



Aktia Bank Plc  
CAPITAL AND RISK MANAGEMENT  
REPORT 2016

**Aktia**

Aktia Bank plc  
Mannerheimintie 14, PO box 207, 00101 Helsinki  
Business ID 2181702-8 | [www.aktia.com](http://www.aktia.com)

Bank | Asset Management | Insurance | Real Estate Agency

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# 1. Highlights of 2016

Aktia achieved a satisfactory result for the whole year despite the slow start of the year. The market climate improved in Finland during 2016, and consumer confidence in the economy strengthened at the end of the year. Aktia's lending improved by 8%, showing growth in both housing loans and corporate lending. Net commission income recovered during the year, but it did not increase. The low interest rate level continues to press net interest income and imposes further demand for high efficiency.

## New CEO for Aktia appointed

Aktia Bank plc's Board of Directors appointed Martin Backman as the new Chief Executive Officer of Aktia on 8 September 2016. Backman (M.Sc. (Technology) and M.Sc. (Economics)) has a strong background in management positions in the capital markets in both Finland and Sweden. Backman previously worked as President and CEO of Finnish Industry Investment Ltd., and he started as CEO on 6 March 2017.

## Acquisition of minority shares in Aktia Real Estate Mortgage Bank

In October 2015, Aktia Bank gave notification that the bank has entered into an agreement to purchase the minority shareholders' shares in the bank's subsidiary Aktia Real Estate Mortgage Bank plc. According to the agreement, the conveyance of shares was to take place at the beginning of 2017. Both the seller and the buyer found that the measures planned at that time to be completed before the conveyance of shares had, however, already been completed to a sufficient extent, and the conveyance of shares was executed on 23 September 2016 by the parties. The transaction had no significant impact on Aktia's capital adequacy or the result for 2016. In October 2016, the Board of Directors of Aktia Bank plc approved a plan to merge Aktia Real Estate Mortgage Bank with the parent company Aktia Bank. The merger will take place during the first quarter of 2017.

## Step-by-step implementation of the new core banking platform will commence during the first quarter of 2017

Step-by-step implementation of the new core banking system will commence during the first quarter of 2017. The total investment, including migration costs, is estimated to exceed EUR 65 million, and the total activated investment costs for the project are estimated to amount to approximately EUR 55 million. At the end of December 2016, the activated investment costs amounted to EUR 54 million.

The new core banking systems will bring more efficient processes and modernised work approaches. The core banking platform will also form a base for continued development of digital services.

The step-by-step implementation implies higher running IT costs in the first quarter of 2017. The cost savings brought by the new core banking platform will materialise gradually from the second quarter of 2017 onwards.

## The divestment of holdings in Visa Europe brought one-time gains for Aktia

The sale of Visa Europe to Visa Inc. was executed on 21 June 2016, resulting in one-time gains of EUR 6.9 million. In addition to the cash consideration, Aktia received preference shares in Visa Inc. to an estimated market value of EUR 1.1 million per 31 December 2016, which have been booked in the fund at fair value after the deduction of deferred tax. Aktia Bank was a part owner of Visa Europe and brokered Visa Europe's card services. As well as upfront consideration for the transaction, an additional earn-out may be paid after four to 12 years. Further, Aktia Bank may receive shares of considerations paid to other Visa part owners whose card products Aktia Bank has brokered. The final amount of consideration depends on a number of legal and other uncertain factors, such as the profitability of Visa Europe and continued operations of Visa Inc., the development of Visa Inc.'s shares, the development of the USD exchange rate, the outcomes of certain legal proceedings, etc.

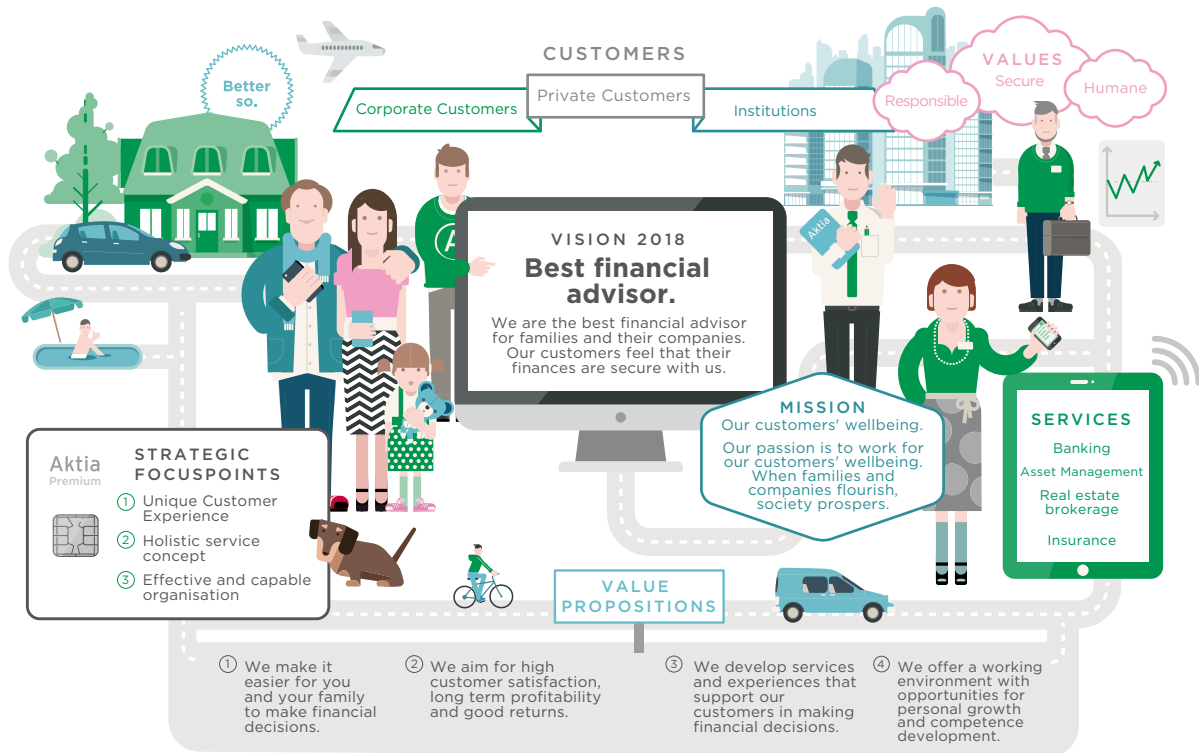
## Aktia carried out codetermination negotiations

Aktia Bank plc carried out codetermination negotiations in its sales organisation in January–February 2016. The negotiations resulted in a staff reduction of approximately 55 persons. The reduction of staff generated a one-off cost of EUR 1.4 million, of which EUR 1 million was booked in the last quarter of 2015 and EUR 0.4 million in the first quarter of 2016. The estimated annual cost savings amounts to approx. EUR 2 million.

## Aktia Life Insurance started to apply Solvency II transitional measures

The Financial Supervisory Authority granted Aktia Life Insurance Company Ltd permission to apply transitional measures for calculation of technical provision within the Solvency II framework that entered into force on 1 January 2016. Taking the transitional measures into consideration, the avail-

Figure 1.1 Aktia's Growth Strategy 2018



able solvency capital is 179.4 % of the solvency capital requirement (SCR), whereas the corresponding solvency ratio was 175.8% on 31 December 2015. The permission granted by the Financial Supervisory Authority has no impact on the Aktia Bank Group's capital adequacy, operating profit or ability to pay dividends.

## Aktia Bank will reconsider the current administration model in which a Board of Supervisors is included.

The Board has decided to proceed with preparations to replace the Board of Supervisors with a Representative Assembly without formal legal status according to company laws and without decision-making right. The planned schedule for the transition to a simplified administration model is September 2017, when the bank aims to hold an extraordinary Annual General Meeting to decide on changes in the articles of association.

## Strategy

The present strategy of the Aktia Group, "Growth 2018", was adopted in the first quarter of 2015. The bank's strong capital adequacy ratio and balance sheet enable growth. According to the new strategy, Aktia focuses mainly on services for private customers and their families, but also on family businesses and owner-operated companies. Aktia will also continue to strive for efficient and customer-friendly service in both branches and digital channels.

Within the framework of the present strategy, "Growth 2018", adopted in February 2015, the following financial objectives for 2018 have been set:

- Improve cost-to-income ratio by at least 10%
- Common Equity Tier 1 Capital Ratio (CET 1) of 15% at a minimum
- Return on equity (ROE) of at least 9%
- Dividend pay-out of at least 50% of the profit for the year

## Business environment

The prolonged period of low growth, political uncertainty and negative interest rate environment have lowered profitability in the banking sector and yields from the institutional investment market. During the fourth quarter, housing prices in Finland increased by 1.2% on the previous year. In the Helsinki region, prices went up by 2.6%, and in the rest of Finland prices went down by 0.1%. Unemployment decreased from the previous year, amounting to 7.9% (9.2%) in December. There were 34,000 more people in employment than in the previous year. During the last quarter of the year, unemployment was 8.0%, approximately 0.7 percentage points lower than a year ago.

## Financial year 2016:

### Profit and income

The Group's operating profit was EUR 61.5 (64.2) million. The Group's profit was EUR 49.3 (51.6) million.

The Group's total income increased by 1% and amounted to EUR 211.3 (208.4) million.

During the year, interest rates continued to decrease, and net interest income decreased by 2%, amounting to EUR 95.6 (97.3) million. Net interest income from traditional borrowing and lending operations improved by 6% to EUR 60.8 (57.4) million. Derivatives and fixed-rate instruments are used to manage interest rate risk. Their proportion of net interest income increased to EUR 35.4 (32.3) million. Net interest income from other treasury operations decreased to EUR -0.6 (7.7) million.

Net commission income was at the same level as last year and amounted to EUR 79.7 (80.0) million. Commission income from mutual funds, asset management and securities brokerage decreased by 1% to EUR 44.1 (44.8) million. Card and other payment service commissions increased by 6% and amounted to EUR 20.4 (19.2) million. Commission income from real estate agency increased by 6% and amounted to EUR 7.1 (6.7) million.

Net income from life insurance amounted to EUR 24.7 (24.9) million. The actuarially calculated result is higher than in the previous year, while the net income from investments has decreased.

Net income from financial transactions was EUR 8.3 (3.7) million. The accounting period includes one-time gains of EUR 6.9 million from the sale of Visa Europe to Visa Inc. Net income from hedge accounting was EUR -2.0 (-0.1) million, including costs of EUR 1.6 million arising from the phasing out of Aktia Real Estate Mortgage Bank.

Other operating income was EUR 3.1 (2.8) million.

## Business volumes

Deposits from the public and public sector entities increased and amounted to EUR 4,164 (3,922) million, corresponding to a market share of deposits of 3.7% (3.8%).

In total, the value of the bonds issued by Aktia Group was EUR 2,477 (3,033) million.

Total lending by the Group to the public amounted to EUR 5,717 (5,856) million at the end of December, a decrease of EUR 139 million. Aktia's own loan book increased by EUR 416 million (8%) and amounted to EUR 5,499 (5,083) million. The loans brokered by savings banks and POP Banks decreased by 72% and amounted to EUR 219 (774) million. Aktia's market share in housing loans to private persons was 4.1% (4.1%) at the end of December.

Credit quality remained strong, and the expected loss numbers remained at low levels. Loans past due more than 90 days, including claims on bankrupt companies and receivables for collection, increased to EUR 46 (44) million, corresponding to 0.79% (0.75%) of the loan book. During the year, total write-downs on credits and other commitments were EUR -2.2 (-0.3) million.

The Group's total managed assets amounted to EUR 10,769 (10,133) million.

Investments within the liquidity portfolio and the other interest-bearing investments decreased during the year by EUR 501 million and amounted to EUR 1,794 (2,295) million. The decrease in the liquidity portfolio is related to repayment of covered bonds issued by Aktia Real Estate Mortgage Bank to a value of approximately EUR 480 million, which matured at the end of the second quarter. At the end of December, the Bank Group's liquidity buffer was approximately equivalent to the estimated outgoing cash flow of finance from the wholesale market for 40 months. The Liquidity Coverage Ratio (LCR) was 209%.

## Capital adequacy and solvency

At the end of the year, the Common Equity Tier 1 capital ratio of Aktia Bank Group (Aktia Bank plc and all its subsidiaries except Aktia Life Insurance Ltd) was 19.5% (20.7%). After deductions, Common Equity Tier 1 capital decreased by EUR 23.7 million during the year. The decrease is mainly attributable to the increase in intangible assets and other deductible items. In total, risk-weighted assets decreased by EUR 1.1 million. During the accounting period, risk-weighted assets grew in corporate lending due to an increase in lending. Simultaneously, capital requirements for housing loans decreased due to the phasing out of Aktia Real Estate Mortgage Bank plc.

Aktia Bank Group applies internal risk classification (IRB) to the calculation of capital requirement for retail and equity exposures. For other exposures, the standardised approach is used. A total of 56% (58%) of the Bank Group's exposures are calculated according to the IRB approach. The work continues on migration to internal models for exposures to corporates and credit institutions.

The Financial Supervisory Authority granted Aktia Life Insurance Company Ltd permission to apply transitional measures for calculation of technical provision within the Solvency II framework that entered into force on 1 January 2016. Taking the transitional measures into consideration, the available solvency capital is 179.4 % of the solvency capital requirement (SCR), whereas the corresponding solvency ratio was 175.8% on 31 December 2015. Without transition rules, the solvency ratio was 108.7% on 31 December 2016. The permission granted by the Financial Supervisory Authority has no impact on the Aktia Bank Group's capital adequacy, operating profit or ability to pay dividends.

The financial conglomerate's capital adequacy ratio was 188.6% (226.7%). The statutory minimum stipulated in the Act on the Supervision of Financial and Insurance Conglomerates is 100%. Capital adequacy decreased due to higher capital requirements for the insurance business due to the Solvency II framework, which entered into force on 1 January 2016.

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](http://www.aktia.com).

## Rating

Standard and Poor's upgraded its view of Aktia Bank plc's outlook to stable (previously negative) on 16 November 2016 and also confirmed its rating of Aktia's creditworthiness at A- for long-term borrowing and A2 for short-term borrowing. Moody's Investors Service upgraded Aktia Bank plc's outlook to positive on 4 July 2016 (previously stable). Aktia Bank plc's credit rating remained unchanged at A3 for long-term borrowing, P-2 for short-term borrowing and C- for financial strength. The bank's baseline credit assessment (BCA) also remained unchanged (baa2). Moody's Investors Service confirmed the rating Aaa for Aktia Bank's long-term covered bonds.

The rating for the Government of Finland at the end of 2016 was Aa1 from Moody's, AA+ from S&P Global Ratings and AA+ from Fitch Ratings. These three credit rating agencies issued ratings with stable outlook.

## 2. Introduction

Aktia Bank Plc, with 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 according to Part Eight of the CRR, and tables especially encouraged by European Banking Authority (EBA) guidelines on disclosure requirements under Part Eight of the CRR. An overview of information exempted from disclosure due to being non-material, proprietary or confidential can be found in Appendix 6c. The disclosures are made annually in conjunction with the date of publication of Aktia Group's financial statements. For the items where Aktia has assessed that more frequent disclosures are needed, information is given in the interim financial reports or on the Investor Relations pages at [www.aktia.com](http://www.aktia.com).

This report is presented based on the requirement stated in the CRR, Part Eight. By approving this report, the Board of Directors approves of 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 for the Group principles for publication of disclosures according to Part Eight of the CRR, Article 435(1). All figures in this report are as of year-end 2016, unless otherwise stated.

The figures in this report are based on economic information that is presented and audited in the Annual Report 2016. This report is not externally audited; however, control mechanisms, internal processes and policies provide certainty to stakeholders about the accuracy and relevance of this report.

### 2.1 Description of Aktia Group

Aktia Group provides financial services to its customers, mainly to private persons and families, entrepreneurs and small companies. During 2015, Aktia Group decided to start to implement a growth strategy. The basis for the strategy is the high level of customer advisory services and continuous development of services and products in different sales channels. Customer satisfaction and the profitability of customer relationships in the long run are important features of this strategy. The strategy is followed up and measured against strategic target levels and limits for the strategy period.

Aktia Bank is active in the Finnish retail market, with a focus on growth areas in Finland such as the Helsinki Metropolitan Area, the coastal area and selected inland growth centres. The majority of Finland's population lives in this area. Households accounts for 84% of the loan portfolio and 73% of the deposit stock. Aktia has established a position as one of the leading asset and fund management groups in Finland. Aktia has about 350,000 private customers and about 50,000 corporate customers. They are served at 45 branch offices and via comprehensive web and telephone services. Aktia is a listed company; the majority of its shares are owned by savings bank foundations, institutions, companies and private individuals.

The group 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.

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 Real Estate Mortgage Bank Plc	Financing	100%	purchase method	fully consolidated
	Aktia Corporate Finance Ltd	Financing	100%	purchase method	fully consolidated
	Aktia Finance Ltd	Financing	100%	purchase method	fully consolidated
	Aktia Fund Management Company Ltd	Investment funds	100%	purchase method	fully consolidated
	Aktia Asset Management Ltd	Asset management	76%	purchase method	fully consolidated
	Aktia Kiinteistönvälitys Oy	Real estate Agency	100%	purchase method	fully consolidated
	Aktia Life Insurance Ltd	Insurance	100%	purchase method	not consolidated, holdings partially deducted from own funds
Aktia Life Insurance Ltd	Keskinäinen Kiinteistö Oy Pakkalantie 21	Real estate	100%	purchase method	not consolidated
	Keskinäinen Kiinteistö Oy Pakkalantie 19	Real estate	100%	purchase method	not consolidated
	Keskinäinen Kiinteistö Oy Tikkurilantie 141	Real estate	100%	purchase method	not consolidated
	Kiinteistö Oy Kantaatti	Real estate	100%	purchase method	not consolidated
	Kiinteistö Oy Keinusaaren Toimistotalo 1	Real estate	50%	equity method	not consolidated
	Kiinteistö Oy Skanssinkatu	Real estate	50%	equity method	not consolidated
	Kiinteistö Oy Lempäälän Rajamäentie	Real estate	50%	equity method	not consolidated
	Keskinäinen Kiinteistö Oy Sähkötie 14-16	Real estate	33%	equity method	not consolidated
	Kiinteistö Oy Lahden BW Tower	Real estate	33%	equity method	not consolidated

Aktia Bank plc is the parent company of Aktia Group. The regulatory reporting, capital adequacy calculations, as well as 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.

## 2.2 Statement of key risks in Aktia's operations

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

The results from asset management operations are mainly affected by trends in the business volumes, commission levels and cost efficiency. Opportunities for improving, customising and developing new products and processes help reduce the business risks. Negative trends in the valuation of assets under management might also affect customers' decisions 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 the asset side and, on the other hand, on liabilities. Volatility in the solvency and results from life insurance operations can be attributed primarily to market risks in the investment assets and the interest rate risk in technical provisions. The policyholder bears the market risk of the investments that act as cover for unit-linked policies, while the company bears the risk of that part of the investment portfolio that covers technical provisions for interest-linked policies.



Table 2.2. Risk definitions and risk profile

Risk	Definition	Risk profile
<b>General</b>	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.
<b>Credit risk</b>	The risk of loss due to the debtor failing to fulfil obligations towards Aktia. Counterparty risk is a part of credit risk and is defined as the risk of loss or negative valuation differences due to deterioration of the counterparty's credit worthiness. Credit risk also includes concentration risk and settlement risk.	Aktia's lending is dominated by private individuals, households and small-sized companies. Lending to customers is mainly mortgage lending where security is predominantly real estate. The lending process comprises of evaluation and rating of each customer where the ability for debt repayment is in focus. The bank is exposed to counterparty risk through derivative contracts, which is mitigated by collateral arrangements according to agreements with each counterparty. Counterparties are selected through an evaluation process focusing on their ratings and they are mainly systemically important financial institutions.
<b>Market risk</b>	Market risk is divided into interest, exchange rate, equity and real estate risks. Market risk refer to changes in the value of assets or liabilities, including the effects of correlation and volatility, that have a negative effect on the result or equity/solvency.	Aktia's market risk is mainly structural interest rate risk in its balance sheet, while exchange rate risk is low as lending and funding is mainly euro-denominated. No trading activities are carried out by the Group. Aktia is also exposed to market risk in its investment activities in the bank and in Aktia Life Insurance. Limits are set for the market risk annually by the Board of directors and then monitored and utilisation reported regularly. Market risk for the group is stress-tested regularly to monitor the impact of a severe downturn in market conditions.
<b>Funding and liquidity risk</b>	The risk that the group will not be able to meet its payment obligations, the availability and cost of refinancing, as well as differences in maturity between assets and liabilities.	Liquidity risks arise because the maturity structures on the asset and liability sides of the balance sheet do not coincide, as lending is generally longer term than deposits. To ensure market-related refinancing, the bank strives to maintain a diverse range of financing sources and an adequate diversification across different markets and investors. Aktia maintains a liquidity buffer for which a target is set annually by the Board of Directors. The liquidity buffer consists almost entirely of securities which are eligible as pledges to the central bank.
<b>Insurance risk</b>	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.
<b>Operational risk</b>	Operational risks refer to risk of loss arising from unclear or incomplete instructions and internal processes, unreliable information, human error, deficient systems or external events.	The framework for managing the operational risks of the Group has been established by the Board of Directors. The responsibility for managing operational risks lies with the risk owner, i.e. the management of the different business areas and their organisation. Risk assessments are performed by the risk owners and their organisation with the help of standard assessment models. Adequate internal instructions, continuity planning for all critical functions and standard processes for approval of new products, processes and services are applied on a group level.
<b>Other</b>	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.	Business and strategic risk are predominantly risks that, when realised, have an impact on the group's performance and profitability. 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. Reputational risk is mitigated by transparency and providing timely information to all parties with interest in the group. Aktia has published an information policy which can be accessed on the group's webpage.

## 2.3 Legal and governance structure

Figure 2.3. Aktia Group's legal structure



■ Entities included in the scope of prudential consolidation

\*The group legal structure entered into force 28.2.2017. Aktia Real Estate Mortgage Bank Plc merged on 28th February with Aktia Bank Plc.

Figure 2.4. Aktia Group's governance structure



## 3. Governance of risk

### 3.1 Risk management

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

#### 3.1.1 Board of Supervisors

The Board of Supervisors is appointed by the Ordinary Annual General Meeting. The Board of Supervisors is responsible for monitoring the administration of the company and reports on the company's financial statements, the report by the Board of Directors and the audit report to the company's Ordinary Annual General Meeting. The Board of Supervisors makes decisions on matters that are related to significant restriction or expansion of operations. The Board of Supervisors also appoints the company's Board of Directors and can advise the Board of Directors in matters that are of special importance.

Aktia Bank announced on 31 January 2017 that the current administration model, which includes a Board of Supervisors, will be reconsidered. The Board has decided to proceed with preparations to replace the Board of Supervisors with a Representative Assembly without formal legal status according to company laws and without decision-making right. The responsibility to appoint the bank's Board of Directors would then transfer from the Board of Supervisors to the Annual General Meeting, and the appointments would be prepared by a Nomination Committee. The planned schedule for transition to a simplified administration model is September 2017, when the bank aims to hold an extraordinary Annual General Meeting to decide on changes in the articles of association.

#### 3.1.2 Board of Directors

The Board of Directors of Aktia Bank plc oversees that the Aktia Group is managed efficiently and follows prudent business principles in accordance with the provisions of applicable laws, the Articles of Association and the instructions issued by the Board of Supervisors. The Board of Directors approves the bank's business strategy, strategic objectives, risk strategy and systems for management and governance, as well as monitoring and overseeing them. The Board of Directors also appoints Aktia's Managing Director.

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

The Board of Directors regularly monitors the group's compliance with the risk policy, and risk positions. Utilisation of risk limits is 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, in order to measure the adequacy of capital, taking into account the Group's risk positions.

#### 3.1.3 Board's Risk Committee

The Group's Board of Directors appoints a Risk Committee from among its members to prepare risk-related matters for the Board's consideration, including the Group's risk policy, and to make individual credit decisions in accordance with the principles and limits accepted by the Board. The Risk Committee also prepares the internal capital assessments (ICAAP) for the Group and for the life insurance subsidiary (ORSA), liquidity and funding issues, and the recovery and continuity plans for the Group.

The Board's Risk Committee consisted of four members of the Board with expertise in the field of risk management, lending and investment activities. The Risk Committee met 14 times during 2016. In these meetings, the Committee discussed and made decisions on 35 credit applications, among other issues. Risk-related information and several new policies and guidelines were discussed and decided and updated during 2016.

#### 3.1.4 Executive Committee

The Managing Director is appointed by the Board of Directors. The Managing Director is responsible for the day-to-day management of the Aktia Group in accordance with instructions issued by the Board of Directors concerning administration of the Group's business.

The Executive Committee members manage respective business areas or support functions. Certain matters related to lending and the handling of the Group's financing, liquidity and market risks as well as administration are dealt with by committees consisting of Executive Committee members and others appointed by the Managing Director.

The Managing Director is responsible for organising the risk management processes, and the executive committee prepares matters relating to internal capital assessment and further delegation of risk mandates.

The Executive Committee met roughly once a month in meetings dedicated to risk-related matters during 2016. The role of these meetings is to handle and prepare issues for decisions by the Board of Directors and to develop risk management processes within the Group. Representatives of the risk control function take part in the meetings. Risk Control, however, does not participate in decision-making.

### 3.1.5 The Group's risk control function

The Group's Risk Control function reports to the Board of Directors. Risk Control monitors risk management in the business units and is responsible for overseeing that 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 and in relation to the strategy decided by the Board of Directors. Risk Control is responsible for preparing the Group's risk management framework, which is annually approved by the Board of Directors. The Group's internal capital assessment and liquidity planning process is coordinated by Risk Control, and it evaluates the impacts of different stress tests and scenarios on capital adequacy and liquidity position as well as on the result of the financial conglomerate and Group companies. Risk Control has also the responsibility for coordinating and updating the Group's recovery plan according to the Bank Recovery and Resolution Directive and national legislation, and the monitoring of the indicators in the plan.

Regarding the fund and asset management subsidiaries, the independent risk control function is responsible for daily monitoring and reporting of risk limits related to the mutual funds administrated by Aktia Fund Management Company. The middle office function monitors the risk limits of all the other asset management customers of Aktia. In addition, potential breaches of risk limits are reported to the Board of Directors of the two subsidiaries Aktia Fund Management Company Ltd and Aktia Asset Management Ltd.

Administratively, the Group's Risk Control function is subordinate to the Group's Chief Control Officer, who is a member of the Executive Committee.

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 the taking, reducing, analysis, measuring, controlling and monitoring of risks. The risk culture in Aktia Group is based on high ethical principles and integrity in all its operations. The personnel are well aware of the significance of internal control, their own roles and responsibilities, and the code of conduct.

### 3.1.6 Three lines of defence

The primary responsibility for internal control lies with the 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. The control functions consist of the group's Risk Control unit, the Compliance function and Financial Reporting and Analysis, which are independent of the business units. In addition, there are persons responsible for control functions in two of the subsidiaries: Aktia Life Insurance and Aktia Fund Management Company. These persons report to the head of the Compliance function and the head of Risk Control, respectively.

**Figure 3.1. Lines of defence**

#### The first line of defence – business units

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.

#### The second line of defence – Risk Control, Compliance, and Financial Reporting and Analysis

The second line of defence comprises of the independent control functions Risk Control, Compliance, and Financial Reporting and Analysis. The role of the Risk Control function is to develop the principles, methods and instructions for managing risks, analysis and assessment of risk positions as well as for monitoring how risk management is implemented in business operations. In addition, Risk Control makes proposals for limits to risk appetite, measures and analyses risk, estimates the need for economic capital, and monitors how risk management is realised in the business organisation. Risk Control, led by the Head of Risk Control, reports directly to the Group's Board of Directors. In addition, there is an independent risk management control function in Aktia Fund Management Company Ltd, which reports to the Fund Management Company's Board of Directors as well as to the Head of Risk Control. At the beginning of 2016, an independent actuary function was implemented in Aktia Life Insurance, which reports directly to the company's Board of Directors.

The Compliance function secures compliance in the Group's business operations, supporting executive and line management in the implementation of internal rules and regulations, as well as identifying and reporting risks related to shortcomings in compliance. The Compliance function reports directly to the Board of Directors. The Group has also implemented an independent channel for whistleblowing.

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

#### The third line of defence – Internal Audit

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

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

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

To ensure that the financial reporting is accurate, system-based internal controls have been built into all key processes, as well as duality and reconciliation where information is recorded. Internal control is supported by observations from the Group's Internal Audit unit, which, by means of random sampling, verifies the accuracy of information flows and the sufficiency of the level of control. The Internal Audit unit reports directly to the Aktia Group's Board of Directors and its Audit Committee.

The Aktia Group's operational organisation for financial reporting is a unit within the Group's Finance department. The unit is also in charge of external reporting to the local authorities. The Finance department is also responsible for Group consolidation, budgeting, internal monitoring of results, upholding accounting principles, and internal reporting guidelines and instructions. For each business segment and/or key individual companies, segment controllers have been appointed with responsibility for financial monitoring and analysis. Group reporting is compiled in a centralised manner and supported by a common system for financial reporting, comprising both external and internal reporting, and contributing to consistent management of financial reporting at different levels on an ongoing basis.

Parts of the Group's current accounting have been outsourced to external companies that provide accountancy services. These accountancy services also include the maintenance of securities, 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 they comply with the guidelines and directives issued by the Financial Supervisory Authority and other authorities. In order to develop and assess cooperation, meetings are arranged regularly with service providers.

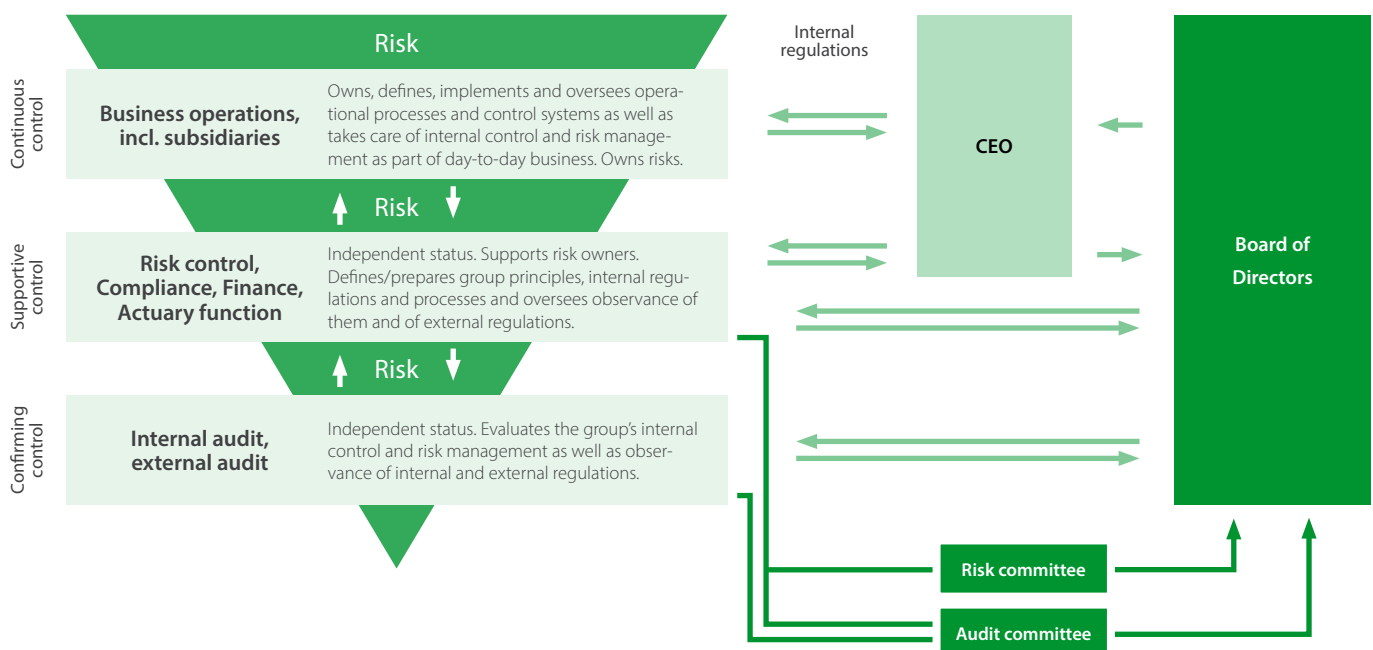
Within the Aktia Group, duties and responsibilities have been organised so that people involved in the financial reporting process have only very restricted rights of use to the different production systems and business applications in the respective business area. The Aktia Group's Finance function, which is in charge of internal and external financial reporting, is not involved in making direct business decisions. The Financial Manager reports to the Aktia Group's Chief Financial Officer, 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 are prepared using the same standards applied to the official interim financial statements and annual accounts. The monthly reports, supplemented by comparative analysis of previous periods, the budget, planned projects and central key figures for analysing the respective business segments are currently distributed to Aktia Group's Board of Directors and management, selected key personnel and the auditors.

The Group's financial development and performance is addressed each month by the Aktia Group's Executive Committee. A similar detailed review takes place on a quarterly basis by the Group's Board of Directors and its Audit Committee in the form of interim reports and an annual report. The interim reports and the annual report 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.

Internal control and risk management in the Aktia Group is summarised in Figure 3.2.

Figure 3.2. Aktia Group Internal control and risk management



## 4. Capital management

Despite the reduction in capital and growth in the loan book, Aktia's CET1 ratio remained at a solid level in 2016. Capital management aims to ensure that the capital adequacy is sufficient to support the business strategy and to provide buffers during times of stress.

### 4.1 Capital position

#### 4.1.1 Minimum capital requirements

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

The Financial Supervisory Authority in Finland has granted Aktia Bank Group permission to apply the internal ratings-based (IRB) approach to retail and equity exposures. This represents 56% of the Bank Group's credit risk exposure. The rest of the credit exposures are calculated with 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 with 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)

**Table 4.1. Minimum capital requirements and REA**

(EUR million)	31 Dec 2016			31 Dec 2015		
	Minimum capital requirement	REA	Credit exposure	Minimum capital requirement	REA	Credit exposure
<b>Credit risk</b>	<b>129.8</b>	<b>1,622.7</b>	<b>8,271.7</b>	<b>129.2</b>	<b>1,614.8</b>	<b>8,627.9</b>
- of which counterparty credit risk	0.9	11.5	38.6	1.1	14.0	47.8
<b>IRB</b>	<b>72.0</b>	<b>900.1</b>	<b>4,944.1</b>	<b>80.0</b>	<b>999.4</b>	<b>5,323.0</b>
- of which retail	<b>61.4</b>	<b>767.2</b>	<b>4,895.3</b>	<b>69.4</b>	<b>867.3</b>	<b>5,273.6</b>
- of which secured by immovable property	56.4	704.9	4768.3	65.3	816.6	5168.0
- of which other retail	3.7	45.9	106.0	2.6	32.2	83.5
- of which SME	1.3	16.4	21.0	1.5	18.5	22.0
- of which equity	<b>10.6</b>	<b>132.9</b>	<b>48.8</b>	<b>10.6</b>	<b>132.1</b>	<b>49.3</b>
<b>Standardised</b>	<b>57.8</b>	<b>722.6</b>	<b>3,327.6</b>	<b>49.2</b>	<b>615.4</b>	<b>3,304.9</b>
- of which central governments or central banks	0.0	0.0	630.5	0.0	0.0	498.0
- of which regional governments or local authorities	0.1	0.8	223.8	0.0	0.2	225.9
- of which multilateral development banks	0.0	0.0	51.6	0.0	0.0	65.0
- of which international organisations	0.0	0.0	159.2	0.0	0.0	159.5
- of which institutions	9.4	117.5	385.4	11.5	144.1	469.5
- of which corporate	11.9	148.8	149.9	5.1	63.8	66.2
- of which retail	5.8	72.2	104.9	5.6	69.7	99.8
- of which secured by mortgages on immovable property	21.2	265.6	701.4	14.8	184.4	476.9
- of which in default	0.9	11.5	10.5	1.0	12.2	11.2
- of which associated with particularly high risk	0.0	0.0	0.0	0.0	0.0	0.0
- of which covered bonds	6.9	86.6	866.1	9.5	118.4	1183.8
- of which equity	0.0	0.0	0.0	0.0	0.0	0.0
- of which other items	1.6	19.6	44.4	1.8	22.5	49.2
<b>Credit value adjustment risk</b>	<b>2.1</b>	<b>26.2</b>		<b>2.2</b>	<b>27.8</b>	
<b>Market risk</b>	<b>0.0</b>	<b>0.0</b>		<b>0.0</b>	<b>0.0</b>	
<b>Operational risk (basic indicator approach)</b>	<b>27.9</b>	<b>348.7</b>		<b>28.5</b>	<b>356.1</b>	
<b>Total</b>	<b>159.8</b>	<b>1997.7</b>		<b>159.9</b>	<b>1,998.8</b>	

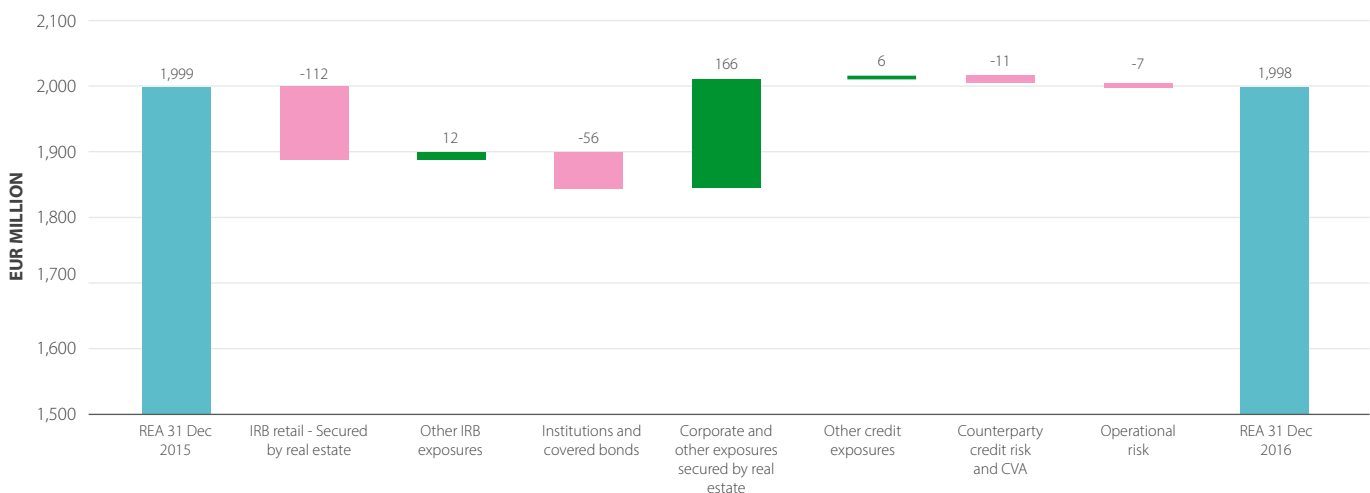
positions. Aktia Bank Group has no investments in securitisation positions, and it has no securitised exposures.

The Solvency II framework entered into force for insurance companies 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 mortgage loans brokered by savings banks and POP Banks decreased during the year, which lead to decrease in the REA of retail exposures secured by real estate. The amount of REA also diminished due to a reduction of volume in the liquidity portfolio. Corporate lending increased during 2016, which led to growth in corporate and real estate secured REA. The total amount of REA remained at the previous year's level.

**Figure 4.2. Split of REA changes**



#### 4.1.2 Own funds

Table 4.4 presents a summary of Aktia Bank Group's own funds and their development in 2016. The total amount of the Bank Group's own funds decreased by EUR 15.9 million during 2016. The CET1 capital decreased by EUR 23.7 million. The unrealised gains on available for sale assets reduced due to maturing fixed-income investments. The intangible assets to be deducted also increased during the year due to the ongoing implementation of the new core banking system. 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 Bank Group issued a gross amount of EUR 48.8 million of new Tier 2 subordinated debt during 2016. The amount of grandfathered instruments recognised as Tier 2 capital decreased by EUR 5.8 million during the year. The amount recognised in the Bank Group's own funds of CRR-compliant Tier 2 instruments decreased due to the maturity haircut by EUR 35.2 million, resulting in a total net increase in Tier 2 capital instruments by EUR 7.8 million during 2016.

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 own funds. The full terms and conditions of capital instruments can be found at [www.aktia.com](http://www.aktia.com) (only in Swedish and Finnish).

**Table 4.3: Non-deducted participations in insurance undertakings\***

31 Dec 2016	
EUR 1,000	Value
Holdings of own funds instruments of a financial sector entity where the institution has a significant investment not deducted from own funds (before risk-weighting)	39,622
Total RWAs	99,055

\*EU INS1

Table 4.4 Summary of consolidated own funds and movements during 2016

Aktia Bank Group, EUR million	Own funds 31 Dec 2015	Development in 2016	Own funds 31 Dec 2016
Equity	163.0	0.0	163.0
Reserves, retained earnings and profit after dividend	299.2	2.5	301.8
Unrealised gains on AFS financial assets	24.0	-8.1	15.9
Intangible assets	-47.8	-12.8	-60.6
EL shortfall	-19.2	-1.1	-20.3
Significant holdings in financial sector entities	-4.4	-2.2	-6.6
Other items	-1.5	-2.1	-3.6
<b>CET1 total</b>	<b>413.4</b>	<b>-23.7</b>	<b>389.7</b>
<b>Tier 1 capital</b>	<b>413.4</b>	<b>-23.7</b>	<b>389.7</b>
Grandfathered Tier 2 instruments	5.8	-5.8	0.0
CRR compliant Tier 2 instruments	122.6	13.6	136.1
<b>Own funds</b>	<b>541.7</b>	<b>-15.9</b>	<b>525.8</b>

### 4.1.3 Buffer requirements

The Basel III framework introduced a series of buffer requirements that increase the 8% minimum capital requirement set by the CRR. In the European Union, the buffers are included in the CRD, which means that implementation of buffers can vary between member states. In Finland, the capital conservation buffer, countercyclical capital buffer and buffer requirement for systemically important institutions have been implemented so far. Table 4.5 illustrates the current buffer requirements. All buffer requirements should be covered with CET1 capital. The countercyclical capital buffer requirement is an institution-specific requirement calcu-

lated based on the weighted average of the relevant credit exposures and individual buffer requirements set in different jurisdictions. In Finland, the board of the Financial Supervisory Authority has currently set the requirement to 0% for Finnish exposures. However, for example in Sweden and Norway, a 1.5% requirement has been set. This requirement also applies to certain exposures, mainly in the Bank Group's liquidity portfolio. Tables 4.6 and 4.7 summarise the calculation of institution-specific countercyclical capital buffer requirement as stipulated in EU Regulation 2015/1555.

Table 4.5 Combined capital requirement as of 31 Dec 2016

	Minimum requirement	Capital Conservation	Buffer requirements, %			Total capital requirement
			Counter- cyclical	O-SII	Systemic risk	
CET1 capital	4.50	2.50	0.03	0.00	NA	7.03
AT1 capital	1.50					1.50
Tier 2 capital	2.00					2.00
<b>Total</b>	<b>8.00</b>					<b>10.53</b>



Table 4.6 Geographical distribution of credit exposures relevant for the calculation of the countercyclical capital buffer, EUR million\*

31 Dec 2016

	General credit exposures		Trading book exposure		Securitisation exposure		Own funds requirements			Total	Own funds requirement weights	Countercyclical capital buffer rate
	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			
Breakdown by country												
Finland	1,046.8	4,947.8	0.0	0.0	0.0	0.0	113.1	0.0	0.0	113.1	94.0%	0.000%
Norway	217.8	0.9	0.0	0.0	0.0	0.0	1.8	0.0	0.0	1.8	1.5%	1.500%
Sweden	61.8	2.4	0.0	0.0	0.0	0.0	0.6	0.0	0.0	0.6	0.5%	1.500%
Hong Kong	3.2	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1%	0.625%
Other countries	547.6	6.6	0.0	0.0	0.0	0.0	4.8	0.0	0.0	4.8	4.0%	0.000%
<b>Total</b>	<b>1,877.3</b>	<b>4,957.8</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>120.4</b>	<b>0.0</b>	<b>0.0</b>	<b>120.4</b>	<b>100.0%</b>	

\*EU Regulation 2015/1555

**Table 4.7. Amount of institution-specific countercyclical capital buffer\***

EUR million	31 Dec 2016
Total risk exposure amount	1,997.7
Institution specific countercyclical buffer rate	0.03%
Institution specific countercyclical buffer requirement	0.6

\*EU Regulation 2015/1555

On 16 December 2016, based on the Credit Institution Act, the Financial Supervisory Authority made a decision on a discretionary buffer requirement on a consolidated level (regulatory Pillar 2 capital requirement). The requirement is based on the outcome of the supervisory review and evaluation process (SREP). The total Pillar 2 requirement is 1.75% and covers the concentration risk in credit risk (1.0%) and the interest rate risk in the banking book (0.75 %). For those risks, there are no explicit capital requirements in the CRR. The Pillar 2 requirement must be met with CET1 capital. The requirement enters into force as of 30 June 2017 and increases the Bank Group's minimum capital requirement as well as the minimum capital requirement for the financial conglomerate.

#### 4.1.4 Capital ratios and leverage ratio

Table 4.8 shows the development of capital ratios. The consolidated CET1 capital ratio reduced by 1.2 percentage points during the period, which was mostly related to a reduction in the amount of CET1 capital.

The development of the leverage ratio is presented in Table 4.9. The total exposure amount reduced during the period, mainly as a result of the diminishing loan book of Aktia Real Estate Mortgage Bank. This was compensated by the growth in corporate lending and the reduction in the Tier 1 capital, thus leaving the leverage ratio at the same level as the year before. Appendix 5 presents the information as stated in the implementing technical standards with regard to disclosure of the leverage ratio (EU Regulation 2016/200).

#### 4.1.5 Aktia Life Insurance and the financial conglomerate

As of 1 January 2016, the life insurance company follows the Solvency II directive, in which the solvency calculations deviate considerably from previous requirements. The most important difference is that technical provisions are now measured at market value. According to Solvency II,

**Table 4.8. Development of capital ratios**

Capital adequacy, %	31 Dec 2016	30 Sep 2016	30 Jun 2016	31 Mar 2016	31 Dec 2015
<b>Aktia Bank Group</b>					
CET1 Capital ratio	19.5	19.2	19.7	19.5	20.7
Tier 1 Capital ratio	19.5	19.2	19.7	19.5	20.7
Total capital ratio	26.3	25.5	26.2	25.6	27.1
<b>Aktia Bank</b>					
CET1 Capital ratio	16.1	15.6	17.4	17.5	18.6
Tier 1 Capital ratio	16.1	15.6	17.4	17.5	18.6
Total capital ratio	21.7	20.8	23.4	23.3	24.6
<b>Aktia Real Estate Mortgage Bank</b>					
CET1 Capital ratio	193.9	141.5	94.5	86.8	79.5
Tier 1 Capital ratio	193.9	141.5	94.5	86.8	79.5
Total capital ratio	193.9	141.5	94.5	86.8	79.5
<b>Aktia Asset Management</b>					
CET1 Capital ratio	11.5	11.3	11.2	11.2	11.2
Tier 1 Capital ratio	11.5	11.3	11.2	11.2	11.2
Total capital ratio	11.5	11.3	11.2	11.2	11.2

**Table 4.9. Development of Leverage Ratio**

Aktia Bank Group	31 Dec 2016	30 Sep 2016	30 Jun 2016	31 Mar 2016	31 Dec 2015
EUR million					
Tier 1 capital, fully phased	390	406	408	415	413
Total exposure	8,206	8,207	8,805	8,729	8,814
<b>Leverage Ratio, %</b>	<b>4.7</b>	<b>4.9</b>	<b>4.6</b>	<b>4.8</b>	<b>4.7</b>

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 consideration of the transitional measure for technical provisions in accordance with the permission granted by the Financial Supervisory Authority.

As at 31 December 2016, SCR amounted to EUR 80.6 million, MCR to EUR 24.4 million and the available capital to EUR 144.7 million. Thus the solvency ratio was 179.4%. Without the transitional measures the SCR amounted to EUR 80.8 million, MCR to EUR 26.7 million, and the available capital to EUR 87.9 million; the solvency ratio was 108.7%.

The financial conglomerate's capital adequacy ratio was 188.6% (226.7%). The statutory minimum stipulated in the Act on the Supervision of Financial and Insurance Conglomerates is 100%. The lower capital adequacy ratio is a result of increased capital requirements in the life insurance business after the Solvency II framework entered into force in 2016.

## 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 weaker periods of the economic cycle. The objective is to find a balance between 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 to assess their extent and the capital they require. The planning of operations is forward-looking and uses the annually produced strategic plan as the starting point.

The Group's Executive Committee is responsible for preparing the Board's annual strategic planning process, and for the accompanying capital planning and allocation. The Board's risk committee monitors this work, while decisions are 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 govern 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 carried out in order to assess how weaker periods of the economic cycle affect capital adequacy.

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 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 that the management can take in order to increase capital or reduce the exposures.

### 4.2.2 Capital policy

The 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 impacts 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 defined its financial targets in the first quarter of 2015. The Bank Group's and Aktia Bank Plc's targets for the CET 1 are 15% at a minimum. The Group's capital policy states that the subsidiaries will generally operate above the minimum capital requirements and that the capital buffer is maintained at the parent company.

There are no current or foreseen material practical or legal impediment to the prompt transfer of excess own funds or repayment of liabilities among the 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. Thus there is no need for cross-border transfers within the Group.

The capital adequacy target for the financial conglomerate is to exceed 150%.

The Group's dividend policy states that the pay-out ratio should be at least 50% of the profit for the year.

### 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 of the Group's material risks.

The Bank Group's internal capital requirement is based on the "Pillar 1 plus Pillar 2" method. Pillar 1 sets the minimum regulatory capital requirements for credit risks and operational risks. In Pillar 2, the capital requirement is supplemented with internal capital requirements for other risks as well as areas that are covered insufficiently under Pillar 1. The main principles of the methodology remained unchanged during the year, but there are some changes in the detailed parameters and assumptions within individual risk models.

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

Aktia has no trading book, which means that there is no Pillar 1 requirement for market risk. The market risk in the banking book is captured in the Pillar 2 requirements. The Pillar 2 models measure the spread, equity, FX and real estate risks in the available-for-sale (AFS) 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 the 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 in P&L. The liquidity risk is covered partly in the model as rising funding costs.

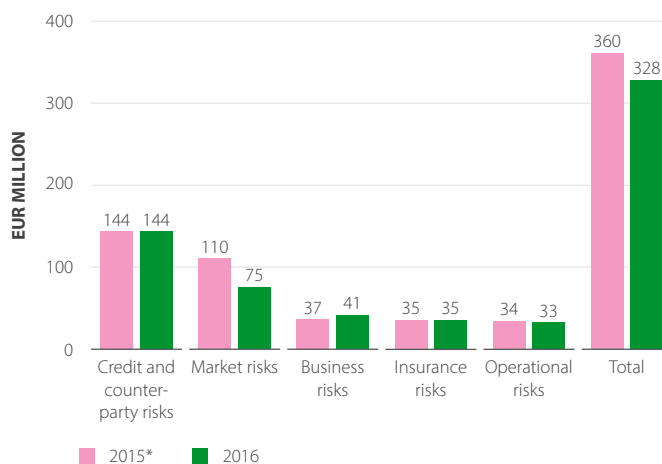
The Pillar 2 requirements also include add-ons due to the ongoing implementation of the new core banking system. The Bank Group's total internal capital requirement is the sum of different Pillar 1 and Pillar 2 requirements, i.e. no inter-risk diversification is assumed.

The internal capital requirement for Aktia Life Insurance is part of its ORSA (Own Risk and Solvency Assessment) process. The capital requirements are based on internal risk models that cover business, market, underwriting and operational risks. The model takes into account both intra- and inter-risk correlations.

The results of the Bank Group and Aktia Life Insurance are aggregated to a Group requirement. The results are then compared to the capital position of the Group. The Group's own funds are based on the adjusted value of equity and subordinated debt. The equity is adjusted by deducting the dividend proposal, intangible assets and EL shortfall. Also deducted are other life insurance-related items that are not considered to be own funds in the Solvency regulation. The Group's own funds include the mark-to-market effect of technical provisions. During the year, the methodology was updated to take into account the Solvency II transitional rules. Capital instruments that are not freely transferable to cover losses within the Group are deducted from the Group's own funds to the extent they exceed internal capital requirements.

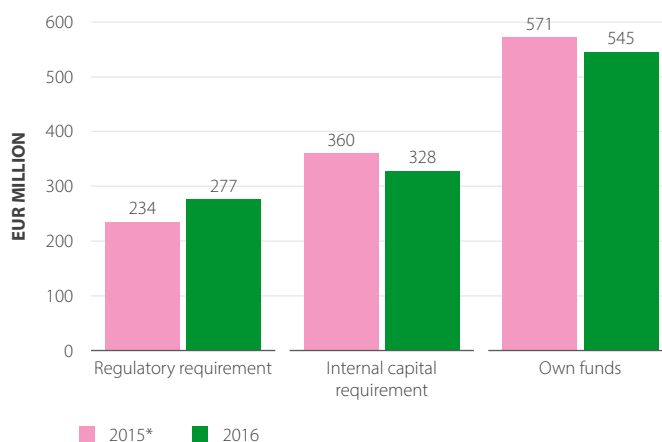
Risk limits have been set based on the internal capital requirements. The limit establishes the maximum amount of capital that can be utilised for one specific risk type. The limit framework also incorporates the targets for capital adequacy.

**Figure 4.10 Internal capital requirement by risk type**



\* 2015 numbers have been restated to correspond the calculation methods used in 2016

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



\* 2015 numbers have been restated to correspond the calculation methods used in 2016

#### 4.2.4 Stress testing

Aktia carries out regular stress testing and scenario analysis to analyse the capital position and to identify risks. The process is conducted at different levels. Stress tests are carried out 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. The majority of the loan book is secured by residential real estate, thus declining housing prices combined with rising unemployment rate have a material impact on the loan losses. The development of short-term interest rates affects the level of interest income for the mainly Euribor-linked loan book. On the other hand, the long-term rates have an impact on the values of

the AFS 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 AFS portfolios as well as Aktia's own funding prices. In Aktia Life Insurance, movements in FX rates also have a material impact.

Other key stress factors relate to the development of business volumes on and off the balance sheet and their pricing. Also, rising operating costs impact the overall profitability of the Group.

The calculation process starts from the Group's rolling financial forecasts, which include baseline assumptions of business volumes and profitability. The stress scenarios cover a rolling three-year period. The severity of the scenarios can be adjusted to meet different needs for stress testing. Different P&L items are recalculated in the scenario based on the selected risk factors.

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

Loan loss estimates are based on the point-in-time estimates of the loan book. Credit risk scenarios are based on a two-factor model where 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 loan loss estimates can be supplemented by additional defaults in the corporate portfolio. The RW estimates for the current and future IRB portfolios are based on the TTC PD and downturn LGD models, and static RWs for other portfolios that are currently under the SA. Combined with the balance sheet estimate, an REA estimate is obtained.

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

Based on the selected scenario, a stressed balance sheet, P&L and risk-metric estimates are calculated. Combined with the scenario assumptions on the capital policy, i.e. dividend pay-out and new issues of various capital instruments, capital ratios for Aktia Bank and Life Insurance and the financial conglomerate are derived. The results are then compared to the target and the alarm zones 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 according to the given scenarios. The tool can also be used to carry out 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 different alternative actions that the Executive Committee can take in situations where capital adequacy is at risk. Aktia Group has structured a recovery plan. The recovery plan consists of plans and actions for the Group to recover from serious financial difficulties. The Board and its risk committee quarterly monitor changes in capital adequacy and, within the framework of the capital management process, also the effects of various stress tests. The recovery plan sets different indicators that monitor the Group's capital adequacy, liquidity, asset quality and profitability, as well as the status of the economy and financial markets. Various alarm zones have been set for the indicators to ensure prompt implementation of recovery actions. The recovery actions include means by which capital requirements can be reduced, the Group's own funds increased, the liquidity situation improved and profitability improved.

During 2016, the Finnish resolution authority, the Financial Stability Authority, started the process of drawing up a resolution plan for Aktia. As part of the process, an individual minimum requirement for own funds and eligible liabilities (MREL) will be set for Aktia.

## 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 levels 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 deterioration of the counterparty's credit worthiness. Credit and counterparty risks are measured by assessing the probability of default and any losses incurred by such. The probability of default is measured using scoring or rating models, and the LGD is measured by taking into account the realisation value of the collateral and the anticipated recovery, with deductions for recovery costs. Each year, the Group's Board of Directors determines the credit policy and revises both the credit risk strategy and delegation of decision-making. The regulation of counterparty risks is managed in a similar manner.

Credit risks occur in banking operations, while counterparty risks occur in both banking and insurance operations.

The limit structure restricts credit and counterparty risks in both banking and insurance operations, individually and also at conglomerate level, through restrictions on the total exposure to individual counterparties.

### 5.1 Management, governance and measurement of credit risk

The line organisation assesses the credit risk in each individual transaction and bears the overall responsibility for credit risks in its own customer base. The group's Risk Control unit is responsible for ensuring that the models and methods used for measuring credit risk are comprehensive and reliable. The Risk Control unit is also responsible for performing independent risk analysis and reporting. The Risk Control unit oversees the preparation of loan agreements and is responsible for assigning a loan agreement to the next decision-making level if the preparatory work is insufficient, or if the agreement falls outside the Group's credit policy.

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 both the branch network and the Executive Committee. Every year, Risk Control carries out a comprehensive validation of all credit risk models, and the results are reported both to the Board of Directors and the Executive Committee of the Group. In addition, Risk Control continuously monitors that the models function normally, and these 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

Within banking operations, loans are provided to households – the majority of which are secured against real estate collateral. Housing finance is arranged directly from Aktia Bank's balance sheet. Other investment and consumption financing for households, including credit cards, is arranged directly from the Bank's balance sheet.

Small businesses and entrepreneurs make up the main target group for Aktia's corporate business, and the long-term aim is to develop broad cross-selling of bank and insurance solutions. Activities are adjusted locally, within Aktia's regions, to benefit from the best competence and customer relationships.

The financing of corporate instalment purchases, leasing and working capital is managed through a separate subsidiary, Aktia Corporate Finance.

The debtor's ability to repay the debt, good knowledge of the customer, a complete understanding of the customer's business situation, as well as a dualistic decision-making process, limited risk-taking, diversification and risk-based pricing, are central elements of the Group's credit policy, together with the drive for sustained profitability.

Table 5.1. Total and average net amount of exposures\*

31 Dec 2016		
EUR 1,000	Net value of exposures at the end of the period	Average net exposures over the period
Retail	4,895,317	5,095,997
Secured by real estate property	4,768,328	4,981,363
SMEs	154,765	158,455
Non-SMEs	4,613,563	4,822,908
Other retail	126,989	114,634
SMEs	20,994	20,999
Non-SMEs	105,995	93,635
Equity	48,780	51,143
<b>Total IRB approach</b>	<b>4,944,097</b>	<b>5,147,140</b>
Central governments or central banks	500,947	369,447
Regional governments or local authorities	199,744	214,986
Multilateral development banks	51,578	51,905
International organisations	159,156	159,318
Institutions	696,505	666,407
Corporates	355,819	320,463
Of which: SMEs	16,215	15,850
Retail	249,499	245,357
Of which: SMEs	64,929	62,604
Secured by mortgages on immovable property	772,105	669,009
Of which: SMEs	275,583	262,843
Exposures in default	11,078	10,978
Covered bonds	866,130	951,286
Other exposures	44,404	55,905
<b>Total standardised approach</b>	<b>3,906,965</b>	<b>3,715,061</b>
<b>Total</b>	<b>8,851,062</b>	<b>8,862,201</b>

\* EU-CRB-B

Table 5.2. Geographical breakdown of exposures\*

31 Dec 2016

Exposure classes, EUR 1,000	Net value of exposures									
	Finland	France	Netherlands	Norway	United Kingdom	Sweden	Denmark	Germany	Other countries	Total
Central governments or central banks										0
Institutions										0
Corporates										0
Retail	4,886,604	247	26	883	311	2,433	235	368	4,210	4,895,317
Equity	47,534				5				1,240	48,780
<b>Total IRB approach</b>	<b>4,934,138</b>	<b>247</b>	<b>26</b>	<b>883</b>	<b>316</b>	<b>2,433</b>	<b>235</b>	<b>368</b>	<b>5,451</b>	<b>4,944,097</b>
Central governments or central banks	394,385	58,860							47,702	500,947
Regional governments or local authorities	169,784							29,960		199,744
Public sector entities										0
Multilateral development banks									51,578	51,578
International organisations										159,156
Institutions	207,741	198,314	62,127	0	32,004	93,272		47,599	55,447	696,505
Corporates	314,333		25,006						16,481	355,819
Retail	249,049	5	3	7	78	117	5	31	203	249,499
Secured by mortgages on immovable property	771,826					279			0	772,105
Exposures in default	11,077	0		0		1	0	0	1	11,078
Items associated with particularly high risk										0
Covered bonds	45,052	107,406	163,742	216,990	172,479	60,581	83,790		16,090	866,130
Claims on institutions and corporates with a short-term credit assessment										0
Collective investments undertakings										0
Equity exposures										0
Other exposures	38,962	499		836	722	829	26	341	2,189	44,404
<b>Total standardised approach</b>	<b>2,202,208</b>	<b>365,084</b>	<b>250,878</b>	<b>217,834</b>	<b>205,282</b>	<b>155,079</b>	<b>83,821</b>	<b>77,931</b>	<b>348,848</b>	<b>3,906,965</b>
<b>Total</b>	<b>7,136,346</b>	<b>365,331</b>	<b>250,904</b>	<b>218,717</b>	<b>205,599</b>	<b>157,512</b>	<b>84,056</b>	<b>78,300</b>	<b>354,298</b>	<b>8,851,062</b>

\* EU CRB-C



Table 5.3. Concentration of exposures by industry, net value of exposures\*

31 Dec 2016

EUR 1,000	Total IRB approach				Total standardised approach					Total
	Retail	Equity	Institutions	Other Retail	Retail	Secured by mortgages on immovable property	Exposures in default	Covered bonds	Other exposures	
Agriculture, forestry and fishing	59,562	0	0	2,077	6,241	54,639	1,461	0	0	123,980
Mining and quarrying	285	0	0	0	382	0	0	0	0	667
Manufacturing	11,719	0	0	20,475	4,553	12,069	439	0	0	49,255
Electricity, gas, steam and air conditioning supply	174	1	0	4,759	213	465	0	0	0	5,613
Water supply	1,038	0	0	5,706	567	50	454	0	0	7,814
Construction	27,365	0	0	31,830	11,500	29,475	526	0	0	100,697
Wholesale and retail trade	29,560	0	0	5,270	9,100	17,748	495	0	61	62,232
Transport and storage	18,374	2	0	5,929	12,183	5,894	255	0	0	42,636
Accommodation and food service activities	9,155	0	0	613	562	3,525	1,703	0	0	15,558
Information and communication	4,629	12	0	0	2,747	166	4	0	0	7,558
Finance and Insurance	2,700	48,731	696,505	33,305	151	95,210	1	866,130	9,594	1,752,327
Real estate activities	71,148	2	0	187,096	9,482	470,632	564	0	72	738,995
Professional, scientific and technical activities	15,474	7	0	590	3,137	6,161	885	0	0	26,253
Administrative and support service activities	6,330	3	0	5	2,385	7,737	3	0	0	16,464
Public administration and defence, compulsory social security	2,255	0	0	352	95	0	3	0	144,025	146,731
Education	2,190	1	0	0	274	6,463	38	0	0	8,966
Human health services and social work activities	6,499	0	0	4,825	2,152	7,594	415	0	2,530	24,015
Arts, entertainment and recreation	5,966	16	0	2,737	1,818	6,041	3,242	0	0	19,820
Other services	9,288	0	0	5,227	235	12,221	3	0	727	27,700
Households	4,611,487	0	0	8,946	179,971	35,567	580	0	0	4,836,551
Central and regional governments	0	0	0	0	0	0	0	0	543,009	543,009
Multilateral developments banks and international institutions	0	0	0	0	0	0	0	0	210,734	210,734
Other	118	7	0	36,077	1,753	449	8	0	45,078	83,490
<b>Total</b>	<b>4,895,317</b>	<b>48,780</b>	<b>696,505</b>	<b>355,819</b>	<b>249,499</b>	<b>772,105</b>	<b>11,078</b>	<b>866,130</b>	<b>955,829</b>	<b>8,851,062</b>

\* EU-CRB-D

Table 5.4. Maturity of exposures\*

31 Dec 2016

Exposure classes, EUR 1,000	Net value of exposures			Total
	<= 1 year	> 1 year <= 5 years	> 5 years	
Central governments or central banks				0
Institutions				0
Corporates				0
Retail	134,402	340,834	4,420,081	4,895,317
Equity	0	0	48,780	48,780
<b>Total IRB approach</b>	<b>134,402</b>	<b>340,834</b>	<b>4,468,860</b>	<b>4,944,097</b>
Central governments or central banks	835	70,347	429,765	500,947
Regional governments or local authorities	39,236	155,375	5,134	199,744
Public sector entities				0
Multilateral development banks	0	51,578		51,578
International organisations	50,230	108,926		159,156
Institutions	181,334	377,900	137,271	696,505
Corporates	145,869	106,596	103,355	355,819
Retail	13,983	31,473	204,043	249,499
Secured by mortgages on immovable property	108,275	151,568	512,261	772,105
Exposures in default	4,404	3,629	3,045	11,078
Items associated with particularly high risk				0
Covered bonds	438,464	422,758	4,908	866,130
Claims on institutions and corporates with a short-term credit assessment				0
Collective investments undertakings				0
Equity exposures				0
Other exposures	6,587	0	37,817	44,404
<b>Total standardised approach</b>	<b>989,216</b>	<b>1,480,149</b>	<b>1,437,600</b>	<b>3,906,965</b>
<b>Total</b>	<b>1,123,618</b>	<b>1,820,983</b>	<b>5,906,460</b>	<b>8,851,062</b>

\* EU-CRB-E

Table 5.5. Total exposures by exposure class before and after the effect of risk mitigation techniques

31 Dec 2016

Exposure classes, EUR 1,000	Con- tractual exposure	Impair- ment	Net exposure	Financial guarantees and other substitu- tions	Exposure after sub- stitution	Financial collaterals	Exposure after col- laterals	Risk- weighted amount	Capital require- ment 8 %
<b>Credit risk, IRB approach</b>									
Retail - Secured by immovable property non-SME	4,620,213	-6,649	4,613,563		4,613,563		4,613,563	629,746	50,380
Retail - Secured by immovable property SME	155,666	-901	154,765		154,765		154,765	75,125	6,010
Retail - Other non-SME	110,459	-4,464	105,995		105,995		105,995	45,897	3,672
Retail - Other SME	22,659	-1,665	20,994		20,994		20,994	16,421	1,314
Equity exposures	48,780	0	48,780		48,780		48,780	132,930	10,634
<b>Total exposures, IRB approach</b>	<b>4,957,776</b>	<b>-13,679</b>	<b>4,944,097</b>	<b>0</b>	<b>4,944,097</b>	<b>0</b>	<b>4,944,097</b>	<b>900,118</b>	<b>72,009</b>
<b>Credit risk, standardised approach</b>									
Central governments and central banks	500,947		500,947	131,873	632,821		632,821	0	0
Regional governments and local authorities	199,744		199,744	29,414	229,157		229,157	755	60
Multilateral development banks	51,578		51,578	0	51,578		51,578	0	0
International organisations	159,156		159,156	0	159,156		159,156	0	0
Credit institutions	696,505		696,505	-48,421	648,084	-261,808	386,276	117,550	9,404
Corporates	355,819		355,819	-101,583	254,236	-40,196	214,040	148,753	11,900
Retail exposures	249,499		249,499	-11,089	238,410	-9,198	229,212	72,196	5,776
Secured by immovable property	772,105		772,105	0	772,105	0	772,105	265,624	21,250
Exposures in default	37,621	-26,543	11,078	-194	10,885	-343	10,542	11,462	917
Covered bonds	866,130		866,130		866,130		866,130	86,613	6,929
Other items	52,644	-8,239	44,404		44,404		44,404	19,629	1,570
<b>Total exposures, standardised approach</b>	<b>3,941,748</b>	<b>-34,783</b>	<b>3,906,965</b>	<b>0</b>	<b>3,906,965</b>	<b>-311,545</b>	<b>3,595,420</b>	<b>722,582</b>	<b>57,807</b>
<b>Total exposures</b>	<b>8,899,524</b>	<b>-48,461</b>	<b>8,851,062</b>	<b>0</b>	<b>8,851,062</b>	<b>-311,545</b>	<b>8,539,518</b>	<b>1,622,700</b>	<b>129,816</b>

## 5.2 Credit risk approach

Aktia has received approval from the Finnish Financial Supervisory Authority to use the IRB approach to calculate the capital requirement for retail exposures. For the remainder of the portfolio, Aktia uses the SA.

## 5.3 Development of exposure and RWA

### 5.3.1 Lending to households

Total Group's lending to the public amounted to EUR 5,717 (5,856) million at the end of December, a decrease of EUR 139 million. Aktia's own loan book increased by EUR 416 million (8%) and amounted to EUR 5,499 (5,083) million. The loans brokered by savings banks and POP Banks decreased by 72% and amounted to EUR 219 (774) million. Loans to private households, including mortgages brokered by savings banks and POP Banks, accounted for EUR 4,790 (5,177) million, or 83.8% (88.4%) of the total loan book.

### 5.3.2 Corporate lending

Corporate lending accounted for 9.5% (7.1%) of Aktia's loan book. Total corporate lending amounted to EUR 543 (414) million. Loans to housing associations totalled EUR 340 (222) million and made up 5.9% (3.8%) of Aktia's total loan book. In accordance with Aktia's growth strategy, lending to housing companies increased by 53% (EUR 118 million) during the year.

Other increases in corporate lending mainly related to a couple of larger financing arrangements for Finnish companies.

Customers are assessed for corporate financing purposes on the basis of accounts analysis and credit ratings. Other aspects analysed include cash flow, the competitive situation, the impact of existing investments, and other forecasts.

### 5.3.3 Concentration risks in lending

As a locally operating financial institution, Aktia is exposed to certain concentration risks. Concentration risks against individual counterparties are regulated by limits and rules for maximum customer exposure. Within the framework of the credit policy and business plan, further thresholds have been imposed in order to limit concentration risks at segment and portfolio level.

Aktia's level of credit risk is sensitive to changes in both domestic employment 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.

In relation to Aktia's total corporate portfolio, the exposure in primarily construction and property financing constitutes a concentration risk.

Table 5.6. CRM techniques – Overview\*

31 Dec 2016

EUR 1,000	Exposures unsecured – Carrying amount	Exposures to be secured	Exposures secured by collateral	Exposures secured by financial guarantees	Exposures secured by credit derivatives
Total loans	464,874	5,786,194	5,639,482	125,003	0
Total debt securities	1,673,110	109,141	0	109,141	0
<b>Total exposures</b>	<b>2,137,984</b>	<b>5,895,335</b>	<b>5,639,482</b>	<b>234,144</b>	<b>0</b>
Of which defaulted	2,421	49,956	49,763	194	0

\*EU CR3

Table 5.7. Total risk exposure and risk mitigation

31 Dec 2016

Exposure classes, EUR 1,000	Contractual exposure	Impairment	Net exposure	of which secured by financial guarantees	of which secured by collateral	Average weighted LGD
<b>Credit risk, IRB approach</b>						
Retail - Secured by immovable property non-SME	4,620,213	-6,649	4,613,563	470	4,395,125	16.7%
Retail - Secured by immovable property SME	155,666	-901	154,765	2,863	147,155	26.2%
Retail - Other non-SME	110,459	-4,464	105,995	60,190	9,992	36.3%
Retail - Other SME	22,659	-1,665	20,994	5,151	3,311	53.2%
Equity exposures	48,780	0	48,780			
<b>Total exposures, IRB approach</b>	<b>4,957,776</b>	<b>-13,679</b>	<b>4,944,097</b>	<b>68,675</b>	<b>4,555,583</b>	
<b>Credit risk, standardised approach</b>						
Central governments and central banks	500,947	0	500,947	0	0	
Regional governments and local authorities	199,744	0	199,744	0	0	
Multilateral development banks	51,578	0	51,578	0	0	
International organisations	159,156	0	159,156	0	0	
Credit institutions	696,505	0	696,505	52,853	261,808	
Corporates	355,819	0	355,819	101,583	40,196	
Retail exposures	249,499	0	249,499	10,839	9,448	
Secured by immovable property	772,105	0	772,105	0	772,105	
Exposures in default	37,621	-26,543	11,078	194	343	
Covered bonds	866,130	0	866,130	0	0	
Other items	52,644	-8,239	44,404	0	0	
<b>Total exposures, standardised approach</b>	<b>3,941,748</b>	<b>-34,783</b>	<b>3,906,965</b>	<b>165,469</b>	<b>1,083,899</b>	
<b>Total exposures</b>	<b>8,899,524</b>	<b>-48,461</b>	<b>8,851,062</b>	<b>234,144</b>	<b>5,639,482</b>	

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

31 Dec 2016

Exposure classes, EUR 1,000	Exposures before CCF and CRM		Exposures post CCF and CRM		RWAs and RWA density	
	On-balance	Off-balance	On-balance	Off-balance	RWAs	RWA density
Central governments or central banks	500,947	0	627,023	3,468	0	0%
Regional governments or local authorities	195,106	4,638	218,403	5,383	755	0%
Public sector entities	0	0	0	0	0	0%
Multilateral development banks	51,578	0	51,578	0	0	0%
International organisations	159,156	0	159,156	0	0	0%
Institutions	694,664	1,840	383,466	1,890	117,550	31%
Corporates	223,109	132,710	99,074	50,799	148,753	99%
Retail	114,470	135,030	98,612	6,317	72,196	69%
Secured by mortgages on immovable property	635,580	136,525	635,580	65,816	265,624	38%
Exposures in default	11,066	12	10,529	0	11,462	109%
Higher-risk categories	0	0	0	0	0	0%
Covered bonds	866,130	0	866,130	0	86,613	10%
Institutions and corporates with a short-term credit assessment	0	0	0	0	0	0%
Collective investments undertakings	0	0	0	0	0	0%
Equity	0	0	0	0	0	0%
Other items	44,404	0	44,404	0	19,629	44%
<b>Total</b>	<b>3,496,210</b>	<b>410,755</b>	<b>3,193,956</b>	<b>133,674</b>	<b>722,582</b>	<b>22%</b>

\* EU-CR4

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

31 Dec 2016

Exposure classes, 1,000 EUR	Risk weight															De- ducted	Total	Of wich unrated	
	0 %	2 %	4 %	10 %	20 %	35 %	50 %	70 %	75 %	100 %	150 %	250 %	370 %	1250 %	Others				
Central governments or central banks	630,491	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	630,491	0
Regional governments or local authorities	220,012	0	0	0	3,775	0	0	0	0	0	0	0	0	0	0	0	0	223,786	0
Public sector entities	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Multilateral development banks	51,578	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	51,578	0
International organisations	159,156	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	159,156	0
Institutions	0	0	0	0	250,427	0	134,929	0	0	0	0	0	0	0	0	0	0	385,356	59,903
Corporates	0	0	0	0	0	0	490	0	0	149,383	0	0	0	0	0	0	0	149,873	114,862
Retail	0	0	0	0	0	0	0	0	104,929	0	0	0	0	0	0	0	0	104,929	104,929
Secured by mortgages on immovable property	0	0	0	0	0	409,129	292,267	0	0	0	0	0	0	0	0	0	0	701,396	701,396
Exposures in default	0	0	0	0	0	0	0	0	0	8,664	1,865	0	0	0	0	0	0	10,529	10,529
Higher-risk categories	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Covered bonds	0	0	0	866,130	0	0	0	0	0	0	0	0	0	0	0	0	0	866,130	9,990
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
Collective investments undertakings	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
Other items	7,024	0	0	0	22,189	0	0	0	0	15,192	0	0	0	0	0	0	0	44,404	44,404
<b>Total</b>	<b>1,068,261</b>	<b>0</b>	<b>0</b>	<b>866,130</b>	<b>276,390</b>	<b>409,129</b>	<b>427,685</b>	<b>0</b>	<b>104,929</b>	<b>173,239</b>	<b>1,865</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,327,629</b>	<b>1,046,014</b>

\* EU CR5

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

31 Dec 2016

Exposure classes, EUR million	Credit quality step					Total
	1	2	3	4 to 6	Unrated	
Central governments or central banks *	500.9	0.0	0.0	0.0	0.0	500.9
Regional governments or local authorities *	199.7	0.0	0.0	0.0	0.0	199.7
Multilateral development banks *	51.6	0.0	0.0	0.0	0.0	51.6
International organisations *	159.2	0.0	0.0	0.0	0.0	159.2
Institutions	256.1	302.4	63.9	0.0	74.1	696.5
Corporates	0.0	0.0	50.0	0.0	305.8	355.8
Retail	0.0	0.0	0.0	0.0	249.5	249.5
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	772.1	772.1
Exposures in default	0.0	0.0	0.0	0.0	11.1	11.1
Covered bonds	856.1	0.0	0.0	0.0	10.0	866.1
Other items	0.0	0.0	0.0	0.0	44.4	44.4
<b>Total</b>	<b>2,023.6</b>	<b>302.4</b>	<b>113.9</b>	<b>0.0</b>	<b>1,467.0</b>	<b>3,907.0</b>

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

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

31 Dec 2016

Exposure classes, EUR million	Credit quality step					Total
	1	2	3	4 to 6	Unrated	
Central governments or central banks *	632.8	0.0	0.0	0.0	0.0	632.8
Regional governments or local authorities *	229.2	0.0	0.0	0.0	0.0	229.2
Multilateral development banks *	51.6	0.0	0.0	0.0	0.0	51.6
International organisations *	159.2	0.0	0.0	0.0	0.0	159.2
Institutions	151.1	129.0	46.3	0.0	59.9	386.3
Corporates	0.0	0.0	50.0	0.0	164.0	214.0
Retail	0.0	0.0	0.0	0.0	229.2	229.2
Secured by mortgages on immovable property	0.0	0.0	0.0	0.0	772.1	772.1
Exposures in default	0.0	0.0	0.0	0.0	10.5	10.5
Covered bonds	856.1	0.0	0.0	0.0	10.0	866.1
Other items	0.0	0.0	0.0	0.0	44.4	44.4
<b>Total</b>	<b>2,079.9</b>	<b>129.0</b>	<b>96.3</b>	<b>0.0</b>	<b>1,290.2</b>	<b>3,595.4</b>

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

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

31 Dec 2016

EUR 1,000	RWA amounts	Capital requirements
<b>RWAs as at the end of the previous reporting period</b>	<b>999,429</b>	<b>79,954</b>
Asset size	-41,185	-3,295
Asset quality	-58,125	-4,650
Model updates	**	**
Methodology and policy	**	**
Acquisitions and disposals	**	**
Foreign exchange movements	0	0
Other		
<b>RWAs as at the end of the reporting period</b>	<b>900,118</b>	<b>72,009</b>

\* EU-CR3

\*\* = not reported due to information systems issues

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

31 Dec 2016

PD scale	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	RWAs	RWA density	EL	Value adjustments and provisions
<b>Retail - Secured by immovable property SME</b>												
0.00 to < 0.15	803	544	100%	1,347	0.11%	73	33.98%		54	4%	0	
0.15 to < 0.25	926	456	100%	1,382	0.20%	63	24.58%		74	5%	0	
0.25 to < 0.50	3,918	1,344	100%	5,262	0.39%	187	29.72%		610	12%	5	
0.50 to < 0.75	15,330	2,193	100%	17,523	0.63%	373	27.13%		3,055	17%	26	
0.75 to < 2.50	73,466	9,665	100%	83,130	1.36%	1464	26.47%		23,424	28%	260	
2.50 to < 10.00	40,766	3,103	100%	43,868	4.59%	754	24.92%		24,975	57%	465	
10.00 to < 100.00	17,015	1,081	100%	18,096	27.31%	328	24.84%		17,897	99%	1,177	
100.00 (Default)	3,442	24	100%	3,466	100.00%	71	31.64%		5,036	145%	1,124	
<b>Sub-total</b>	<b>155,666</b>	<b>18,408</b>	<b>100%</b>	<b>174,074</b>	<b>7.12%</b>	<b>3,313</b>	<b>26.17%</b>	<b>0,00</b>	<b>75,125</b>	<b>3,68</b>	<b>3,057</b>	<b>-901</b>

PD scale	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
<b>Retail - Secured by immovable property non-SME</b>												
0.00 to < 0.15	2,744,257	46,793	100%	2,791,050	0.06%	30,263	16.28%		74,753	3%	274	
0.15 to < 0.25	220,140	2,989	100%	223,129	0.20%	4524	17.12%		16,045	7%	76	
0.25 to < 0.50	609,317	4,076	100%	613,392	0.36%	8189	16.61%		65,466	11%	361	
0.50 to < 0.75	175,858	5,048	100%	180,906	0.62%	2743	17.09%		28,930	16%	187	
0.75 to < 2.50	456,675	14,838	100%	471,512	1.36%	5626	17.02%		124,253	26%	1,058	
2.50 to < 10.00	233,364	1,309	100%	234,673	4.82%	3050	17.49%		135,485	58%	1,955	
10.00 to < 100.00	137,090	248	100%	137,338	26.71%	1839	17.61%		129,512	94%	6,509	
100.00 (Default)	43,512	20	100%	43,532	100.00%	454	25.74%		55,303	127%	9,887	
<b>Sub-total</b>	<b>4,620,213</b>	<b>75,319</b>	<b>100%</b>	<b>4,695,532</b>	<b>2.23%</b>	<b>48,878</b>	<b>16.66%</b>	<b>0,00</b>	<b>629,746</b>	<b>3,42</b>	<b>20,306</b>	<b>-6,649</b>

\* EU CR6



PD scale	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
<b>Retail - Other SME</b>												
0.00 to < 0.15	440	433	100%	873	0.09%	22	73.22%		78	9%	0	
0.15 to < 0.25	465	407	100%	872	0.20%	19	68.82%		118	14%	1	
0.25 to < 0.50	1,062	737	100%	1,799	0.36%	43	56.32%		329	18%	2	
0.50 to < 0.75	1,394	786	100%	2,180	0.58%	71	57.91%		612	28%	5	
0.75 to < 2.50	8,763	2,688	100%	11,451	1.56%	338	50.67%		5,675	50%	69	
2.50 to < 10.00	6,011	984	100%	6,995	5.19%	230	46.10%		5,098	73%	144	
10.00 to < 100.00	2,159	330	100%	2,489	18.72%	100	49.71%		2,754	111%	202	
100.00 (Default)	2,363	14	100%	2,377	100.00%	128	72.74%		1,758	74%	1,774	
<b>Sub-total</b>	<b>22,659</b>	<b>6,377</b>	<b>100%</b>	<b>29,036</b>	<b>14.25%</b>	<b>951</b>	<b>53.19%</b>	<b>0,00</b>	<b>16,421</b>	<b>3.76</b>	<b>2,197</b>	<b>-1,665</b>

PD scale	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
<b>Retail - Other non-SME</b>												
0.00 to < 0.15	10,331	1,675	100%	12,007	0.07%	1,921	50.10%		1,101	9%	4	
0.15 to < 0.25	3,491	135	100%	3,626	0.20%	511	54.99%		824	23%	4	
0.25 to < 0.50	6,581	293	100%	6,874	0.38%	1017	35.33%		1,593	23%	8	
0.50 to < 0.75	15,184	772	100%	15,956	0.62%	1955	15.00%		2,720	17%	14	
0.75 to < 2.50	50,800	13,263	100%	64,064	1.50%	12,782	31.41%		23,411	37%	278	
2.50 to < 10.00	9,235	191	100%	9,426	4.98%	1490	33.42%		5,965	63%	162	
10.00 to < 100.00	11,064	53	100%	11,117	59.66%	1,118	57.96%		5,275	47%	4,802	
100.00 (Default)	3,772	0	100%	3,772	100.00%	422	76.92%		5,007	133%	2,712	
<b>Sub-total</b>	<b>110,459</b>	<b>16,382</b>	<b>100%</b>	<b>126,841</b>	<b>10.62%</b>	<b>20,855</b>	<b>36.26%</b>	<b>0,00</b>	<b>45,897</b>	<b>3.52</b>	<b>7,985</b>	<b>-4,464</b>

PD scale	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
<b>Equity</b>												
	48,780	0		48,780					132,930	273%	220	
<b>Total (all portfolios)</b>	<b>4,957,776</b>	<b>116,487</b>	<b>100%</b>	<b>5,074,263</b>	<b>2.63%</b>	<b>73,997</b>	<b>17.57%</b>	<b>0,00</b>	<b>900,118</b>	<b>17.10</b>	<b>33,764</b>	<b>-13,679</b>

Table 5.14. IRB (specialised lending and equities)\*

31 Dec 2016

Equities under the simple risk-weighted approach						
Categories, EUR 1,000	On-balance sheet amount	Off-balance sheet amount	Risk weight	Exposure amount	RWA	Capital requirements
Exchange-traded equity exposures	5	0	190%	5	9	1
Private equity exposures	0	0	290%	0	0	0
Other equity exposures	46,191	0	250%	39,622	99,055	7,924
Other equity exposures	9,153	0	370%	9,153	33,865	2,709
Total	55,349	0		48,780	132,930	10,634

\* EU CR10

Table 5.15. IRB - Backtesting of IRB parameters per retail subportfolio

31 Dec 2016

Retail portfolio, EUR 1,000	Estimated PD*	Average DR	Estimated LGD*	Realized LGD
Household loans	1.58%	0.64%	32.48%	9.83%
Retail SME	5.66%	2.10%	39.27%	7.59%
Other Retail	2.76%	1.28%	12.40%	3.03%

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

## 5.4 Rating and scoring

The purpose of corporate ratings and credit scoring is to predict the likelihood that a customer will not be able 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, dunning procedures and monitoring, risk reporting and capital adequacy calculations. Ratings are used for corporate exposures, while credit scoring is used for retail exposures. In accordance with the IRB roll-out plan, Aktia Bank is in the midst of applying for F-IRB for corporate exposures.

Aktia uses external long-term issue and issuer ratings from Moody's Investors Service for calculating 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 in the liquidity portfolio or are derivative counterparties. The mapping of ratings follows the standard association published by the EBA. The use of ratings has not changed during the year. Tables 5.10 and 5.11 present the mapping of exposure values to credit quality steps.

### 5.4.1 Scoring

Models or scorecards used in the retail portfolio, including both households and SMEs, are based on statistical regression analysis in order to predict the likelihood of retail customer exposures defaulting within one year from the time of estimation. Risk points generated by the scorecards are mapped to a master scale, which consists of 13 risk grades: A1–C4 for non-defaulted customers and D for defaulted customers.

Aktia uses two types of scoring models in its business: application models and behavioural models. The model type is chosen based on end user need. Application models are used for screening and pricing exposures during the loan origination process as 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 is different from households, as the credit risk predictors and credit processes differ for these two obligor types. As Aktia is using an exposure level default definition for households, the model performance is further optimized by dividing the portfolio into groups with their own scorecards based on product characteristics and behavioural information.

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

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

## 5.5 Collateral

The valuation and administration of collateral is very important for managing credit risk. Rules and authorisations concerning the valuation of collateral and the updating of collateral values have been established. In keeping with the principle of prudence, collateral values are calculated by subtracting a haircut from the market value. The extent to which this prudent collateral value is lower is indicative of the volatility in the collateral's market value, liquidity, and the expected recovery time and fulfilment. Under the SA, real estate collateral, certain guarantees and financial securities are taken into account in the capital adequacy calculation. Under the IRB approach, credit risk mitigants affect the capital adequacy calculation through the LGD estimate. As of 31 March 2010, collateral valuations older than three years have been updated on a regular basis. These updates have been performed by using an internally developed statistical model for valuing collateral. With each new credit decision for the customer, the previous collateral is revalued.

Loans to households are mainly granted against prudent collateral, which means that any reduction in market values less than the haircut does not directly result in a collateral shortfall.

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

### 5.5.1 Loan-to-value ratio of collateral

The loan-to-value ratio is defined as the relationship between the current market value of the pledged collateral against the loans outstanding on the collateral.

The majority of the bank's collateral stock is made up of residential real estate. Trends in housing prices are thus important factors in the bank's risk profile. During 2016, developments in housing prices within Aktia's main business areas remained at a stable level.

**Table 5.16. Loan-to-value ratio**

LTV Band	31 Dec 2016	31 Dec 2015
0-50%	86.1%	86.7%
50-60%	8.1%	7.9%
60-70%	4.0%	3.7%
70-80%	1.1%	0.9%
80-90%	0.5%	0.4%
90-100%	0.1%	0.1%
>100%	0.1%	0.1%
<b>Total</b>	<b>100%</b>	<b>100%</b>

\* 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.

### 5.5.2 Risk-based pricing

The models for risk-based pricing reflect capital requirements, risk and refinancing, as weighed against earnings from loans, other customer relationships and customer potential. Cross-sales between insurance and banking are becoming increasingly important in assessing customer potential. The incentive system for the sales organisation is based on the extent to which the average risk-based minimum margin is exceeded for new loans.

## 5.6 Estimation and validation of credit risk parameters

All credit risk models used for IRB purposes are validated annually, and central model performance metrics are reported quarterly to both the Board of Directors and the management of the Group. Validation is performed by the Risk Control function and includes both quantitative and qualitative assessments of model performance and parameters. The majority of quantitative tests performed during annual validation are performed and analysed by the Risk Control function monthly. 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 both for 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 branch network through delinquency lists/alerts and at portfolio level at the group's risk control. Internal policies and tools have been put in place in order to identify at an early stage customers whose credit standing no longer corresponds to their level of debt. Problem loans are categorised as non-performing, defaulted, and/or impaired. Loans which are 90 days past due are considered as non-performing. Defaulted loans are those that are 90 days past due and exceed a minimum materiality threshold or whose obligors are considered unlikely to pay (see impairment test below). Loans that have been provisioned are considered impaired, and can either be performing or non-performing. Loan forbearance and modification in the form of repayment deferral also take place due to other circumstances than a persistent deterioration in the borrower's credit standing.

According to the Group's accounting principles, a receivable will be tested for impairment when there is objective evidence that the customer's credit standing has deteriorated significantly since the receivable was originally recognised on the balance sheet. Objective evidence includes the borrower having significant financial difficulties, breach of contract (such as late payments of interest or capital), the granting of concessions for financial or legal reasons that the lender would otherwise not have considered, or the bankruptcy of the borrower. An obligor that is found to be unlikely to pay the credit obligations according to the original contractual plan will be classified as defaulted. An adjustment of the terms of the loan as a result of the borrower's deteriorated credit standing as above will be classified as forbore, and a specific provision will be made where the receivable exceeds the anticipated cash flow.

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

31 Dec 2016

EUR 1,000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	"Accumulated write-offs"	Credit risk adjustment charges of the period	Net values
	Defaulted exposures	Non-defaulted exposures					
Retail	53,081	4,855,915					4,895,317
Secured by real estate property	46,963	4,728,915					4,768,328
SMEs	3,361	152,305	901	0	303	0	154,765
Non-SMEs	43,602	4,576,611	6,649	0	1,264	0	4,613,563
Other retail	6,118	126,999	6,129	0	614	1,110	126,989
SMEs	2,312	20,347	1,665	0	483	0	20,994
Non-SMEs	3,807	106,652	4,464	0	131	0	105,995
Equity	0	48,780	0	0	0	0	48,780
<b>Total IRB approach</b>	<b>53,081</b>	<b>4,904,695</b>	<b>13,679</b>	<b>0</b>	<b>2,182</b>	<b>-1,978</b>	<b>4,944,097</b>
Central governments or central banks	0	500,947	0	0	0	0	500,947
Regional governments or local authorities	0	199,744	0	0	0	0	199,744
Multilateral development banks	0	51,578	0	0	0	0	51,578
International organisations	0	159,156	0	0	0	0	159,156
Institutions	0	696,505	0	0	0	0	696,505
Corporates	0	355,819	0	0	0	0	355,819
Of which: SMEs	0	16,215	0	0	0	0	16,215
Retail	0	249,499	0	0	0	0	249,499
Of which: SMEs	0	64,929	0	0	0	0	64,929
Secured by mortgages on immovable property	0	772,105	0	0	0	0	772,105
Of which: SMEs	0	275,583	0	0	0	0	275,583
Exposures in default	37,621	0	26,543	0	1,347	1,304	11,078
Covered bonds	0	866,130	0	0	0	0	866,130
Other exposures	0	52,644	8,239	0	0	-1,524	44,404
<b>Total standardised approach</b>	<b>37,621</b>	<b>3,904,126</b>	<b>34,783</b>	<b>0</b>	<b>1,347</b>	<b>-221</b>	<b>3,906,965</b>
<b>Total</b>	<b>90,703</b>	<b>8,808,821</b>	<b>48,461</b>	<b>0</b>	<b>3,529</b>	<b>-2,198</b>	<b>8,851,062</b>
Of which: Loans	90,703	6,208,827	48,461	0	3,529	-2,198	6,251,068
Of which: Debt securities	0	1,782,251	0	0	0	0	1,782,251
Of which: Off-balance-sheet exposures	0	527,242	0	0	0	0	527,242

\* EU CR1-A

Table 5.18. Credit quality of exposures by industry\*

31 Dec 2016

EUR 1,000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	"Accumulated write-offs"	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
Agriculture, forestry and fishing	2,554	121,905					123,980
Mining and quarrying	0	667					667
Manufacturing	1,047	48,740	531	0	13	430	49,255
Electricity, gas, steam and air conditioning supply	0	5,613	0	0	0	0	5,613
Water supply	693	7,360	240	0	0	0	7,814
Construction	4,411	99,251	2,965	0	295	2	100,697
Wholesale and retail trade	3,902	60,871	2,541	0	415	-137	62,232
Transport and storage	1,508	42,140	1,012	0	0	-23	42,636
Accommodation and food service activities	3,467	13,667	1,576	0	6	1,329	15,558
Information and communication	1,041	7,553	1,037	0	12	-57	7,558
Finance and Insurance	968	1,752,316	957	0	138	140	1,752,327
Real estate activities	1,733	738,294	1,032	0	0	-196	738,995
Professional, scientific and technical activities	15,476	24,933	14,156	0	8	-62	26,253
Administrative and support service activities	66	16,445	47	0	0	11	16,464
Public administration and defence, compulsory social security	187	146,544	0	0	0	0	146,731
Education	501	8,840	376	0	1,298	-221	8,966
Human health services and social work activities	643	23,410	38	0	15	0	24,015
Arts, entertainment and recreation	5,856	16,286	2,323	0	0	-607	19,820
Other services	66	27,672	37	0	3	0	27,700
Households	46,577	4,800,850	10,875	0	1,223	-1,282	4,836,551
Central and regional governments	0	543,009	0	0	0	0	543,009
Multilateral developments banks and international institutions	0	210,734	0	0	0	0	210,734
Other	8	91,722	8,239	0	0	-1,524	83,490
<b>Total</b>	<b>90,703</b>	<b>8,808,821</b>	<b>48,461</b>	<b>0</b>	<b>3,529</b>	<b>-2,198</b>	<b>8,851,062</b>

\* EU CR1-B

Table 5.19. Credit quality of exposures by geography\*

31 Dec 2016

EUR 1,000	Gross carrying values of		Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges	Net values
	Defaulted exposures	Non-defaulted exposures					
Finland	90,701	7,094,106					7,136,346
France	0	365,331					365,331
Netherlands	0	250,904	0	0	0	0	250,904
Norway	0	218,717	0	0	0	0	218,717
United Kingdom	0	205,599	0	0	0	0	205,599
Sweden	1	157,511	0	0	0	0	157,512
Denmark	0	84,056	0	0	0	0	84,056
Germany	0	78,300	0	0	0	0	78,300
Other countries	1	354,298	0	0	0	0	354,298
<b>Total</b>	<b>90,703</b>	<b>8,808,821</b>	<b>48,461</b>	<b>0</b>	<b>3,529</b>	<b>-2,198</b>	<b>8,851,062</b>

\* EU CR1-C

Table 5.20. Ageing of past-due exposures\*

31 Dec 2016

Categories, EUR 1,000	Gross carrying values					
	≤ 30 days	> 30 days ≤ 60 days	> 60 days ≤ 90 days	> 90 days ≤ 180 days	> 180 days ≤ 1 year	> 1 year
Loans	55,940	22,081	7,943	10,176	11,699	54,413
Debt securities	0	0	0	0	0	0
Total exposures	55,940	22,081	7,943	10,176	11,699	54,413

\* EU CR1-D

Table 5.21. Non-performing and forborne exposures\*

31 Dec 2016

EUR 1,000	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 performing but past due > 30 days and <= 90 days	Of which performing forborne	Of which non-performing			On performing exposures		On non-performing exposures		On non-performing exposures	Of which forborne exposures		
			Of which defaulted	Of which impaired	Of which forborne	Of which forborne	Of which forborne						
Debt securities	2,209,706	0	0	0	0	0	0	0	0	0	0	0	
Loans and advances	5,772,287	27,891	84,434	95,519	93,038	47,661	16,899	10,515	0	37,947	5,492	50,210	95,338
Off-balance-sheet exposures	527,655	0	0	895	0	0	0	0	0	0	0	0	0

\* EU CR1-E

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

	Accumulated specific credit risk adjustment	Accumulated general credit risk adjustment
<b>Opening balance</b>	<b>54,372</b>	<b>0</b>
Increases due to amounts set aside for estimated loan losses during the period	6,939	0
Decreases due to amounts reversed for estimated loan losses during the period	-4,650	0
Decreases due to amounts taken against accumulated credit risk adjustments	-8,200	0
Transfers between credit risk adjustments	0	0
Impact of exchange rate differences	0	0
Business combinations, including acquisitions and disposals of subsidiaries	0	0
Other adjustments	0	0
<b>Closing balance</b>	<b>48,461</b>	<b>0</b>
Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	91	0
Specific credit risk adjustments directly recorded to the statement of profit or loss	0	0

\*EU CR2-A

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

	Gross carrying value defaulted exposures
<b>Opening balance</b>	<b>95,657</b>
Loans and debt securities that have defaulted or impaired since the last reporting period	23,320
Returned to non-defaulted status	19,413
Amounts written off	8,200
Other changes	-662
<b>Closing balance</b>	<b>90,703</b>

\*EU CR2-B



Table 5.24. Loans individually impaired

Sector	31 Dec 2016				Change during the period	
	Contract value	Individual impairment	Book value	Fair value of collateral	Impairment	Losses on credits and other commitments
Corporate	32,387	27,436	4,952	3 579	-932	6 148
Housing associations	612	612	0	67	219	0
Public sector entities	0	0	0	0	0	0
Non-profit organisations	609	200	409	457	200	0
Households	13,110	9,946	3,163	7 735	2 360	2 016
<b>Total</b>	<b>46,718</b>	<b>38,194</b>	<b>8,524</b>	<b>11 838</b>	<b>1 847</b>	<b>8 164</b>
<b>Write-downs on corporate loans by branch</b>						
Research, consulting and other services	15,837	15,093	743			
Trade	2,323	2,296	27			
Construction	3,099	2,884	215			
Accommodation and food service activities	2,654	1,521	1,133			
Human health and other service activities for households	5,337	2,516	2,821			
Other	3,138	3,126	12			
<b>Total</b>	<b>32,387</b>	<b>27,436</b>	<b>4,952</b>			
Sector	31 Dec 2015				Change during the period	
	Contract value	Individual impairment	Book value	Fair value of collateral	Impairment	Losses on credits and other commitments
Corporate	39,294	34,524	4,770	4,803	-2,066	4,469
Housing associations	1,099	393	706	1,290	150	0
Public sector entities	0	0	0	0	0	0
Non-profit organisations	0	0	0	0	0	0
Households	12,340	9,594	2,746	6,444	1,935	1,350
<b>Total</b>	<b>52,733</b>	<b>44,510</b>	<b>8,222</b>	<b>12,537</b>	<b>19</b>	<b>5,819</b>
<b>Write-downs on corporate loans by branch</b>						
Research, consulting and other services	15,888	15,149	740			
Trade	2,383	2,353	30			
Construction	3,275	3,060	215			
Industry	4,963	4,744	219			
Human health and other service activities for households	6,008	3,304	2,704			
Other	6,777	5,914	863			
<b>Total</b>	<b>39,294</b>	<b>34,524</b>	<b>4,770</b>			

## 5.8 Counterparty credit risk

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

Derivative contracts are used to ensure an adequate level of net interest income in a low interest rate scenario. In addition, interest rate derivatives are brokered to 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. The 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, where all positive and negative market values under an agreement can be netted at the counterparty level.

Aktia has in place netting and collateral agreements with all counterparties that are credit institutions. The collateral used is mainly cash, but govern-

ment securities can also be used. At year-end, all received and placed collateral was in cash. A small number of the collateral agreements entered into by the bank include rating triggers. The impact if Aktia would be downgraded is limited. A one-notch downgrade would result in a EUR 5 million outflow of collateral. Terminations would start occurring only if Aktia were rated below investment grade (under Baa3 or BBB-).

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

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

In addition to the capital requirement for counterparty risk, derivative transactions result in capital requirements for value change risks related to the counterparty's credit quality (credit valuation adjustment, CVA). The capital requirement for CVA was EUR 2.1 (2.2) million. The Bank is also ready to start to clear derivatives via central counterparties, a clearing house, which then would lower the capital requirement.

**Table 5.25. Credit valuation adjustment (CVA) capital charge\***

31 Dec 2016

1,000 EUR	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	0	0
(i) VaR component (including the 3 x multiplier)		
(ii) Stressed VaR component (including the 3 x multiplier)		
All portfolios subject to the Standardised CVA capital charge	45,812	26,233
<b>Total subject to the CVA capital charge</b>	<b>45,812</b>	<b>26,233</b>

\*EU CCR2

**Table 5.26. Derivative contracts**

Credit risk mitigation effects, EUR million	31 Dec 2016	31 Dec 2015
Gross positive fair value of contracts	132.2	172.5
Close out netting benefits	-8.8	-15.3
Value after close out netting benefits	123.4	157.2
Collateral benefits	-117.1	-158.0
<b>Value after close out netting and received collateral benefits</b>	<b>6.3</b>	<b>-0.9</b>

**Table 5.27. Composition of collateral for exposures to counterparty credit risk**

EUR million	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	0.0	117.1	0.0	26.4	145.7	0.0
Covered bonds	0.0	0.0	0.0	0.0	0.0	146.6
<b>Total</b>	<b>0.0</b>	<b>117.1</b>	<b>0.0</b>	<b>26.4</b>	<b>145.7</b>	<b>146.6</b>

## 6. Market risk

The Bank Group aims to have low market risks and low volatility in its earnings. During the year, the market risk exposures were kept at low levels. 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 risks, foreign exchange rate risk, and equity and real estate risks.

No trading activities are carried out by the Aktia Group.

### 6.1 Management, governance and measurement of market risk

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

The Group's Risk Control unit, which continuously monitors the market risks and the associated limits, is responsible for the 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 (IRRBB), the structural interest rate risk. Structural interest rate risk arises from the mismatch between interest fixing periods and the repricing of assets and liabilities. As well as matching interest fixing periods in lending and borrowing through business management, derivative instruments and fixed-rate investments in the liquidity portfolio are also utilised, with the aim of maintaining net interest income at a stable level and protecting financial performance against sustained low interest rates. Interest rate risk is measured in the Aktia Group by two methods.

#### 6.2.1 Change in expected earnings (net interest income risk)

Change in expected earnings or the structural interest rate risk is simulated using a dynamic asset and liability risk management model. The model takes into account the effects on the structure of the balance sheet, starting from planned growth and simulated customer behaviour. In addition, various interest rate scenarios for dynamic or parallel changes in interest rates are applied. Table 6.1 shows the net effect on the net interest of a parallel shift in the interest rate curve by 100 bps both up and down. The table shows that lower market interest rates would have a detrimental effect on net interest rate development, while higher market interest rates would strengthen net interest rate development in the long term.

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

**Table 6.1. Structural interest rate risk**

EUR million Period	Interest rate change	Change in net interest income			
		31 Dec 2016		31 Dec 2015	
		Down	Up	Down	Up
Changes during the next 12 months		-1.4	13.2	-1.1	8.3
Changes during 12-24 months		-2.0	24.3	-3.7	20.1

#### 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. The EV method measures the NPV for existing assets and liabilities under different interest rate scenarios, ignoring future business flows. However, customer behaviour is taken into account in different interest rate scenarios, e.g. in a low interest

rate environment deposits are modelled to be less sensitive. The bank has set up limits how much the NPV can change in a stressed interest rate scenario, NPV outcome is compared with the total own funds. Table 6.2 shows the NPV change in a stressed interest rate scenario with 100 bps both up and down. The model with which the Bank calculates the NPV has been modified in the end of year 2016 to capture the change in customer behaviour in the current interest environment, and therefore are the figures in 2015 not comparable with 2016 in a down side interest rate scenario.

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

NPV change in a stressed interest rate scenario with 100 bps both up and down.	Change in economic value compared with the total own funds in %	
	31 Dec 2016	31 Dec 2015
- 100bps	0.0%	-5.2%
+ 100 bps	11.4%	9.3%

### 6.3 Foreign exchange rate risk

FX risk refers to is the risk of a negative change in the value of the Bank Group's FX positions caused by fluctuations in exchange rates, particularly 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. The guiding principle in managing FX risks is matching. The Treasury unit is responsible for managing the Bank's day-to-day FX position, subject to the limits set.

The FX exposure is insignificant. At year-end, total net FX exposure for the Bank Group amounted to EUR 0.3 (0.6) million.

### 6.4 Equity and real estate risk

Equity risk relates to changes in value due to fluctuations in share prices. Real estate risk refers to risk associated with a fall in the market value of real estate assets.

No equity trading or investments in real estate are carried out by the Bank Group.

The exposures for both equity and real estate are insignificant. At the end of the year, real estate holdings amounted to EUR 0.1 (0.1) million, and investments in shares necessary for the business amounted to EUR 9.2 (7.5) million, of which the main part is the holding in Folksam Non-Life Insurance. This 10% holding in Folksam Non-Life Insurance is reported as shares available for sale.

### 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 available for sale 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 the accounting rules, the impact of the rate shock is taken into account only for financial assets available for sale.

The size of the credit spread risk depends on the prospects for the counterparty, the instrument's seniority, and whether or not the investment has collateral. With regard to 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 thus usually regarded as part of the market risk.

**Table 6.3 Repricing gap analysis in the Bank Group**

EUR million	Interest rate fixing period						Non-repricing	Total
	Within 3 months	3-6 months	6-12 months	1-2 years	2-5 years	>5 years		
Interest bearing assets	3,381	1,622	1,913	382	426	115		7,839
Non-interest bearing asset							386	386
<b>Total assets</b>	<b>3,381</b>	<b>1,622</b>	<b>1,913</b>	<b>382</b>	<b>426</b>	<b>115</b>	<b>386</b>	<b>8,225</b>
Interest bearing liabilities	1,395	560	808	1,140	2,355	1,192		7,450
Non-interest bearing liabilities							775	775
<b>Total liabilities and equity</b>	<b>1,395</b>	<b>560</b>	<b>808</b>	<b>1,140</b>	<b>2,355</b>	<b>1,192</b>	<b>775</b>	<b>8,225</b>
<b>Off-balance sheet items, net</b>	<b>-1,204</b>	<b>-943</b>	<b>300</b>	<b>485</b>	<b>737</b>	<b>625</b>		<b>0</b>
<b>Exposure</b>	<b>782</b>	<b>119</b>	<b>1,405</b>	<b>-273</b>	<b>-1,192</b>	<b>-452</b>	<b>-389</b>	
<b>Cumulative exposure</b>		<b>901</b>	<b>2,306</b>	<b>2,033</b>	<b>841</b>	<b>389</b>	<b>0</b>	

Changes in market interest rates or credit spreads affect the market value of fixed-income securities. Interest rate fluctuations are reported in the fund at fair value after the deduction of deferred tax, while any significant or long-term impairment of market value compared to the acquisition price is shown in the income statement.

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

**Interest rate risk:** In the 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 percentage changes, and the upward stress the 99.5th percentile. However, due to the current low level of interest rates, this method gives an insignificant change, which is why a minimum

of 100 bps upwards and 50 bps downwards is applied for each maturity. The minimum interest rate level is still limited to -50 bps at all maturities.

**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 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**

Banking Group	Assets available for sale		2015	
	2016		EUR million	%
	EUR million	%	EUR million	%
Market value 31.12.	1,338.9	100.0%	1,835.7	100.0%
IR risk up (99.5th percentile)	-14.7	-1.1%	-21.3	-1.2%
IR risk up (100 bp)	-14.7	-1.1%	-21.3	-1.2%
IR risk down (0.5th percentile)	6.0	0.4%	10.5	0.6%
Spreadrisk	-28.3	-2.1%	-42.4	-2.3%
Equity risk	-5.5	-0.4%	-4.5	-0.2%

# 7. Operational risk

## 7.1 The management of operational risks

Operational risks are the risk 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 the staff – including human error – or by external events. Operational risks include legal risks but not strategic risks.

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

The framework for the management of operational risks of the Group is adopted by the Board of Directors on a yearly basis. According to the framework, critical functions of the Group, including outsourced functions, are to be mapped out for risks on a yearly basis. Operational risks are present in all of Aktia's operations. The risk management policy requires that the level of operational risk should be normal in comparison to the activities of Aktia and its competitors. This is achieved through a thorough insight into business activities, good and functional internal control mechanisms, risk-aware leadership and competent staff.

In June, the Board of Directors approved key risk indicators (KRIs) for operational risks, which are reported to management and the Board of Directors on a quarterly basis.

The responsibility for managing operational risks lies with the risk owner, i.e. the management of the different business areas and their respective organisation. Risk management requires continuous development of the quality of the different internal processes and the internal controls embedded in them within the whole Group. It also requires the ability to identify emerging areas of risk.

Risk assessments are to be performed by the risk owners and their organisation with the help of standard assessment models. The risk assessments can also be supported by the Operational Risk Management team within the Risk Control function of the Group in the second line of defence. According to the framework, the risk assessments are performed as traditional risk and control assessment or, as in the case of the distribution organisation, as risk-self-assessments.

Risk assessments result in identified risks or risk areas that are then evaluated by their probability and their potential impact. The risk owner or the appropriate decision-making bodies in the organisation should then determine how these risks or risk areas are to be managed and what mitigating actions should be taken. Certain operational risks can also be accepted. The identified risk areas are followed up by the risk owner on a regular basis, and the effects of the risk-mitigating actions are also evaluated.

In 2016, the main focus in assessing and managing operational risks was on Aktia's ongoing core banking system replacement project.

Adequate internal instructions for the functions, processes and staff are in place as a preventive measure in order to reduce operational risks in central and high-risk areas. The instructions cover, among other things, internal controls, legal risks, staff risks, principles for continuity and contingency planning, measures to prevent money laundering and financing of terrorism, as well as the implementation of financial sanctions.

In 2016, as in the year before, increased emphasis was placed on the overall management of operational risks. The same applied to the enhanced gathering of "know your customer" (KYC) information and documentation from customers, as well as on other aspects of preventing money laundering and financing of terrorism. Aktia's ability to file appropriate tax reports about its customers is also a part of KYC.

Despite well-functioning internal controls, risk events (incidents) do occur. All functions and branches are required to report not only with financial implications, but also "close calls". The Operational Risk Management team within Risk Control at Group level analyses incident information and escalates important issues to the risk owner for action, including for risk mitigation measures at the process or Group level. The root causes of the risk event, i.e. failures in processes, systems, know-how or internal controls, are analysed. Rapid and proactive management of any customer impact is also sought.

Risk Control is also responsible for reporting its assessment of the management of operational risk within the first line of defence to the Board of Directors every quarter.

Before launching new products, services or processes, or introducing material changes in previously existing products, services or processes, a new product approval (NPA) process is applied to identify the risks associated with the new product, service or changed process. The purpose is to ensure that the introduction of products, services or processes has been carefully thought through.

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

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

## 7.2 Information security management system

The Board of Directors adopted a renewed framework for an information security management system (ISMS) for the Group during 2016. The framework is reviewed annually and includes, among other things, KRIs for maintaining information security at a high level. Aktia has chosen to use ISO 27001 and 27002 as guidelines for the ISMS. At the operational level, the ISMS incorporates an information security policy, definitions of control objectives and an annual plan for reviewing them, an IT security roadmap based on threat analysis, business strategy and compliance requirements based on the Payment Card Industry Data Security Standard and the EU General Data Protection Regulation. To further maintain the high level of awareness within the organisation for information security, there are a training program for information security awareness and a process for information security incident management, and information security assessments are conducted regularly.

The IT function's operational risk level is monitored and reported semi-annually to the Board of Directors. The assessment of the risk level is based on a set of objectives especially for IT governance and IT processes, as well as for continuity and disaster recovery plans.

## 8. Liquidity risk and funding

Aktia's liquidity position remained strong. To ensure sufficient liquidity to support its core operations in stressed financial conditions, the Bank holds a large liquidity reserve.

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

### 8.1 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, since 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 of time, even if there is extensive disruption in the financial markets.

Liquidity risk also occurs if liquid assets are largely concentrated with certain counterparties or in particular instruments or markets.

#### 8.1.1 Management of liquidity risk

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

The most important sources of funding are deposits from households and from small and medium-sized enterprises, as well as covered bonds.

During the year, EUR 40 million in registered covered bonds were transferred from Aktia Real Estate Mortgage Bank to Aktia Bank as preparation for the planned merger of Aktia Real Estate Mortgage Bank with the parent company, which will take place in the first quarter of 2017. The stock of covered bonds secured by residential real estate totalled EUR 1,648 (2,253) million, of which Aktia Bank's share amounted to EUR 1,540 (1,500) million. At year-end, Aktia Bank's cover pool of eligible assets, mortgage loans, amounted to EUR 4,280 (3,989) million.

The 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 246 (243) million, of which the main part refers to subordinated debts. The Bank will also receive financing from the European Investment Bank within the framework of their programmes for financing small businesses and environmental projects.

In order to achieve a sound funding balance, Aktia actively works to broaden its refinancing base. Over the financial period, Aktia Bank had no need to issue new or additional long-term unsecured senior bonds. Long-term unsecured senior bonds (Aktia Bank's EMTN programme and Schuldscheindarlehen) amounted to EUR 769 (789) million.

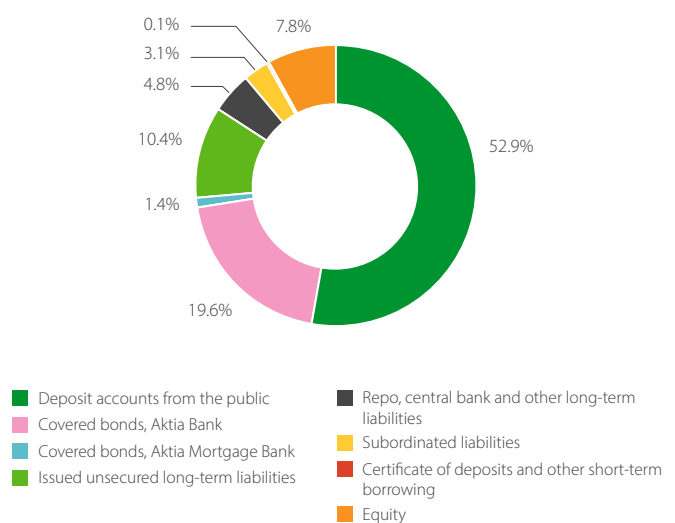
The diversified funding structure is complemented by a liquidity portfolio comprising highly liquid assets. The portfolio acts as a liquidity buffer against short-term liquidity fluctuations and possible market disruptions in the refinancing market, and it can, if necessary, be realised or used as collateral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

#### Concentration risks in the liquidity portfolio

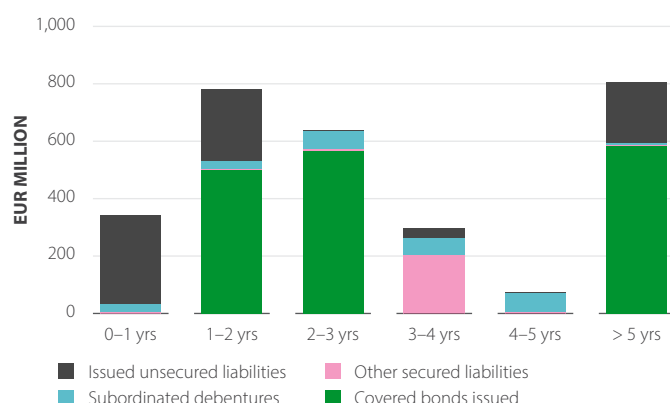
Concentrations risk in the liquidity portfolio is managed by limits that are prepared by the Group's investment committee and thereafter established by the Board of Directors. Limits are set for e.g. country, counterparty, issuer and instrument types.

The distribution of Aktia Bank's funding sources is presented in Diagram 8.1 and the maturity of long-term funding in Figure 8.2.

Diagram 8.1. Funding sources





**Figure 8.2. Maturity structure for the long-term funding**

### 8.1.2 Governance of liquidity risk

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

#### Internal liquidity adequacy assessment process

The Bank Group's liquidity needs are assessed annually in the internal liquidity adequacy assessment process (ILAAP). The Aktia Group's Chief Control Officer (CCO) has the overall responsibility for the process of ILAAP and is responsible for ensuring that the Group has an effective control process, including liquidity management. The Aktia Group's Chief Financial Officer (CFO) and the Head of Treasury are responsible for the operational liquidity planning and management, as well as for the funding strategy. 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.

### 8.1.3 Measurement of liquidity risk

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

#### Liquidity reserve and stress tests

The aim is to continuously maintain a liquidity reserve that covers the outgoing cash flow for at least one year.

The liquidity portfolio consists of highly liquid assets to meet liquidity needs in stressful situations. 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 1,637 million, equivalent to just over 40 months of outgoing cash flows from the wholesale market. Table 8.3 shows the holdings in the liquidity reserve.

Aktia performs stress tests regularly to measure how liquidity disturbances affect the survival horizon in the liquidity reserve.

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

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

**Table 8.3. Liquidity reserve, market value**

EUR million	31 December 2016	31 December 2015
Cash and holdings in central banks	338	228
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	414	415
Securities issued or guaranteed by municipalities or Public sector entities	205	188
Covered bonds	636	969
Own covered bonds	0	90
Securities issued by credit institution	44	199
Securities issued by financial corporates	0	0
<b>Total</b>	<b>1,637</b>	<b>2,090</b>

#### Liquidity ratios

Furthermore, 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 large enough to meet short-term net outflows in stressed situations in the next 30 days. The internal LCR limit for the Aktia Group is that the ratio must be more than 100%.

The NSFR, which is expected to be introduced in 2018, measures the matching of receivables and liabilities with a maturity of over one year on Aktia Bank's balance sheet with the purpose of ensuring that long-term lending is, to a safe extent, financed by long-term funding.

The level of the LCR will fluctuate over time, depending, among other things, on what the maturity structure of the Bank's issued securities looks like. Table 8.4 presents the development of the LCR and NSFR in 2016 for Aktia Bank Group.

Table 8.4. LCR and NSFR

	31 Dec 2016	30 Sep 2016	30 Jun 2016	31 Mar 2016	31 Dec 2015
LCR %	209%	196%	178%	242%	275%
NSFR %	130%	128%	121%	120%	120%

## EUR million

Liquidity coverage ratio (LCR)	31 Dec 2016	31 Dec 2015
Liquid assets, level 1	1,400	1,554
Liquid assets, level 2	34	24
<b>Total liquid assets</b>	<b>1,434</b>	<b>1,577</b>
Total cash outflows	834	708
Total cash inflows	148	135
<b>Net cash outflows</b>	<b>686</b>	<b>574</b>
<b>Liquidity coverage ratio (LCR), %</b>	<b>209%</b>	<b>275%</b>

## 8.2 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. One 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. The majority of the encumbered assets consist of Aktia Bank's cover pools, which comprise mortgage loans provided as collateral for outstanding covered bonds. Aktia maintains a certain level of over-collateralisation (on top of the level required by the supervisory authority) in the cover pool to be able to withstand a significant price fall in the real estate market.

Table 8.5. Disclosure on asset encumbrance, median value 2016

Assets*	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
<b>Assets of the reporting institution</b>	<b>3,065</b>		<b>5,368</b>	
Loans on demand	0		242	
Equity instruments	0	0	9	9
Debt securities	428	435	1,463	1,488
Loans and advances other than loans on demand	2,677		3,223	
of which: mortgage loans	2,677		2,862	
Other assets	35		332	
<b>Collateral received*</b>		<b>Fair value of encumbered collateral received or own debt securities issued</b>	<b>Fair value of collateral received or own debt securities issued available for encumbrance</b>	
<b>Collateral received by the reporting institution</b>		<b>0</b>	<b>149</b>	
Equity instruments		0	0	
Debt securities		0	0	
Loans and advances other than loans on demand			0	
Other collateral received		0	149	
Own debt securities issued other than own covered bonds or ABSs		0	0	
<b>Sources of encumbrance*</b>		<b>Matching liabilities, contingent liabilities or securities lent</b>	<b>Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered</b>	
<b>Carrying amount of selected financial liabilities</b>		<b>2,155</b>	<b>3,065</b>	

## Information on importance of encumbrance\*

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

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

# 9. Risk and capital in the life insurance business

The first year of Solvency II shows a quite stable capital ratio over the year, with an improving trend. At year-end 2016, Aktia Life is compliant with Solvency II even without transition rules.

## 9.1 Risk management system and governance

The board of Aktia Life Insurance is the body with ultimate responsibility for the governance and operation of the company. However, Aktia as a financial Group is governed as a whole, and much of the decision-making is done in cooperation with the Group's Board of Directors and its relevant committees. In particular regarding matters which typically have impact on other subsidiaries as well – such as strategy, risk appetite, and ALM – decisions are made at Group level. Also, many of the written policies are 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 for the whole Group, and in practice the life insurance company's risk control is outsourced to the parent company. The Group has a written policy in which the responsibilities of the Risk Control function are defined. Risk tolerance limits for the life insurance company are set up within the Group's limit policy. The life insurance company also has a risk management plan of its own, which is mainly concerned with identifying and defining the measurement methods for the risks specifically connected to the life insurance company. This document also sets out how risks are measured in the company's own risk and solvency assessment (ORSA).

The Risk Control unit is led by the Head of Risk Control, who reports to the Group's Board of Directors. The unit must be organised in such a way that it is independent of the business and the support functions that it monitors and controls. It cannot perform the duties it monitors, and the employees are not covered by any compensation schemes that are directly linked to the profitability of the operations they oversee. The Risk Control unit must have adequate and competent resources to perform the control function reliably.

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 from the business channels. On a quarterly basis, the unit presents an 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 for the Risk Committee of the Group's Board of Directors, which then makes an assessment on the adequacy of the risk management and whether its activities are appropriate.

## 9.2 Key risks in the life insurance company

In the ORSA of Aktia Life Insurance, the main risk categories are defined to be business risk, contact risk, insurance (underwriting) risk, operational risk and market risk. In the ORSA of 2016, market risk and insurance risk were still the dominant risks, with 61.1% (74.2%) and 35.8% (23.7%), respectively, of the total correlated risk sum. The seemingly large shift of risk from market to insurance is mostly due to changes in the technical provisions modelling and does not reflect a real shift in risk of this size. The correlated risk sum is referred to as the ORSA capital requirement and 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 underwriting risk, the method coincides with the Solvency II framework regarding the life and health risk modules, but the correlation differs. The calculation of market risk, which is the largest risk, 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 9.2.1.

## 9.2.1 Market risk

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

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

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

In the sensitivity analysis, interest rate risk is stressed through percentage change factors calculated from a Euribor–euro swaps-based risk-free 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 percentage changes, and the upward stress the 99.5th percentile. However, due to the current low interest level, a minimum of 100 bps upwards and 50 bps downwards is applied for each maturity. The absolute minimum level of the rate, -50 bps, is still applied for the calculations for 31 December 2016, but it will be removed as of 1 January 2017, such that the stressed level is not bounded from below.

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 seniority, collateralisation and credit rating of the security. Spread risk has grown in proportion due to the low interest rate level, and at year-end it was the largest market risk in the internal model (EUR 26.8 million in total). 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. This fact makes hedging by matching difficult, as the only practical way to hedge against spread risk is through credit derivatives, which are currently not used. However, as the investment policy currently excludes equities, a higher spread risk is the natural price to pay for a higher return. Fixed-income still dominates the interest-linked portfolio, and totalled EUR 495.0 (524.4) million or 83% (86%) at year-end.

In the 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 in 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. Also, some positions in private equity funds are in foreign currencies. On the unit-linked side, exposures come from mutual funds (interest and equity) investing in foreign-currency instruments. Mutual funds investing in a non-euro geographic area but officially denoted in euro typically contain currency risk as well, which is taken into account in the risk calculation. FX risk is noteworthy on both the interest-linked and the unit-linked sides.

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 exchange rate.

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 disposed of immediately. During 2016, the positions in these assets continued decreasing and are now only EUR 2.5 (3.3) million. The hedge fund portfolio has been sold. On the unit-linked side, equity risk is the most substantial risk. This is mostly due to volume: as the majority of 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 for the unit-linked portfolio was EUR 723.1 (667.7) million at year-end.

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 83.9 (81.6) million. Real estate risk is the second largest of the market risks. On the unit-linked side, it is of negligible importance.

In the 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.

Table 9.1. Allocation of holdings in the interest-linked portfolio

EUR million	31 Dec 2016		31 Dec 2015	
	EUR million	%	EUR million	%
<b>Equities</b>	<b>0,0</b>	<b>0,0%</b>	<b>0,0</b>	<b>0,0%</b>
<b>Fixed-income</b>	<b>495,0</b>	<b>82,5 %</b>	<b>484,6</b>	<b>79,5 %</b>
Government bonds	123,8	20,6 %	125,7	20,6 %
Financial sector bonds in total	226,2	37,7 %	228,6	37,5 %
Covered bonds	179,3	29,9%	185,9	30,5 %
Senior bonds	40,8	6,8 %	39,9	6,5 %
Subsenior bonds	6,0	1,0 %	2,8	0,5 %
Other corporate in total	87,3	14,5 %	81,1	13,3 %
Senior bonds	86,7	14,5 %	80,6	13,2 %
Subsenior bonds	0,6	0,1 %	0,6	0,1 %
Emerging markets bonds	32,3	5,4 %	29,4	4,8 %
High yield bonds	25,4	4,2 %	19,7	3,2 %
<b>Alternative investments</b>	<b>2,5</b>	<b>0,4 %</b>	<b>3,3</b>	<b>0,5 %</b>
Private Equity & Venture capital	2,5	0,4 %	3,1	0,5 %
Hedge funds	0,0	0,0 %	0,2	0,0 %
<b>Real estate</b>	<b>83,9</b>	<b>14,0 %</b>	<b>81,6</b>	<b>13,4 %</b>
Directly owned	58,3	9,7 %	53,9	8,9 %
Real estate funds	25,6	4,3 %	27,7	4,5 %
<b>Money market</b>	<b>0,0</b>	<b>0,0 %</b>	<b>0,0</b>	<b>0,0 %</b>
<b>Cash at bank</b>	<b>18,5</b>	<b>3,1 %</b>	<b>39,8</b>	<b>6,5 %</b>
	<b>600,0</b>	<b>100,0 %</b>	<b>609,3</b>	<b>100,0 %</b>

Table 9.2. Sensitivity analysis for market risk

	Portfolio		Technical provisions*		Total			
	31 Dec 2016	31 Dec 2015	31 Dec 2016	31 Dec 2015	31 Dec 2016		31 Dec 2015	
	EUR million	EUR million	EUR million	EUR million	EUR million	%**	EUR million	%**
<b>Life insurance company</b>								
<b>Interest linked</b>								
Market value 31.12.	581,5	609,3	-504,5	-504,6	77,0	67,2 %	111,4	77,7 %
IR risk up	-23,5	-23,2	46,9	52,4	23,4	20,4 %	29,2	20,4 %
IR risk down	19,0	18,4	-44,7	-60,8	-25,7	-22,4 %	-42,4	-29,6 %
Spreadrisk	-25,4	-24,3	0,0	0,0	-25,4	-22,2 %	-24,3	-16,9 %
Currency risk	-4,3	-8,2	0,1	0,0	-4,2	-3,7 %	-8,2	-5,7 %
Equity risk	-1,4	-2,1	0,0	-0,2	-1,4	-1,2 %	-2,3	-1,6 %
Real estate risk	-25,8	-21,5	0,3	0,0	-25,5	-22,3 %	-21,5	-15,0 %
<b>Unit- and index linked</b>								
Market value 31.12.	723,1	667,7	-685,6	-635,7	37,5	32,8 %	32,0	22,3 %
IR risk up	-17,2	-12,3	18,8	13,6	1,6	1,4 %	1,3	0,9 %
IR risk down	23,7	13,8	-21,8	-14,6	1,9	1,7 %	-0,8	-0,6 %
Spreadrisk	-17,7	-17,0	16,3	16,4	-1,4	-1,2 %	-0,6	-0,4 %
Currency risk	-35,9	-44,0	33,1	42,6	-2,8	-2,4 %	-1,4	-1,0 %
Equity risk	-200,3	-184,9	184,8	167,1	-15,5	-13,5 %	-17,8	-12,4 %
Real estate risk	0,0	0,0	0,0	0,0	0,0	0,0 %	0,0	0,0 %
<b>Total</b>								
<b>Market value 31.12.</b>	<b>1 304,6</b>	<b>1 277,0</b>	<b>-1 190,1</b>	<b>-1 140,3</b>	<b>114,5</b>	<b>100,0 %</b>	<b>143,4</b>	<b>100,0 %</b>
IR risk up	-40,7	-35,5	65,7	66,0	25,0	21,8 %	30,5	21,3 %
IR risk down	42,7	32,2	-66,5	-75,4	-23,8	-20,8 %	-43,2	-30,1 %
Spreadrisk	-43,1	-41,3	16,3	16,4	-26,8	-23,4 %	-24,9	-17,4 %
Currency risk	-40,2	-52,2	33,2	42,6	-7,0	-6,1 %	-9,6	-6,7 %
Equity risk	-201,7	-187,0	184,8	166,9	-16,9	-14,8 %	-20,1	-14,0 %
Real estate risk	-25,8	-21,5	0,3	0,0	-25,5	-22,3 %	-21,5	-15,0 %

\* 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 (114,5 for 2016)

Table 9.3 Technical provisions by policy type and guaranteed rate

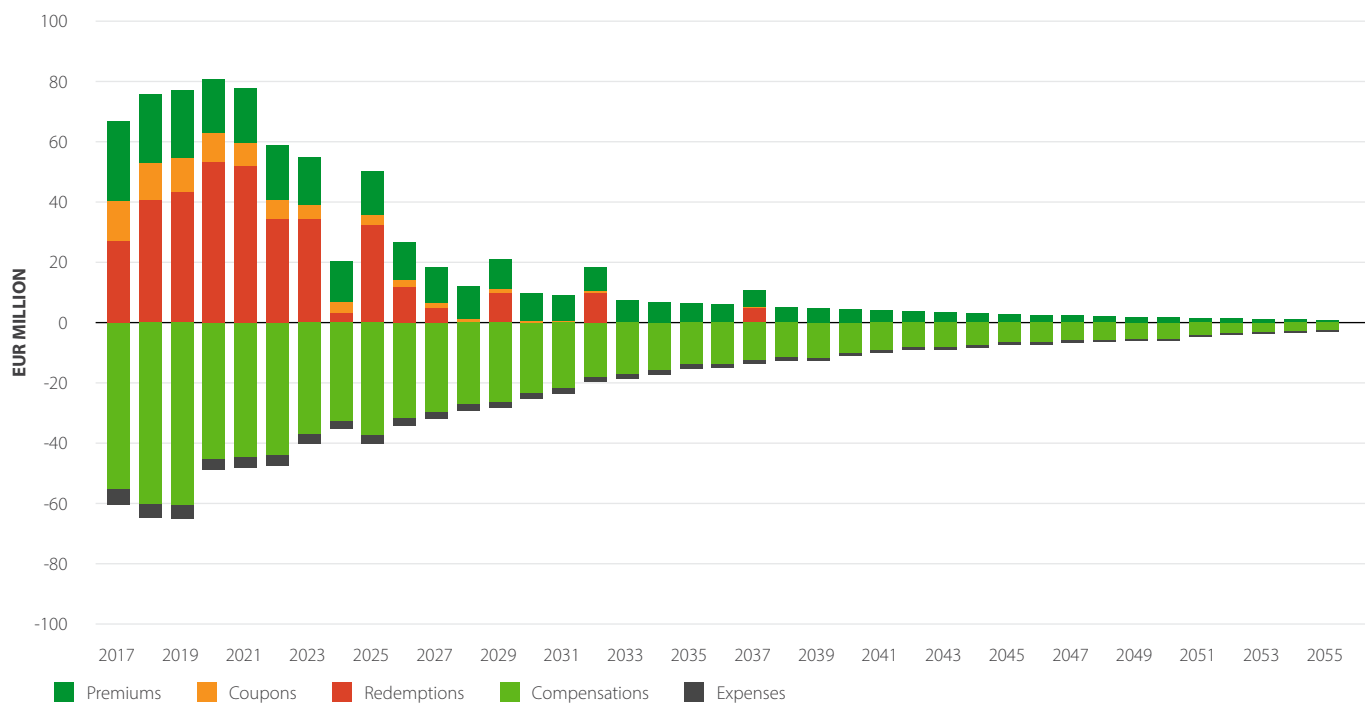
EUR million	TP 31 Dec 2016	%	Premiums	Claims paid	Expense charges	Guar- anteed interest	Bonuses	TP 31 Dec 2015
<b>Group pension</b>	<b>52.7</b>	<b>0.0</b>	<b>2.2</b>	<b>2.9</b>	<b>0.2</b>	<b>1.7</b>	<b>0.0</b>	<b>51.7</b>
3.5%	52.2	0.0	2.2	2.8	0.2	1.7	-	51.2
2.5%	0.1	0.0	-	0.0	0.0	0.0	-	0.2
1.0%	0.3	0.0	-	0.1	0.0	0.0	0.0	0.3
<b>Individual pension insurance</b>	<b>277.7</b>	<b>0.2</b>	<b>6.0</b>	<b>37.5</b>	<b>0.8</b>	<b>11.5</b>	-	<b>296.1</b>
4.5%	184.8	0.2	2.9	23.0	0.5	8.5	-	197.0
3.5%	64.8	0.1	1.8	9.1	0.2	2.3	-	70.4
2.5%	28.2	0.0	1.3	5.4	0.1	0.7	-	28.7
<b>Savings insurance</b>	<b>64.0</b>	<b>0.1</b>	<b>1.3</b>	<b>8.7</b>	<b>0.3</b>	<b>2.0</b>	-	<b>69.7</b>
4.5%	9.9	0.0	0.4	4.8	0.1	0.5	-	13.9
3.5%	22.1	0.0	0.6	1.0	0.1	0.8	-	22.0
2.5%	31.9	0.0	0.2	2.8	0.1	0.7	-	33.7
<b>Risk insurance</b>	<b>29.2</b>	<b>0.0</b>	<b>20.0</b>	<b>12.0</b>	<b>6.8</b>	<b>1.0</b>	<b>0.0</b>	<b>31.2</b>
<b>Unit linked insurance</b>	<b>719.4</b>	<b>0.6</b>	<b>82.5</b>	<b>51.7</b>	<b>7.8</b>	-	-	<b>662.2</b>
Savings insurance	581.6	0.5	73.9	39.6	6.1	-	-	526.8
Individual pension insurance	125.1	0.1	6.9	12.0	1.4	-	-	124.9
Group pension	12.7	0.0	1.7	0.1	0.2	-	-	10.5
<b>Reservation for increased life expectancy</b>	<b>3.4</b>	<b>0.0</b>	-	-	-	-	-	<b>3.7</b>
<b>Reservation for lowered discount rate</b>	<b>16.0</b>	<b>0.0</b>	-	-	-	-	-	<b>16.0</b>
	<b>1,162.4</b>	<b>1.0</b>	<b>112.0</b>	<b>112.8</b>	<b>16.0</b>	<b>16.1</b>	<b>0.0</b>	<b>1,130.5</b>

Table 9.4 Estimated Technical Provisions cash flow distribution (outflows) over time for interest linked policies

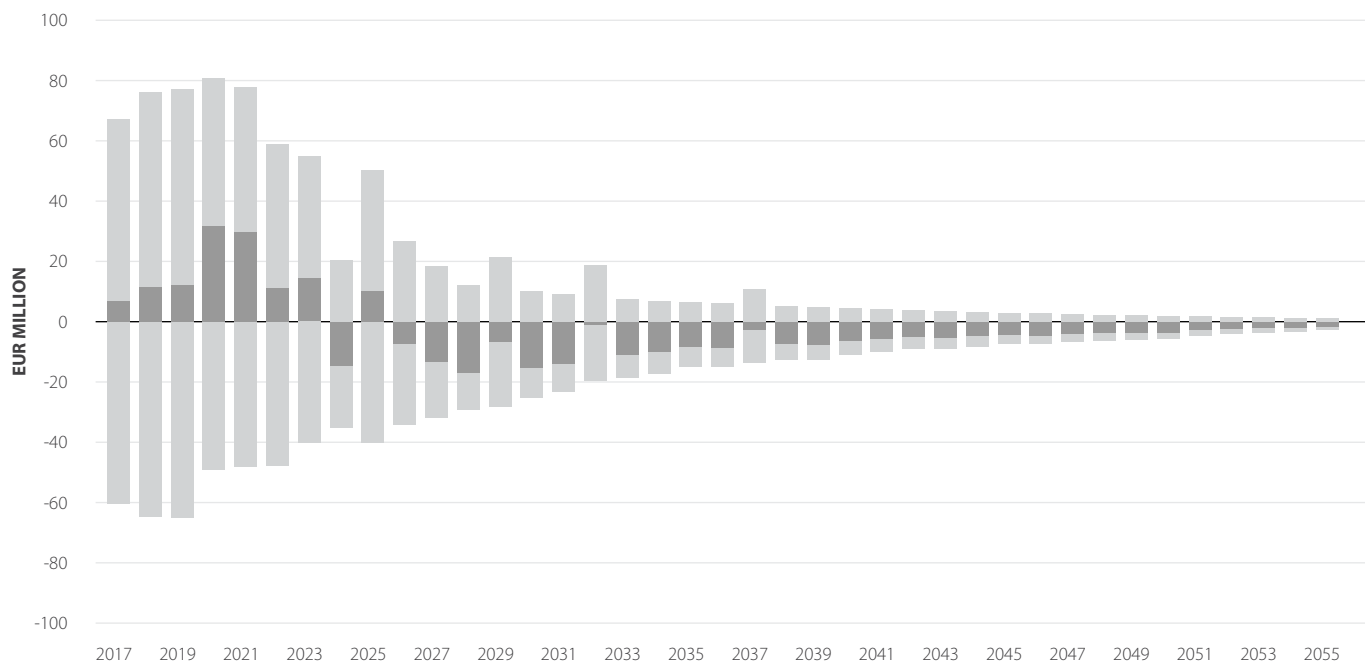
31 Dec 2016

EUR million	Duration	2017 - 2018	2019 - 2020	2021 - 2025	2026 - 2030	2031 - 2035	2036 - 2045	2046 - 2055	2056-
<b>Savings insurance</b>									
4.5%	3.6	7.5	1.0	1.5	1.0	0.3	0.2	0.1	0.0
3.5%	10.3	2.8	8.2	6.9	4.1	2.9	3.4	1.8	1.7
2.5%	11.1	5.6	5.2	9.6	5.6	4.1	5.3	2.3	2.0
<b>Pensions</b>	<b>9.6</b>	<b>56.7</b>	<b>55.2</b>	<b>115.2</b>	<b>92.0</b>	<b>60.3</b>	<b>65.1</b>	<b>33.1</b>	<b>13.8</b>
4.5%	7.4	44.9	39.2	77.4	52.2	23.1	10.4	1.7	0.5
3.5%	12.0	15.5	16.7	36.8	33.1	26.3	33.6	15.4	8.3
2.5%	14.5	2.6	2.8	6.2	5.9	7.0	9.2	4.9	1.0
1.0%	16.9	-6.3	-3.5	-5.2	0.9	4.0	11.9	11.0	4.0
<b>Other insurance</b>	<b>7.8</b>	<b>8.9</b>	<b>-0.9</b>	<b>-4.4</b>	<b>-4.3</b>	<b>-4.1</b>	<b>-6.0</b>	<b>-3.4</b>	<b>-1.1</b>
<b>Total</b>	<b>9.6</b>	<b>81.4</b>	<b>68.6</b>	<b>128.8</b>	<b>98.5</b>	<b>63.5</b>	<b>68.0</b>	<b>33.8</b>	<b>16.4</b>

**Figure 9.5. Cash flow distribution and mismatch of interest linked policies - Technical Provisions vs. portfolio (EUR million)**



**Mismatch of in- and outflows**



## 9.2.2 Underwriting risk

Aktia Life Insurance provides voluntary pension insurance, life insurance and savings insurance. Due to laws regarding insurance contracts, the company has quite limited scope to influence premium levels or to change the terms of existing contracts. 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 Board after a proposal from the chief actuary. Reinsurance is used to limit the liability, ensure that the solvency capital is adequate and prevent the profit from fluctuating too much.

In this context, underwriting risk is the risk that the future cash flows from existing insurance policies will not be consistent with the ones estimated in the valuation of the technical provisions. Therefore, it is a model risk and represents the risk connecting the model used for technical provisions.

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

At year-end, the total life risk was EUR 49.4 (48.7) million correlated, and EUR 71.6 (71.0) million uncorrelated. Health risk was EUR 16.6 (17.6) million correlated and EUR 16.9 (17.9) million uncorrelated.

Mortality risk is stressed through a 15% increase in mortality, and mostly arises from life insurance policies. At year-end, the risk for life insurance was EUR 9.8 (9.9) 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 7.4 (7.3) 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 the following years, as well as a decrease of 20% in the recovery rates.

For health insurance policies, a 5% increase in healthcare expenses combined with a one percentage point increase in the assumed inflation rate is used. The risk mainly arises from policies covering disability and health expenses. At year-end, the risk for life insurance was EUR 0.6 (0.7) million, and EUR 14.0 (15.1) 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 32.2 (30.1) million, and EUR 3.2 (3.6) million for health insurance.

Expense risk is stressed through an increase in 10% of the assumed future expense combined with a one percentage point increase in the assumed inflation rate. Expense risk is the second largest of the underwriting risks. At year-end, the risk for life insurance was EUR 17.4 (18.8) million, and EUR 3.1 (2.9) million for health insurance.

Catastrophe risk is stressed through estimated effects on different catastrophic events. For life insurance policies, this consists of an increase of 0.15 percentage points of mortality rates during the following year. For health insurance policies, a combination of a mass accident, an accident in a location with a large policyholder concentration, and a pandemic considered. At year's end the risks were EUR 4.3 (4.2) million and EUR 0.5 (0.5) million for life and health, respectively.

## 9.3 Capital management and solvency position

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

The Group's goal is to allocate the capital within the parent company and the subsidiaries, so that an efficient and, at the same time, reassuring capitalisation rate can be achieved for all companies. The Group's policy has, in recent years, 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. The official capital requirement considered in this report is the Solvency II capital requirement, which has been effective from the beginning of 2016.

Aktia Life Insurance has been granted permission to use the transition rule for technical provisions in its calculation of the Solvency II available capital, with the limitations in accordance with Article 308d(4) that the Finnish FSA has set out for all companies that have applied for this rule to be used. 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 2016, the eligible solvency capital was EUR 144.7 million, and the estimated requirement (SCR) was EUR 80.6 million, resulting in a solvency ratio of 179.4%. The ratio for the MCR of EUR 24.4 million was 593.0%. Without transition rules, the eligible capital was EUR 87.9 million, the estimated requirement (SCR) was EUR 80.8 million, and the solvency ratio was 108.7%. The ratio for the MCR of EUR 26.7 million was 329.2%.



# 10. Regulatory development

## Extensive flow of new regulations for financial institutions continuing

On 23 November 2016, the European Commission made a proposal to amend Regulation (575/2013) and Directive (2013/36/EU). This proposal includes e.g. a binding leverage ratio, a binding NSFR, amendments to the large exposures framework and other relevant amendments. This proposal will be discussed in the EU's legislative forums during 2017.

According to the proposal, the level of leverage ratio will be set to 3%. Aktia reported a leverage ratio of 4.7% at year-end 2016.

According to the proposal, the NSFR will be set to minimum level of 100%. Aktia reported an NSFR level of 129% at year-end 2016.

The local supervisor, the Financial Supervisory Authority (FIN-FSA), decided in 2016 after a supervisory review the level of required capital buffers for each regulated institution. This requirement was set for Aktia during 2016 at a level of 1.75%, to be applicable from 30 June 2017.

FIN-FSA is continuing preparations for raising the minimum level of risk weights on residential mortgage loans. Implementation is scheduled for July 2017. These measures will introduce a minimum level of 10% for the average risk weight on housing loans for banks that have adopted the IRB approach. Aktia applies this IRB methodology, but the Bank's average risk weights for housing loans is around 14%. This means that the effect of this new rule would not be significant at present.

Macro prudential decisions: FIN-FSA decides every three months the level of the countercyclical buffer. The most recent decision was made on 21 December 2016, and it was 0%. There is a proposal from the Ministry of Finance to implement the "systematic risk buffer" in Finnish legislation. Both of these could increase the buffer requirement for banks, if set.

The Basel Committee published, in December 2014, a consultative document regarding new rules for calculating credit risk according to standard methods. Simultaneously, it also published a document on capital floors. Later in 2015, it published a revised version calculating the credit risk according to standard methods. Capital floors are intended to set a floor to risk weights that are calculated according to the IRB methodology. The Basel Committees' press release in January 2017 indicates that the scheduled decision on this issue has been postponed for finalising this framework, and it is to be expected to be completed in the near future. This kind of regulation would have a large effect on all banks, when applicable, and it will also affect Aktia in the future.

The EBA is publishing new rules and guidelines for IRB methodology during 2016–2017. Aktia's IRB methodology can be described as quite conservative, but the new regulation will probably also have effects on Aktia, too.

European banking crisis management rules were established from the beginning of 2015. In Finland, local legislation was established and a new authority was established, called the Financial Stability Authority. During 2016, Aktia started discussions with this authority. The results of these discussions will include drawing up the resolution plan for Aktia and the setting of the MREL requirement. So far, Aktia has not received any official documents concerning this issue. The results may later have an effect on Aktia's capital planning.

The IFRS methodology for accounting principles has been endorsed in the EU. As of 1 January 2018, IFRS 9 will introduce new requirements for classification and measurement of financial assets and liabilities. Aktia's model for risk management and the characteristics of financial instruments in respect of future cash flows will have an impact on categories applied by Aktia. Aktia's financial assets are expected to be classified at amortized cost and at fair value through other comprehensive income. Based on preliminary surveys, the implementation of IFRS 9 is expected to increase reported provisions for credit losses. Hedge accounting according to IFRS 9 is not expected to have a significant impact on the Group's result or financial position.

Starting from 2016, the new Solvency II regulation is applicable on insurance companies. Aktia is a conglomerate, and Aktia Life Insurance's levels of solvency are calculated on Solvency II principles. Due to the use of transition rules for technical provisions in its calculation of the Solvency II available capital, the effect will materialise over the long term.

# List of abbreviations

AFS	Available for sale	IRB	Internal ratings-based approach
ALM	Asset and liability management	IRRBB	Interest rate risk in banking book
AT1	Additional Tier 1	LCR	Liquidity coverage ratio
BRRD	Banking Recovery and Resolution Directive	LGD	Loss given default
CCF	Credit conversion factor	LTV	Loan-to-value
CCO	Chief Control Officer	MREL	Minimum requirement for own funds and eligible liabilities
CET1	Common Equity Tier 1	NII	Net interest income
CEO	Chief Executive Officer	NSFR	Net stable funding ratio
CFO	Chief Financial Officer	ORSA	Own risk and solvency assessment
CRD	EU Capital Requirements Directive	O-SII	Other systemically important institutions
CRM	Credit risk mitigation	OTC	Over-the-counter
CRR	EU Capital Requirements Regulation	PD	Probability of default
CVA	Credit valuation adjustment	P&L	Profit and loss
DR	Default rate	PIT	Point-in-time
EAD	Exposure at default	REA	Risk exposure amount
EBA	European Banking Authority	RW	Risk weight
EL	Expected loss	S&P	Standard & Poor's
EU	European Union	SME	Small and medium-sized enterprises
FX	Foreign exchange	T2	Tier 2
ICAAP	Internal capital adequacy assessment process	TTC	Through-the-cycle
IFRS	International Financial Reporting Standard	VaR	Value-at-risk

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## **Appendix 1**

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## Appendix 1.

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

## Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with\*

31 Dec 2016

EUR 1,000	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:		
			Subject to credit risk framework	Subject to counterparty credit risk framework	Not subject to capital requirements or subject to deduction from capital
<b>Assets</b>					
Cash and balances with central banks	380,095	380,094	380,094	0	0
Financial assets available for sale	1,840,526	1,328,462	1,328,462	0	0
Financial assets held until maturity	445,294	445,294	445,294	0	0
Derivative instruments	132,246	132,246	0	132,246	0
Loans and other receivables	5,760,460	5,757,453	5,757,453	0	0
Investments for unit-linked insurances	723,144	0	0	0	0
Investments in associated companies	0	0	0	0	0
Investments in group companies	0	46,191	39,622	0	6,569
Intangible assets	63,698	62,829	0	0	62,829
Investment properties	58,057	78	78	0	0
Other tangible assets	7,672	7,609	7,609	0	0
Total other assets	66,764	56,586	56,586	0	0
Tax receivables	8,022	8,022	8,022	0	0
<b>Total assets</b>	<b>9,485,978</b>	<b>8,224,863</b>	<b>8,023,219</b>	<b>132,246</b>	<b>69,398</b>
<b>Liabilities</b>					
Deposits	4,673,148	4,689,120	0	0	0
Derivative instruments	54,254	54,254	0	0	0
Other financial liabilities	2,800,312	2,803,868	0	145,640	0
Technical provisions	1,162,446	0	0	0	0
Total other liabilities	120,385	113,132	0	0	0
Provisions	1,406	1,406	0	0	0
Tax liabilities	60,918	44,981	0	0	0
<b>Total liabilities</b>	<b>8,872,869</b>	<b>7,706,761</b>	<b>0</b>	<b>145,640</b>	<b>0</b>

\*Template L11

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

### Main sources of differences between regulatory exposure amounts and carrying values in financial statements\*

31 Dec 2016

EUR 1,000	Total	Items subject to:	
		Credit risk framework	Counterparty credit risk framework
Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	8,155,465	8,023,219	132,246
Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	145,640	0	145,640
Total net amount under regulatory scope of consolidation	8,301,105	8,023,219	277,886
Off-balance sheet amounts	527,242	250,161	0
Differences in derivative exposure amounts		0	22,507
Differences due to consideration of provisions		13,679	0
Credit value adjustment (CVA)		0	45,812
Credit risk mitigation techniques affecting the exposure amount: financial collateral, comprehensive method		-40,447	-261,808
Other adjustments		208	0
<b>Exposure amounts considered for regulatory purposes</b>		<b>8,246,820</b>	<b>84,397</b>

\* Template LI2

## Appendix 2. Full disclosure of items and deductions in own funds, 31 December 2016

1,000 EUR

Transitional own funds disclosure template		(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
<b>Common Equity Tier 1 (CET1) capital: instruments and reserves</b>				
1	Capital instruments and the related share premium accounts	163,000	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: Share capital	163,000	EBA list 26 (3)	
2	Retained earnings	191,296	26 (1) (c)	
3	Accumulated other comprehensive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	125,515	26 (1)	
3a	Funds for general banking risk	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		486 (2)	
	Public sector capital injection grandfathered until 1 January 2018		483 (2)	
5	Minority interests (amount allowed in consolidated CET1)		84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	209	26 (2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	480,020		
<b>Common Equity Tier 1 (CET1) capital: regulatory adjustments</b>				
7	Additional value adjustments (negative amount)	-1,339	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	-60,590	36 (1) (b), 37, 472 (4)	
9	Empty Set in the EU			
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	36 (1) (c), 38, 472 (5)	
11	Fair value reserves related to gains or losses on cash flow hedges	148	33 (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-20,268	36 (1) (d), 40, 159, 472 (6)	
13	Any increase in equity that result from securitised assets (negative amount)		32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing		33 (b)	
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41, 472 (7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-1,750	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)		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)		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 the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-6,569	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	
20	Empty Set in the EU			
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative		36 (1) (k)	
20b	of which: qualifying holdings outside the financial sector (negative amount)		36 (1) (k) (i), 89 to 91	

20c	of which: securitisation positions (negative amounts)	"36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258"
20d	of which: free deliveries (negative amount)	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)	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	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	36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty Set in the EU	
25	of which: deferred tax assets arising from temporary differences	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)	36 (1) (a), 472 (3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	36 (1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	
	Of which: ... filter for unrealised loss 1	467
	Of which: ... filter for unrealised loss 2	467
	Of which: ... filter for unrealised gain 1	468
	Of which: ... filter for unrealised gain 2	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	481
	Of which: ...	481
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	36 (1) (j)
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	-90,368
29	Common Equity Tier 1 (CET1) capital	389,652

#### Additional Tier 1 (AT1) capital: instruments

30	Capital instruments and the related share premium accounts	0 51, 52
31	of which: classifies as equity under applicable accounting standards	0
32	of which: classified as liabilities under applicable accounting standards	0
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0 486 (3)
	Public sector capital injections grandfathered until 1 January 2018	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 85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase out	0 486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0

#### Additional Tier 1 (AT1) capital: regulatory adjustments

37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	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 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 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 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
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	0 472, 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
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	0 477,477 (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
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0 467, 468, 481
	Of which: ...possible filter for unrealised losses	0 467
	Of which: ...possible filter for unrealised gains	0 468
	Of which: ...	0 481
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0 56 (e )
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0
44	Additional Tier 1 (AT1) capital	0
45	Tier 1 capital (T1 = CET1 + AT1)	389,652

#### Tier 2 (T2) capital: instruments and provisions

46	Capital instruments and the related share premium accounts	136,148
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	0 486 (4)
	Public sector capital injections grandfathered until 1 January 2018	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 87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase out	0 486 (4)
50	Credit risk adjustments	0 62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustments	136,148

#### Tier 2 (T2) capital: regulatory adjustments

52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	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 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 66 (c), 69, 70, 79, 477 (4)
54a	Of which new holdings not subject to transitional arrangements	0
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	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 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 (ie. CRR residual amounts)	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	0 472, 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



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	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	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	0	467, 468, 481
	Of which: ...possible filter for unrealised losses	0	467
	Of which: ...possible filter for unrealised gains	0	468
	Of which: ...	0	481
57	Total regulatory adjustments to Tier 2 (T2) capital	0	
58	Tier 2 (T2) capital	136,148	
59	Total capital (TC = T1 + T2)	525,800	
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)	99,055	
	Of which: Residual amounts relating to holdings in significant financial entities not deducted from CET1 capital	99,055	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	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	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	Total risk weighted assets	1,997,682	

### Capital ratios and buffers

61	Common Equity Tier 1 (as a percentage of risk exposure amount)	19.51%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	19.51%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	26.32%	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)	2.529%	CRD 128, 129, 130
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.029%	
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)	15.01%	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	"36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)"
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	39,622	36 (1) (i), 45, 48, 470, 472 (11)
74	Empty Set in the EU	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	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	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	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	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	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	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase out arrangements	0	484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase out arrangements	92,094	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)

## Appendix 3. Main features of the CET1 capital instruments, 31 December 2016

		A shares	R shares
1	Issuer	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000058870	FI4000058888
3	Governing law(s) of the instrument	Finland	Finland
<b>Regulatory treatment</b>			
4	Transitional CRR rules	CET1	CET1
5	"Post-transitional CRR rules"	CET1	CET1
6	Eligible at solo/ (sub-)consolidated/ solo &(sub-)consolidated	Solo&consolidated	Solo&consolidated
7	Instrument type (types to be specified by each jurisdiction)	Share capital	Share capital
8	Amount recognised in regulatory capital (EUR million)	114.3	48.7
9	Nominal amount of instrument (EUR million)	N/A	N/A
9a	Issue price	N/A	N/A
9b	Redemption price	N/A	N/A
10	Accounting classification	Shareholders' equity	Shareholders' equity
11	Original date of issuance	N/A	N/A
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
<b>Coupons/dividends</b>			
17	Fixed or floating dividend/coupon	N/A	N/A
18	Coupon rate and any related index	N/A	N/A
19	Existence of a dividend stopper	N/A	N/A
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	N/A	N/A
22	Noncumulative or cumulative	N/A	N/A
23	Convertible or Non-convertible	N/A	N/A
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	N/A	N/A
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Tier 2	Tier 2
36	Non-compliant transitioned features	No	No
37	If Yes, specify non-compliant features	N/A	N/A

## Appendix 4. Main features of T2 capital instruments, 31 December 2016

		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	FI4000068408	FI4000071550	FI4000076740	FI4000085519	FI4000092614
3	Governing law(s) of the instrument	Finland	Finland	Finland	Finland	Finland
<b>Regulatory treatment</b>						
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)	5.1	4.3	5.4	4.4	8.5
9	Nominal amount of instrument (EUR million)	15.5	10.8	12.5	9.5	16.1
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 Aug 2013	21 Oct 2013	2 Jan 2014	3 Mar 2014	28 Apr 2014
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	19 Aug 2018	2 Jan 2019	1 Mar 2019	26 Apr 2019	16 Aug 2019
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
<b>Coupons/dividends</b>						
17	Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	3.00	3.00	3.00	3.00	3.00
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	Tier 2 - Issue 9	Tier 2 - Issue 10
1	Issuer	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000104898	FI4000113204	FI4000125315	FI4000148333	FI4000153499
3	Governing law(s) of the instrument	Finland	Finland	Finland	Finland	Finland
<b>Regulatory treatment</b>						
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)	7.2	7.9	3.8	5.7	13.2
9	Nominal amount of instrument (EUR million)	12.9	13.2	6.0	8.6	18.2
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	18 Aug 2014	20 Oct 2014	2 Jan 2015	2 Mar 2015	27 Apr 2015
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	18 Oct 2019	2 Jan 2020	28 Feb 2020	24 Apr 2020	15 Aug 2020
14	Issuer call subject to prior supervisory approval	No	No	No	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
<b>Coupons/dividends</b>						
17	Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	3.00	3.00	2.75	2.75	2.50
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured
36	Non-compliant transitioned features	No	No	No	No	No
37	If Yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

Appendix 4, cont.

		Tier 2 - Issue 11	Tier 2 - Issue 12	Tier 2 - Issue 13	Tier 2 - Issue 14	Tier 2 - Issue 15
1	Issuer	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000167176	FI4000176433	FI4000188859	FI4000197892	FI4000201702
3	Governing law(s) of the instrument	Finland	Finland	Finland	Finland	Finland
<b>Regulatory treatment</b>						
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)	8.6	17.3	7.7	6.8	12.6
9	Nominal amount of instrument (EUR million)	11.3	21.6	9.3	7.9	13.6
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	17 Aug 2015	19 Oct 2015	4 Jan 2016	29 Feb 2016	25 Apr 2016
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	17 Oct 2020	2 Jan 2021	27 Feb 2021	23 Apr 2021	20 Aug 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
<b>Coupons/dividends</b>						
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	2.50	2.25	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.

		<b>Tier 2 - Issue 16</b>	<b>Tier 2 - Issue 17</b>
1	Issuer	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000219316	FI4000224183
3	Governing law(s) of the instrument	Finland	Finland
<b>Regulatory treatment</b>			
4	Transitional CRR rules	Tier 2	Tier 2
5	"Post-transitional CRR rules"	Tier 2	Tier 2
6	Eligible at solo/ (sub-)consolidated/ solo &(sub-)consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (EUR million)	11.1	6.6
9	Nominal amount of instrument (EUR million)	11.4	6.6
9a	Issue price	100%	100%
9b	Redemption price	100%	100%
10	Accounting classification	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	22 Aug 2016	11 Nov 2016
12	Perpetual or dated	Dated	Dated
13	Original maturity date	11 Nov 2021	25 Feb 2022
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
<b>Coupons/dividends</b>			
17	Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	2.00	2.00
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured
36	Non-compliant transitioned features	No	No
37	If Yes, specify non-compliant features	N/A	N/A

## Appendix 5. Disclosure of the leverage ratio (EU 2016/200), 31 December 2016

## Aktia Bank Plc, consolidated

## Summary reconciliation of accounting assets and leverage ratio exposures\*

EUR 1,000	Applicable Amounts
1 Total assets as per published financial statements	9,485,978
2 Adjustment for entities which are consolidated for accounting purposes but are outside the scope of regulatory consolidation	-1,261,114
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
4 Adjustments for derivative financial instruments	-121,021
5 Adjustment for securities financing transactions (SFTs)	0
6 Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	194,630
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
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
7 Other adjustments	-92,399
<b>8 Leverage ratio total exposure measure</b>	<b>8,206,073</b>

\* Table LRSum



## Leverage ratio common disclosure\*

EUR 1,000		CRR leverage ratio exposures
<b>On-balance sheet exposures (excluding derivatives and SFTs)</b>		
1	On-balance sheet items (excluding derivatives SFTs and fiduciary assets but including collateral)	8,090,586
2	(Asset amounts deducted in determining Tier 1 capital)	-90,368
3	Total on-balance sheet exposures (excluding derivatives, SFTs and fiduciary assets) (sum of lines 1 and 2)	8,000,218
<b>Derivative exposures</b>		
4	Replacement cost associated with all derivatives transactions (ie net of eligible cash variation margin)	14,991
5	Add-on amounts for PFE associated with all derivatives transactions (mark- to-market method)	22,624
EU-5a	Exposure determined under Original Exposure Method	0
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the applicable accounting framework	0
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	-26,390
8	(Exempted CCP leg of client-cleared trade exposures)	0
9	Adjusted effective notional amount of written credit derivatives	0
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0
11	Total derivatives exposures (sum of lines 4 to 10)	11,225
<b>SFT exposures</b>		
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	0
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	0
14	Counterparty credit risk exposure for SFT assets	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
15	Agent transaction exposures	0
EU-15a	(Exempted CCP leg of client-cleared SFT exposure)	0
16	Total securities financing transaction exposures (sum of lines 12 to 15a)	0
<b>Other off-balance sheet exposures</b>		
17	Off-balance sheet exposures at gross notional amount	527,242
18	(Adjustments for conversion to credit equivalent amounts)	-332,612
19	Other off-balance sheet exposures (sum of lines 17 and 18)	194,630
<b>Exempted exposures in accordance with Article 429(7) and (14) of Regulation (EU) No 575/2013 (on and off balance sheet)</b>		
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))	
<b>Capital and total exposure measure</b>		
20	Tier 1 capital	389,652
21	Leverage ratio total exposure measure (sum of lines 3, 11, 16, 19, EU-19a and EU-19b)	8,206,073
<b>Leverage ratio</b>		
22	Leverage ratio	4.75%
<b>Choice on transitional arrangements and amount of derecognised fiduciary items</b>		
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

\*Table LRCom

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

EUR 1,000		CRR leverage ratio exposures
EU-1	Total on-balance sheet exposures (excluding derivatives, SFTs, and exempted exposures), of which:	8 090 586
EU-2	Trading book exposures	0
EU-3	Banking book exposures, of which:	8 090 586
EU-4	Covered bonds	866 130
EU-5	Exposures treated as sovereigns	906 787
EU-6	Exposures to regional governments, MDB, international organisations and PSE not treated as sovereigns	0
EU-7	Institutions	395 144
EU-8	Secured by mortgages of immovable properties	5 270 776
EU-9	Retail exposures	216 738
EU-10	Corporate	222 295
EU-11	Exposures in default	52 372
EU-12	Other exposures (eg equity, securitisations, and other non-credit obligation assets)	160 343

\* 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 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
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 4.7% at the year-end which is the same level as the year before. Both the numerator and the denominator changed during the period. The amount of Tier 1 capital reduced as a result of increase in regulatory adjustments. The exposure amount reduced as a result of the previous strategic decisions to wind down the Aktia Real Estate Mortgage Bank co-operation with savings banks and POP Banks.

\* Table LRQua

## Appendix 6. Navigation

### Appendix 6a. Capital and risk information guide

#### Capital and Risk information guide

Reference	Capital and Risk management report	Annual Report	www.aktia.com
	Chapter number	Pages	
Quantification			
End of Year results			
Minimum capital requirements	4	Pages 5,6	
Development of RWA	4	46-47	
Development of Own funds	4	22, 45-47	
Capital Ratios	4	5, 46-47	
Leverage ratio	4	6, 48	
Capital requirements parameters			
Credit Risk	5	8,37-39	
Counterparty Credit risk	5	8,37-39	
Market Risk	6	8-9, 39-43	
Operational Risk	7	9	
Liquidity Risk	8	9	
Frameworks			
Credit Risk	5	37	
Counterparty Credit risk	5	37	
Market Risk	6	39	
Operational Risk	7	44	
Liquidity Risk	8	39	
Life and Pensions operation	9	43	
Capital	4		
Capital instruments	App 3, 4		
New regulations	10		
Remuneration	-	80-84, K44	Governance-related information

## Appendix 6b. Navigation for disclosures

## Navigation for disclosures

Articles of CRR  
(EU 575/2013)

Article	Section	Reference/section in CAR 2016/ 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.
<b>Article 432</b>		
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.	--
<b>Article 433</b>		
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.
<b>Article 434</b>		
Means of disclosures		
	1.	This table provides the required information.
	2.	This table provides the required information.
<b>Article 435</b>		
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

Article	Section	Reference/section in CAR 2016/ Annual Report/aktia.com
2.		
(a)		aktia.com
(b)		aktia.com
(c)		aktia.com
(d)		3
(e)		3
<b>Article 436</b>		
Scope of application		
(a)		2
(b)		2
	(i)	2
	(ii)	2
	(iii)	2
	(iv)	2
(c)		4
(d)		N/A
(e)		N/A
<b>Article 437</b>		
Own funds		
1.		
(a)		4
(b)		4
(c)		4
(d)		
	(i)	4
	(ii)	4
	(iii)	4
(e)		N/A
(f)		4
<b>Article 438</b>		
Capital requirements		
(a)		4
(b)		N/A
(c)		4

Appendix 6b, cont.

Article	Section	Reference/section in CAR 2016/ Annual Report/aktia.com
(d)		4
	(i)	N/A
	(ii)	N/A
	(iii)	N/A
	(iv)	4
(e)		4
(f)		4
<b>Article 439</b>		
Exposure to counter-party credit risk		
(a)		5
(b)		5
(c)		N/A
(d)		N/A
(e)		5
(f)		5
(g)		5
(h)		N/A
(i)		N/A
<b>Article 440</b>		
Capital buffers		
1.		
(a)		4
(b)		4
<b>Article 441</b>		
Indicators of global systemic importance		
1.		
		N/A
2.		
		--
<b>Article 442</b>		
Credit risk adjustments		
(a)		5
(b)		5
(c)		5
(d)		5
(e)		5
(f)		5
(g)		
	(i)	5

Article	Section	Reference/section in CAR 2016/ Annual Report/aktia.com
	(ii)	5
	(iii)	5
(h)		5
(i)		5
	(i)	5
	(ii)	5
	(iii)	5
	(iv)	5
	(v)	5
<b>Article 443</b>		
Unencumbered assets		
		8
<b>Article 444</b>		
Use of ECAIs		
(a)		5
(b)		5
(c)		5
(d)		5
(e)		5
<b>Article 445</b>		
Exposure to market risk		
		N/A
<b>Article 446</b>		
Operational risk		
		N/A
<b>Article 447</b>		
Exposures in equities not included in the trading book		
(a)		Annual Report
(b)		Annual Report
(c)		N/A
(d)		N/A
(e)		Annual Report
<b>Article 448</b>		
Exposure to interest rate risk on positions not included in the trading book		
(a)		6
(b)		6

Appendix 6b, cont.

Article	Section	Reference/section in CAR 2016/ Annual Report/aktia.com
<b>Article 449</b>		
Exposure to securitisation positions		
(a)		N/A
(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
	(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
<b>Article 450</b>		
Remuneration policy		
(a)		aktia.com
(b)		aktia.com

Article	Section	Reference/section in CAR 2016/ Annual Report/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.
<b>Article 451</b>		
Leverage		
1.		
(a)		4
(b)		4
(c)		N/A
(d)		4
(e)		4
<b>Article 452</b>		
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

Appendix 6b, cont.

Article	Section	Reference/section in CAR 2016/ Annual Report/aktia.com
(d)		N/A
(e)		N/A
	(i)	5
	(ii)	5
	(iii)	N/A
(f)		5
(g)		5
(h)		5
(i)		5
(j)		
	(i)	N/A
	(ii)	N/A
		5
<b>Article 453</b>		
Use of credit risk mitigation techniques		
(a)		5
(b)		5
(c)		5
(d)		N/A
(e)		5,6
(f)		5
(g)		5
<b>Article 454</b>		
Use of the advanced measurement approaches to operational risk		

Article	Section	Reference/section in CAR 2016/ Annual Report/aktia.com
<b>Article 455</b>		
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 6c. 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 compliment 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.



**Contact information**

Aktia Bank plc

PO Box 207

Mannerheimintie 14, 00101 Helsinki

Tel. +358 10 247 5000

Fax +358 10 247 6356

Website: [www.aktia.com](http://www.aktia.com)

Contact: [aktia@aktia.fi](mailto:aktia@aktia.fi)

E-mail: [firstname.lastname@aktia.fi](mailto:firstname.lastname@aktia.fi)

Business ID: 2181702-8

BIC/S.W.I.F.T: HELSFIHH

The Aktia logo consists of the word "Aktia" in a bold, green, sans-serif typeface.