104

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 subsequent 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 on what the maturity structure of the Bank's issued securities looks like, among other things. Table 7.4 presents the development of the LCR and NSFR in 2020 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 conducts regular stress testing 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. In the ILAAP, various stress scenarios are used, e.g. withdrawals of deposits, no access to long-term funding in the capital market, etc. The stress scenarios in ILAAP focus on the impact on the regulatory requirements (Liquidity Coverage Ratio, Net Stable Funding Ratio) and the Bank's net liquidity position.

Table 7.4. LCR and NSFR

	31 Dec 2020	30 Sep 2020	30 Jun 2020	31 Mar 2020	31 Dec 2019
LCR %	138%	124%	137%	129%	118%
NSFR %	126%	127%	121%	118%	118%

EUR million

Liquidity coverage ratio (LCR)	31 Dec 2020	31 Dec 2019
EUR million		
Liquid assets, level 1	1,196.8	1,002.2
Liquid assets, level 2	77.1	47.3
Total liquid assets	**1,273.9**	**1,049.5**
Total cash outflows	984.4	938.9
Total cash inflows	63.7	45.9
Net cash outflows	**920.7**	**893.0**
Liquidity coverage ratio (LCR), %	**138%**	**118%**

Net stable funding ratio (NSFR)	31 Dec 2020	31 Dec 2019
NSFR %	**126%**	**118%**
Available Stable Funding, EUR million	7,729.4	6,534.0
Required Stable Funding, EUR million	6,116.8	5,527.9

Tabel 7.5 LIQ1, LCR Disclosure

	Total unweighted value				Total weighted value			
EUR million **Quater ending on:**	**31 Mar 2020**	**30 Jun 2020**	**30 Sep 2020**	**31 Dec 2020**	**31 Mar 2020**	**30 Jun 2020**	**30 Sep 2020**	**31 Dec 2020**
High-quality liquid assets								
Level 1 assets								
Level 1CB assets					728.9	719.2	968.0	600.7
Level 2A assets					476.4	701.8	622.3	596.1
Total high-quality liquid assets (HQLA)					**72.9** 1,278.2	**65.4** 1,486.5	**55.4** 1,645.7	**77.1** 1,273.9
Cash-outflows								
Retail deposits	**3,515.7**	**3,655.7**	**3,691.6**	**3,746.1**				
Stable deposits	2,175.5	2,254.5	2,293.9	2,301.4	261.0	271.9	273.6	272.8
Less stable deposits	1,340.2	1,401.2	1,397.7	1,444.7	108.8	112.7	114.7	115.1
Unsecured wholesale funding	**882.0**	**1,010.7**	**1,261.7**	**861.6**	**152.2**	**159.1**	**158.9**	**157.7**
Non-operational deposits (all counterparties)	861.4	979.1	889.1	827.3	626.9	716.1	1,008.8	589.2
Unsecured debt	20.7	31.7	372.6	34.2	615.6	694.3	646.1	565.0
Secured wholesale funding					**11.3**	**21.8**	**362.7**	**24.1**
Additional requirements	**18.8**	**19.0**	**18.8**	**19.4**	**0.0**	**0.0**	**0.0**	**0.8**
Outflow relared to derivatives and other collateral requirements	18.8	19.0	18.8	19.4	18.8	19.0	18.8	19.4
Other contractual and contingent funging obligation	**1,005.2**	**1,011.0**	**1,102.0**	**930.0**	**18.8**	**19.0**	**18.8**	**19.4**
Total cash outflows					**129.7** 1,036.4	**132.1** 1,139.1	**106.4** 1,407.6	**102.2** 984.4
Cash inflows								
Inflows from non-financial customers	30.5	73.1	24.6	26.8				
Inflows from financial customers	13.9	19.4	36.5	24.8	15.3	38.2	14.0	15.3
Inflows from securities maturing within 30 days	15.3	0.1	38.2	23.6	13.9	19.4	29.3	24.8
Total cash inflows	**59.8**	**92.5**	**99.2**	**75.2**	**15.3**	**0.1**	**38.2**	**23.6**
Inflows subject to 75% cap	**59.8**	**92.5**	**99.2**	**75.2**	**44.5**	**57.7**	**81.4**	**63.7**
					Total adjusted value			
Total high-quality liquid assets (HQLA)					**1,278.2**	**1,486.5**	**1,645.7**	**1,273.9**
Total net cash outflows					**991.9**	**1,081.4**	**1,326.1**	**920.7**
Liquidity coverage ratio (%)					**129%**	**137%**	**124%**	**138%**

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 (in addition to 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. Other sources of asset encumbrance arise from long-term financing operations (TLRO III) from the Central Bank, repo financing and derivatives.

Table 7.6. Disclosure on asset encumbrance, Median value 2020

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	**2,716.5**	**176.6**			**6,237.3**	**1,508.8**		
Equity instruments					4.9			
Debt securities	328.1	171.3	331.1	173.5	1,098.0	1,095.3	1,113.4	1,110.7
of which: covered bonds	132.1	92.2	132.7	92.3	724.6	724.6	726.7	726.7
of which: issued by general governments	0.4	0.4	0.4	0.4	328.1	328.1	341.0	341.0
of which: issued by financial corporations	327.8	170.9	330.7	173.2	770.0	767.2	772.5	769.7
of which: issued by non-financial corporations					0.0		0.0	
Other assets	2,395.1	2.9			5,137.6	431.8		

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			**65.0**	**65.0**
Other collateral received			65.0	65.0
Total assets, collateral received and own debt securities issued	**2,716.5**	**176.6**		

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	**2,164.2**	**2,716.5**

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 long-term financing operations (TLTRO III) from the central bank as well as 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

The acquisition of Liv-Alandia's life business has reduced the capital adequacy of the company as expected, although it is strategically assessed as profitable in the long term.

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 the life insurance company's risk management is outsourced to the parent company in practice. The Group has a written policy, which defines the responsibilities of the Risk Control function. Risk appetite and risk tolerance limits for the life insurance company are established within the Group's Risk Policies. 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 Group's Risk Control unit is led by the Chief Risk Officer, who reports independently to the Group's Board of Directors in addition to reporting on risks to the management. The unit is independent of the business and the support functions it monitors and controls and does not 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 2020 ORSA, market and insurance risks were the dominant risks, representing 63.1% (65.8%) and 34.6% (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 for 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 Life Insurance has acquired the life business of Försäkringsaktiebolaget Liv-Alandia as planned, although the acquisition was delayed from the first quarter to May 2020. Strategically, the transaction is deemed profitable in the long term, and it will also have synergistic effects, because much of the management of Liv-Alandia's insurance portfolio has previously been outsourced to Aktia. Nevertheless, as an immediate effect, the transfer will have large implications for the company's capital adequacy and 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 also calculated using the previously mentioned market risk limit stresses. This text mainly describes the internal method.

From a risk sensitivity perspective, the largest risks (in order) are interest rate risk, real estate risk and spread 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 refers here 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 the 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 again grown since 2019, partly due to portfolio reallocation, but particularly because of the addition of the Alandia Tier 2 bonds received as payment for the insurance contract transfer. These bonds have a maturity of 5–25 years, and amount to a nominal value of EUR 60 million. However, the Alandia bonds serve a special purpose of directly balancing the insurance cashflows. The impact on spread risk of these bonds alone accounts for up to EUR 7.4 million. Without the Alandia bonds, spread risk would be smaller than the property risk, totalling EUR 26.1 (28.7) 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 487.2 (435.8) million, or 81% (80%), 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 non-euro geographical areas 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 the 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 14.1 (13.4) million, of which EUR 8.2 (9.9) 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, private credit, and other alternative investments are currently growing asset classes. The total position at year-end is now EUR 11.8 (6.7) million.

Table 8.1 Allocation of holdings in the interest linked portfolio

EUR million	31 Dec 2020		31 Dec 2019	
Equities	**0.0**	**0.0%**	**0.0**	**0.0%**
Fixed-income	**437.0**	**72.6%**	**387.7**	**71.0%**
Government bonds	119.2	19.8%	112.8	20.7%
Financial sector bonds in total	62.7	10.4%	114.6	21.0%
Covered bonds	36.8	6.1%	88.7	16.3%
Senior bonds	13.6	2.3%	14.4	2.6%
Subsenior bonds	12.4	2.1%	11.5	2.1%
Other corporate in total	184.6	30.6%	80.4	14.7%
Senior bonds	91.3	15.2%	70.5	12.9%
Subsenior bonds	91.3	15.2%	7.9	1.4%
Collateralized bonds	2.0	0.3%	2.0	0.4%
Emerging markets bonds	43.2	7.2%	50.1	9.2%
High yield bonds	24.0	4.0%	19.5	3.6%
Trade Finance	3.4	0.6%	10.3	1.9%
Alternative investments	**11.8**	**2.0%**	**6.8**	**1.2%**
Private Equity & Venture capital	4.9	0.8%	4.3	0.8%
Private Credit	6.9	1.1%	2.5	0.5%
Real estate	**77.5**	**12.9%**	**68.7**	**12.6%**
Directly owned	40.4	6.7%	42.5	7.8%
Real estate funds	37.1	6.2%	26.2	4.8%
Money market	**50.2**	**8.3%**	**48.0**	**8.8%**
Cash at bank	**25.8**	**4.3%**	**34.9**	**6.4%**
	602.2	**100.0%**	**546.1**	**100.0%**

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 966.5 (872.3) million at year-end, and the size of the equity risk was EUR 18.3 (17.0) million, of which EUR 2.1 (3.0) million was due to the interest-linked portfolio.

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 77.5 (68.7) million. Real estate risk is the second 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 31.4 (27.5) 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 in 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.

Table 8.2 Sensitivity analysis for market risk

	Portfolio		Technical provisions*		Total			
	31 Dec 2020	31 Dec 2019	31 Dec 2020	31 Dec 2019	31 Dec 2020		31 Dec 2019	
Life insurance company	EUR million	EUR million	EUR million	EUR million	EUR million	%**	EUR million	%
Interest linked								
Market value 31 Dec	576.5	511.2	-486.2	-433.2	90.3	65.9%	78.0	61.1%
IR risk up	-26.8	-17.2	46.0	40.1	19.2	14.0%	22.9	17.9%
IR risk down	39.9	20.8	-81.9	-72.9	-42.0	-30.7%	-52.1	-40.8%
Spread risk	-25.3	-27.1	0.1	0.2	-25.2	-18.4%	-26.9	-21.1%
Currency risk	-8.4	-10.0	0.7	0.3	-7.7	-5.6%	-9.7	-7.6%
Equity risk	-3.8	-4.5	1.7	0.7	-2.1	-1.5%	-3.8	-3.0%
Real estate risk	-31.4	-27.5	0.0	0.0	-31.4	-22.9%	-27.5	-21.6%
Unit- and index linked								
Market value 31 Dec	966.5	872.3	-919.8	-822.7	46.7	34.1%	49.6	38.9%
IR risk up	-19.0	-21.5	19.2	21.7	0.2	0.1%	0.2	0.2%
IR risk down	23.0	27.1	-24.8	-17.4	-1.8	-1.3%	9.7	7.6%
Spread risk	-16.5	-32.4	15.5	30.5	-1.0	-0.7%	-1.9	-1.5%
Currency risk	-109.1	-64.2	102.8	60.5	-6.3	-4.6%	-3.7	-2.9%
Equity risk	-273.3	-230.6	257.2	217.4	-16.1	-11.8%	-13.2	-10.3%
Real estate risk	0.0	0.0	0.0	0.0	0.0	0.0%	0.0	0.0%
Total								
Market value 31 Dec	**1,543.0**	**1,383.5**	**-1,406.0**	**-1,255.9**	**137.0**	**100.0%**	**127.6**	**100.0%**
IR risk up	-45.8	-38.7	65.2	61.8	19.4	14.2%	23.1	18.1%
IR risk down	62.9	47.9	-106.7	-90.3	-43.8	-32.0%	-42.4	-33.2%
Spread risk	-41.8	-59.5	15.6	30.7	-26.2	-19.1%	-28.8	-22.6%
Currency risk	-117.5	-74.2	103.5	60.8	-14.0	-10.2%	-13.4	-10.5%
Equity risk	-277.2	-235.1	258.9	218.1	-18.3	-13.3%	-17.0	-13.3%
Real estate risk	-31.4	-27.5	0.0	0.0	-31.4	-22.9%	-27.5	-21.6%

* 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)

At year-end, the total life risk was EUR 65.1 (54.9) million correlated, and EUR 89.7 (75.0) million uncorrelated. The health risk was EUR 21.9 (16.9) million correlated, and EUR 22.2 (17.2) million uncorrelated. The difference is largely caused by the increase in scale due to the addition of the Alandia contracts.

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 8.0 (6.7) million, and for health insurance it was below EUR 0.1 (below 0.1) million.

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 10.6 (7.6) 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 1% 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 (0.4) million, and EUR 18.3 (14.3) 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 48.0 (40.8) million, and EUR 6.1 (4.4) million for health insurance.

Expense risk is stressed through a 10% increase in the assumed future expense combined with a 1% 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 17.8 (15.1) million, and EUR 3.6 (2.8) million for health insurance.

Table 8.3 Technical provisions by policy type and guaranteed rate

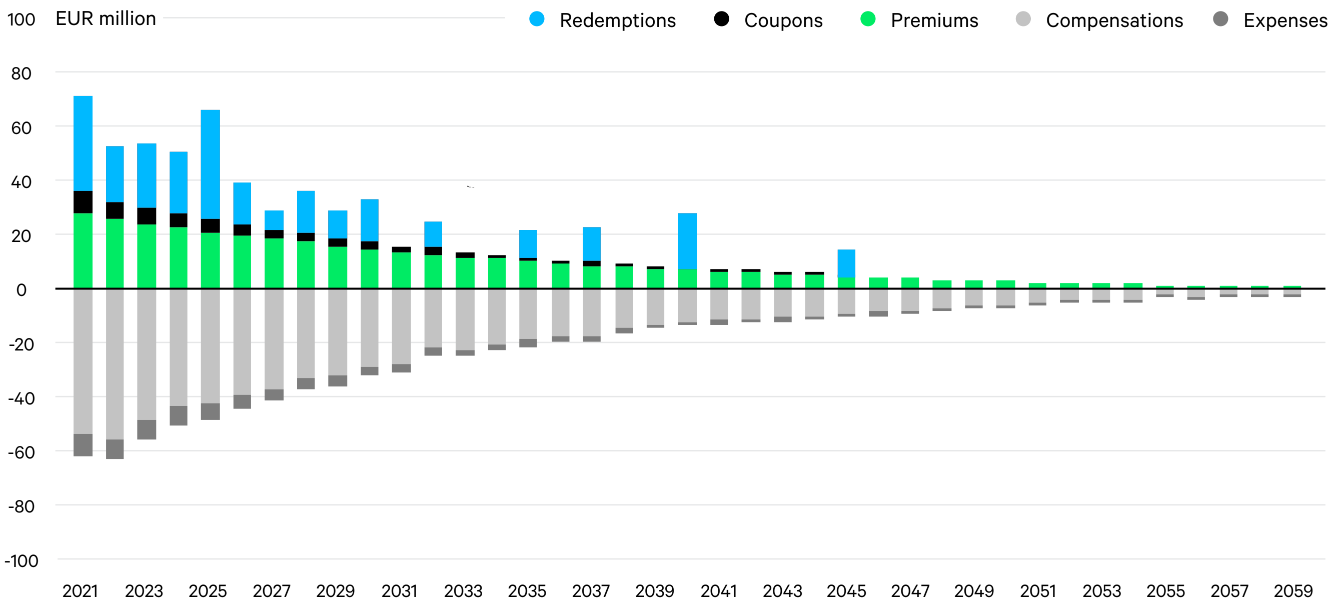
EUR million	TP 31 Dec 2020	%	Premiums	Claims paid	Expense charges	Guaranteed interest	Bonuses	TP 31 Dec 2019
Group pension	**55.9**	**6.0%**	**2.4**	**4.6**	**0.3**	**2.2**	**-**	**55.9**
3,5 %	54.0	5.0%	2.2	4.2	0.2	2.1	-	54.0
2,5 %	0.1	0.0%	0.2	-	-	-	-	0.1
1,0 %	1.8	0.0%	-	0.4	-	-	-	1.8
Individual pension insurance	**231.5**	**17.0%**	**2.5**	**31.7**	**0.5**	**9.4**	**-**	**231.5**
4,5 %	145.4	11.0%	0.2	20.3	0.3	6.7	-	145.4
3,5 %	54.5	4.0%	0.1	7.1	0.1	1.9	-	54.5
2,5 %	23.2	2.0%	0.1	4.1	-	0.6	-	23.2
1,0 %	8.3	1.0%	2.3	0.2	0.1	0.1	-	8.3
Savings insurance	**50.8**	**3.0%**	**0.5**	**8.3**	**0.2**	**1.2**	**-**	**50.8**
4,5 %	2.9	0.0%	0.1	0.5	-	0.1	-	2.9
3,5 %	16.5	1.0%	0.2	3.9	0.1	0.5	-	16.5
2,5 %	31.5	2.0%	0.2	3.9	0.1	0.6	-	31.5
Risk insurance	**23.4**	**2.0%**	**20.7**	**10.7**	**7.0**	**0.7**	**-**	**23.4**
Unit linked insurance	**869.4**	**70.0%**	**79.2**	**63.8**	**8.6**	**-**	**-**	**869.4**
Savings insurance	702.0	56.0%	72.5	57.3	6.8	-	-	702.0
Individual pension insurance	150.7	13.0%	4.9	6.3	1.6	-	-	150.7
Group pension	16.7	1.0%	1.8	0.2	0.2	-	-	16.7
Reservation for increased life expectancy	**2.7**	**0.0%**	**-**	**-**	**-**	**-**	**-**	**2.7**
Reservation for lowered discount rate	**26.0**	**2.0%**	**-**	**-**	**-**	**-2.9**	**-**	**26.0**
	1,259.8	**100.0%**	**105.3**	**119.3**	**16.6**	**10.6**	**-**	**1,259.8**

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

31 Dec 2020

EUR million	Duration	2021-2022	2023-2024	2025-2029	2030-2034	2035-2039	2040-2049	2050-2059	2060-
Savings insurance	**13.3**	**5.7**	**8.3**	**15.1**	**9.5**	**7.3**	**8.7**	**4.7**	**5.0**
4,5%	6.5	0.6	1.0	2.0	0.7	0.3	0.2	0.1	0.0
3,5%	14.0	2.8	2.7	4.4	3.4	2.5	3.3	1.9	2.1
2,5%	13.9	2.3	4.6	8.7	5.4	4.4	5.2	2.7	2.9
Pensions	**10.8**	**23.4**	**65.7**	**125.9**	**89.8**	**60.1**	**73.8**	**30.5**	**13.6**
4,5%	6.7	20.8	42.0	74.6	38.4	14.7	7.8	1.7	0.4
3,5%	13.1	8.1	24.0	44.8	38.8	30.3	38.5	16.4	7.4
2,5%	15.4	-0.8	2.8	6.9	8.5	8.4	12.7	5.3	1.4
1,0%	18.1	-4.7	-3.1	-0.4	4.1	6.8	14.7	7.1	4.3
Other insurance	**10.3**	**5.2**	**-4.6**	**-15.1**	**-14.6**	**-11.8**	**-15.5**	**-6.7**	**-1.9**
Total	**11.0**	**34.3**	**69.4**	**125.8**	**84.7**	**55.6**	**67.1**	**28.4**	**16.7**

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



Mismatch of in- and outflows

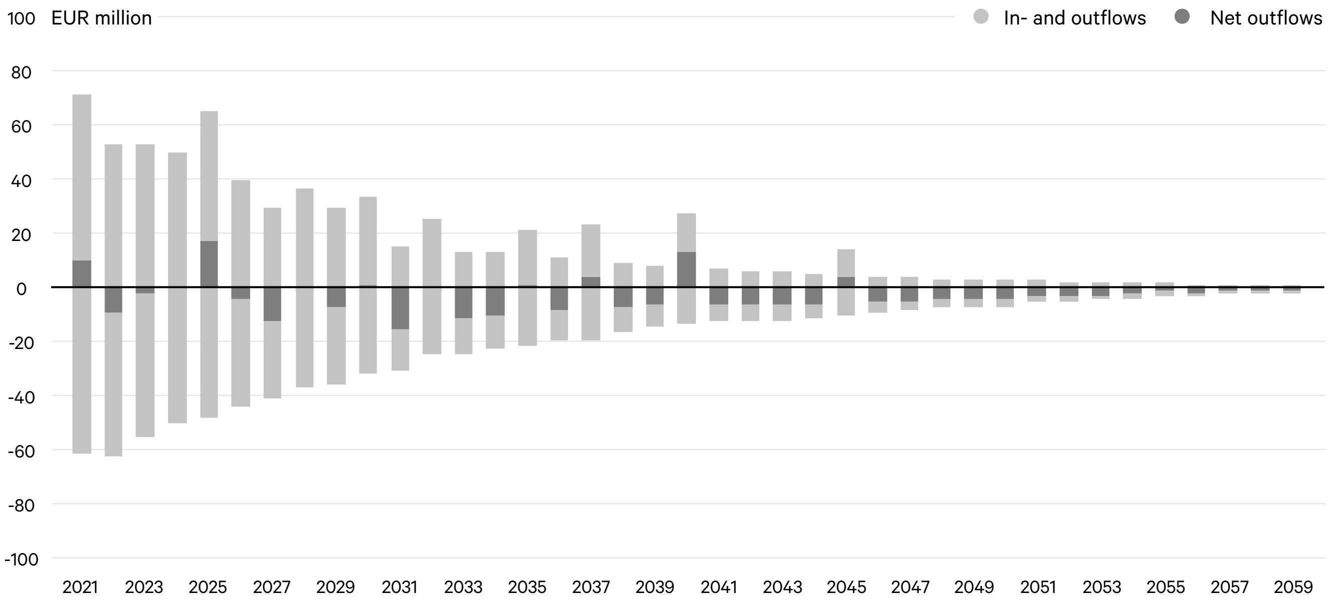
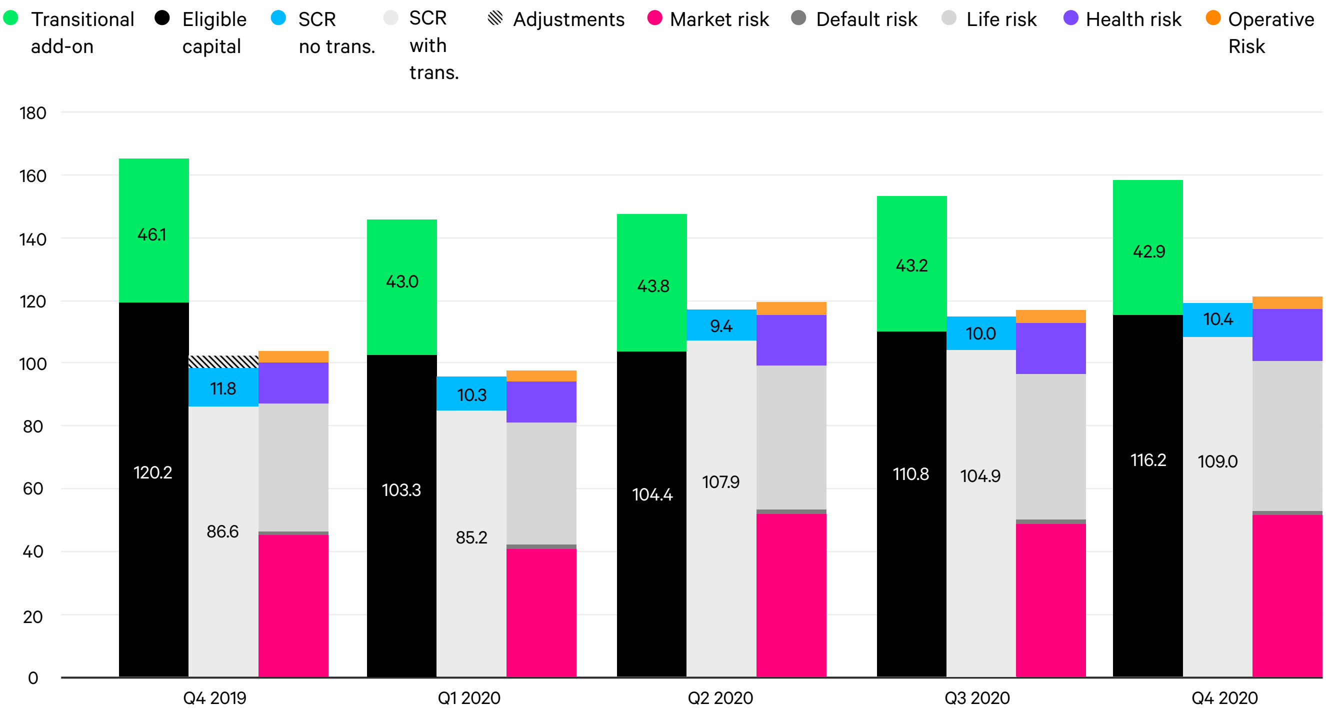


Figure 8.6 Solvency adequacy over time



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 4.9 (4.3) million and EUR 0.4 (0.4) million for life and health respectively.

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 the 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 the 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) set out by the Finnish FSA. 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 2020, the eligible solvency capital was EUR 159.1 (166.3) million, and the SCR was EUR 109.0 (86.6) million, resulting in a solvency ratio of 145.9% (192.1%). The ratio for the MCR of EUR 28.2 (24.2) million was 564.5% (688.3%). Without transition rules, the eligible capital was EUR 116.2 (120.2) million, the SCR was EUR 11,943 (98.3) million, and the solvency ratio was 97.4% (122.2%). The ratio for the MCR of EUR 29.8 (25.9) million was 389.9% (463.5%).

Over the year, solvency adequacy has decreased considerably, mainly due to the effects of the Alandia acquisition. Since spread risk – as mentioned in 8.1 – is in effect one-sided, the effect of the acquired bonds will be undiminished by the technical provisions on the other side of the balance, in contrast to interest rate risk, where the long bonds have actually somewhat balanced the rate mismatch. Moreover, bonds which add up to a nominal EUR 60 million are by far the largest concentration in the portfolio, and increase the concentration risk component from zero to EUR 13.8 million, most of which, however, is lost in the aggregation, because concentration risk has zero correlation with respect to the other risk classes. In all, the Alandia acquisition is deemed to have increased SCR by ca. EUR 17 million. However, the effect on the eligible solvency capital is tiny.

The previously mentioned effects on solvency adequacy are very much in line with the predicted ones, and the operation is assessed as strategically sound and profitable for the company in the long run.

The reserve for interest-linked technical provisions was increased from EUR 26.0 million to EUR 28.1 million in December 2020 in accordance with the plan the company established at the request of the national FSA in 2019. 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 2.2% for up to five years of maturity, 2.3% for five to ten years of maturity, and 3.0% thereafter. The company is reviewing the adequacy of the reserve annually and adjusting it when necessary.reserve annually and adjusting it when necessary.

9. Operational risk

9.1 Management, governance and measurement of operational risks

Operational risks are considered to include 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 personnel – including through human error – or external events. Compliance/legal risks are also considered to be part of operational risks, as well as model risks related to calculation models and information security risks. Strategic risks are not part of operational risks.

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

In 2020, the use of the group-level risk library and a risk management tool continued, and action planning for the system for high risks was introduced. The emphasis on information security-related activities, thereby mitigating security-related threats, also continued in 2020.

Aktia continued its risk-based approach to improving its processes to better combat financial crime. Among them were an improved operating model and the implementation of a new process for KYC quality assurance. Aktia updated its AML risk assessment, and continues to implement new measures to further reduce the risk of money laundering or terrorism financing in 2021.

9.1.1 Management of operational risks

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 their embedded internal controls, and identifying and mitigating risks.

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. The Operational Risk Control team (part of the Risk Control organisation) is responsible for providing the operational risk framework, and analysing and reporting the Group's operational risks, as well as providing support for the risk owners in their risk management work.

Aktia has various methods, processes and procedures to manage operational risks:

- Regular risk assessments
- Reporting of incidents
- Contingency and business continuity plans, including disaster recovery plans
- The new product approval process (NPAP)
- Adequate internal rules
- Regular education to employees

Risk assessments and risk management

According to the operational risk framework, the critical functions of the Group, including outsourced functions, are to be risk assessed at least annually by the risk owners and their organisation. Risk assessments are performed with the aid of a standard risk management tool and groupwide risk library, which can be complemented by 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 treated, and what mitigating actions should be taken within the risk appetite and risk tolerance of each risk area. 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.

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 Control team within Risk Control analyses incident information and escalates 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 data protection officer (DPO) is always consulted immediately. The DPO defines the necessary actions and supports the incident-solving process. For incidents related to information security, the Group-level CISO-office is responsible for instructing and controlling the incident-solving process.

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

New products and processes approval (NPAP)

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

Contingency and continuity planning

Each critical function has an annually updated business continuity plan, including disaster recovery plans for related critical systems. A Group-level annually updated contingency plan, including a crisis communication plan and crisis management team (CMT) work order, is also in place. The Group-level CMT has fixed assembly, which can be supplemented if necessary.

The responsibility for continuity planning lies with the risk owner. The Operational Risk Control organisation is responsible for updating the Group-level contingency plan.

Internal rules

Adequate internal rules for functions, processes and employees are in place as a preventive measure to reduce operational risks in central and high-risk areas. Among other things, the rules cover internal controls, legal risks, employee risks, principles for continuity and contingency planning, measures to prevent money laundering and the financing of terrorism, and the implementation of financial sanctions. In 2020, new instructions were introduced to complement the information security policy. These instructions include more detailed instructions for secure system development.

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.

9.1.2 Governance of operational risks

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 CEO adopts other relevant internal rules related to managing operational risks.

The Board of Directors confirms the risk appetite for different operational risk categories annually. Aktia identifies risk appetite for operational risks separately for the following risk categories: information security; compliance/legal risks; and other operational risks.

The risk appetite for **compliance risks** is low. Compliance risks are part of normal operations in the financial industry. Aktia strives to mitigate compliance risks as far as possible in accordance with its risk appetite without hindering sound business operations and without having a negative impact on Aktia's vision of being a good bank and a great asset manager.

Aktia does not accept breaches of compliance with legislation, government regulations, industry/self-regulation, codes, internal rules, directives, policies based on external binding requirements and the Group's management and employees' customs/standards that affect Aktia as a company operating on the financial market. Nor does Aktia accept any unethical procedures.

The risk appetite for **legal risks** is low. Aktia must provide its customers with financial services that meet the requirements of the regulation and take into account the customer's interests. Aktia's customer agreements must meet the requirements of the regulation, and they must be handled objectively, taking into account the customer's interests. Within the framework of regulatory requirements, considerations can be made to keep the business flexible in a constantly changing financial business.

The risk appetite for **information security** is low. This means that Aktia aims to ensure the continuity of the business and support its development, to protect Aktia's important manual and automatic data processing and the uninterrupted operation of the data network, to prevent unauthorised use of data and computer systems, to prevent intentional or unintentional destruction or corruption of data, and to minimise damage which occurs in the event of a disturbance.

For all **other operational risk areas**, the risk appetite is normal. In Aktia's view, this means that Aktia's operational processes and controls, as well as the systems, must support the maintenance of critical day-to-day operations and the achievement of Aktia's long-term strategic goals. The critical processes and systems must function efficiently and without interruption.

Concerning **IT-related risks other than** information security, the risk appetite is normal. It is important for Aktia's operations to maintain the services in the critical systems and take care of information security. There is no desire to compromise on the risk level of these services or security.

Aktia accepts short-term risk taking related to processes if it enables better functionality and efficiency in the long term. However, Aktia must respond quickly to any disruptions in the critical processes or systems, and strive quickly to normalise the situation.

With regard to external abuse, Aktia has a zero tolerance for all misuse of Aktia's services or products for criminal purposes. Aktia strives with available methods, e.g. with monitoring, control measures and reporting, to intervene in activities related to abuse. Aktia cooperates with the authorities and other actors in the private sector to counteract the financing of terrorism, fraud, circumvention of sanctions and money laundering.

Aktia must have a leadership that supports operational efficiency and enables Aktia to achieve its strategic goals. Aktia's employees must have the skills required to provide the services offered by Aktia.

9.1.3 Measurement of operational risks

The risk level is measured through key risk indicators (KRIs), which the Board of Directors approves annually. These indicators reflect the risk appetite, risk tolerance and risk capacity of each risk category with regard to both capital requirements and qualitative requirements. The summary of the realisation of KRIs is reported quarterly by the Risk Control function to management and the Board of Directors.

9.2 Information Security Management and Governance

Based on the proposal of Risk Control/ Operational Risk Control team the Board of Directors approves risk appetite and KRIs for information security. The Operational Risk Control is responsible for monitoring and reporting the information security level based on the KRIs to the Group's management and Board of Directors.
The CEO annually approves a revised version of the information security policy owned by Operational Risk Control. The policy is based on ISO 27001, as well as all relevant regulatory requirements.

The Group has an information security officer (CISO) that is in the first line of defence but has a direct reporting line to the Group's CEO enabling the required independence. The CISO is responsible for implementing the IT security framework within Aktia Group. The CISO has a responsibility to implement the information security policy through information security guidelines. The CISO also supports the business in information security related issues as well as has the responsibility to maintain the high level of security awareness in the Group. A training programme for information security awareness exists for all personnel.

A process for information security incident management is in place, governed by the Operational Risk Control team. Information security risk assessment is part of the general risk assessment process.

Information security assessments for systems and IT infrastructure as well as for third parties are conducted regularly by the CISO. The CISO is co-operating actively with the Operational Risk Control to assess and manage the current group level information security risks and develop and improve the Group's information security framework further.

10. Regulatory development

Pandemic influences bank regulation

Due to the Covid-19 pandemic, the authorities made several changes to existing legislation and reduced the required capital buffers and postponed several issues, including the EBA stress test 2020 and onsite inspections. The use of flexibility already embedded in regulation was also encouraged. While pandemic is still affecting economies, authorities have also been slow to return to normalising requirements.

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 abovementioned Directives and regulations. This work is expected to be completed at the national level during H1/2021. According to this new CRR2/CRD5, the level of leverage ratio will be set at 3%, and the NSFR will be set to a minimum level of 100%.

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. This requirement was abolished from 1.1.2021.

Macroprudential decisions: FIN-FSA decides every three months on the level of the countercyclical buffer. The most recent decision was made on 18 December 2020, and it was 0%. The systemic risk buffer requirement was introduced as part of FIN-FSA's macroprudential toolkit from 1 January 2018. The requirement varies between credit institutions, and a 1% systemic risk buffer was set for Aktia Bank, which became valid on 1 July 2019. This requirement was lowered from 6.4.2020 to 0%.

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 2021–22. The impact of this reform is presented in the latest EBA impact study, published on 10 December 2020. This revised standard will take effect in accordance with the Basel proposal from 1 January 2022 but has been postponed by the EU Commission until 2023, 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, called the Financial Stability Authority, was established. The Financial Stability Authority has previously drawn up a resolution plan for Aktia. The MREL requirement amounts to 23.37% of total risk-weighted assets (RWA), at least 8% of the balance sheet total.

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 2020			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	**298.6**	**298.6**	**298.6**	**0.0**	**0.0**
Financial assets available for sale	1,258.2	1,048.7	1,048.7	0.0	0.0
Financial assets held until maturity	413.8	376.0	376.0	0.0	0.0
Derivative instruments	76.1	76.1	0.0	76.1	0.0
Loans and other receivables	7,028.7	7,024.5	7,024.5	0.0	0.0
Investments for unit-linked insurances	1,232.5	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	42.8	0.0	3.4
Intangible assets	57.9	57.1	0.0	0.0	57.1
Investment properties	39.8	0.0	0.0	0.0	0.0
Other tangible assets	27.9	27.3	27.3	0.0	0.0
Total other assets	136.1	128.9	128.9	0.0	0.0
Tax receivables	3.0	3.0	3.0	0.0	0.0
Total assets	**10,572.8**	**9,091.4**	**8,954.8**	**76.1**	**60.5**
Liabilities					
Deposits	5,164.4	5,186.1	0.0	0.0	0.0
Derivative instruments	12.2	12.2	0.0	0.0	0.0
Other financial liabilities	3,178.5	3,188.5	0.0	11.3	0.0
Technical provisions	1,410.8	0.0	0.0	0.0	0.0
Total other liabilities	82.9	77.6	0.0	0.0	0.0
Provisions	1.3	1.3	0.0	0.0	0.0
Tax liabilities	55.8	51.2	0.0	0.0	0.0
Total liabilities	**9,905.9**	**8,516.9**	**0.0**	**11.3**	**0.0**

*Template LI1

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

31 Dec 2020

		Items subject to:	
EUR million	**Total**	**Credit risk framework**	**Counterparty credit risk framework**
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	9,030.9	8,954.8	76.1
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	11.3	0.0	11.3
Total net amount under regulatory scope of consolidation	9,042.3	8,954.8	87.4
Off-balance sheet amounts	691.6	389.1	0.0
Differences in derivative exposure amounts	0.0	0.0	22.0
Differences due to consideration of provisions	0.0	27.7	0.0
Credit value adjustment (CVA)	0.0	0.0	33.7
Credit risk mitigation techniques affecting the exposure amount: financial collateral, comprehensive method	0.0	-9.2	-75.7
Other adjustments	0.0	1.3	0.0
Exposure amounts considered for regulatory purposes	0.0	9,363.7	67.4

* Template LI2

Appendix 2. Own funds disclosure template

EUR million, 31 Dec 2020

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	169.7	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: Share capital	169.7	EBA list 26 (3)	
2	Retained earnings	199.9	26 (1) (c)	
3	Accumulated other comprehencive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	130.9	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	7.9	26 (2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	508.4		

Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-1.1	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	-55.2	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	-0.3	33 (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-23.6	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)	-0.6	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)	-3.4	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)	-84.2	
29	Common Equity Tier 1 (CET1) capital	424.3	

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)	424.3	

Tier 2 (T2) capital: instruments and provisions

46	Capital instruments and the related share premium accounts	80.1	
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	80.1	

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	80.1	
59	Total capital (TC = T1 + T2)	504.3	
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)	106.9	
	Of which: Residual amounts relating to holdings in significant financial entities not deducted from CET1 capital	106.9	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	3,030.0	

Capital ratios and buffers

61	Common Equity Tier 1 (as a percentage of risk exposure amount)	14.00%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	14.00%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	16.64%	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)	8.509%	CRD 128, 129, 130
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.009%	
67	of which: systemic risk buffer requirement	0.00%	
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)	9.50%	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)	42.8	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 2020

		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)	169.7
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 2020

		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	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)	0,02	0,30	0,49	1,72	1,97
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 6	Tier 2 - Issue 7	Tier 2 - Issue 8
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)	3,06	3,08	69,41
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 2020
Summary reconciliation of accounting assets and leverage ratio exposures*

EUR million		Applicable Amount
1	Total assets as per published financial statements	10,572.8
2	Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-1,481.4
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	-44.5
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)	249.2
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	-84.8
8	**Leverage ratio total exposure measure**	**9,211.3**

* 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)	9,014.7
2	(Asset amounts deducted in determining Tier 1 capital)	-84.2
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	8,930.6
Derivative exposures		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	11.5
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	22.0
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)	-1.9
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)	31.6
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	690.4
18	(Adjustments for conversion to credit equivalent amounts)	-441.2
19	Other off-balance sheet exposures (sum of lines 17 and 18)	249.2
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	424.3
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	9,211.3
Leverage ratio		
22	Leverage ratio	4.61 %
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:	9,014.7
EU-2	Trading book exposures	0.0
EU-3	Banking book exposures, of which:	9,014.7
EU-4	Covered bonds	800.9
EU-5	Exposures treated as sovereigns	686.0
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	0.0
EU-7	Institutions	298.2
EU-8	Secured by mortgages of immovable properties	5,442.1
EU-9	Retail exposures	268.4
EU-10	Corporate	1,243.4
EU-11	Exposures in default	48.9
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	226.9

* 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 and Sustainability Report	www.aktia.com
Quantification	**Chapter number**	**Pages**	
End of Year results	1	69-73, 104-106	
Minimum capital requirements	4	75, 121-136	
Development of RWA	4	75, 121-136	
Development of Own funds	4	75, 121-136	
Capital Ratios	4	75, 121-136	
Leverage ratio	4	75, 121-136	
Capital requirements parameters	4	75, 121-136	
Credit Risk	5	70-71, 76, 121-136	
Counterparty Credit risk	5	70-71, 76, 121-136	
Market Risk	6	76, 121-136	
Operational Risk	9	121-136	
Liquidity Risk	7	77, 121-136	
Life and Pensions Risks	8	75-78, 121-136	
Frameworks	**Chapter number**	**Pages**	
Credit Risk	5	122-124	
Counterparty Credit risk	5	122-124	
Market Risk	6	127-129	
Operational Risk	9	122	
Liquidity Risk	7	126-127	
Life and Pensions operation	8	129-131	
Capital	4	122	
Capital instruments	4, App 3,4	-	
New regulations	10	-	
Remuneration	-	173-177	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		
		7

Article	Section	Reference/section in CAR/ Annual Report/aktia.com
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
	(v)	N/A

Appendix 6 b, cont.

Article	Section	Reference/section in CAR/ Annual Report/aktia.com
	(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
(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
Article 454		N/A
Use of the advanced measurement approaches to operational risk		

Appendix 6 b, cont.

Article	Section	Reference/section in CAR/ Annual Report/aktia.com
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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