

Q4

Accounts announcement
January–December 2018

Aktia

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Financial calendar

Annual General Meeting 2019	11 April 2019
Interim report January - March 2019	3 May 2019
Half-year report January - June 2019	1 August 2019
Interim report January - September 2019	31 October 2019

The Accounts Announcement January - December 2018 is a translation of the original Swedish version "Bokslutskommuniké 1.1–31.12.2018". In case of discrepancies, the Swedish version shall prevail.

Solid growth despite a challenging market during 2018

CEO Mikko Ayub

“Our target for 2019 is to further develop our business, to make our processes smoother and above all, provide even better service to our customers.”

October - December 2018:

- The total operating income decreased to EUR 47.7 (52.7) million, of which the net interest income decreased to EUR 20.7 (21.8) million, the net commission income to EUR 22.6 (23.7) million and the net income from life insurance to EUR 5.1 (7.4) million.
- Total operating expenses decreased to EUR 39.4 (42.0) million. Operating expenses excluding items affecting comparability decreased by 8 % to EUR 38.3 (41.8) million.
- The comparable operating profit decreased by 10 % to EUR 10.2 (11.4) million. The reported operating profit was EUR 8.0 (10.3) million.

January - December 2018:

- The comparable operating profit for 2018 improved by 9 % to EUR 65.4 (59.9) million.

Dividend and outlook 2019

- The Board of Directors propose a dividend of EUR 0.61 (0.57) per share.
- Outlook 2019: **Despite the uncertainty of the economic development, the comparable operating profit 2019 is expected to be approximately on the same level as for 2018** (see page 19).

Key figures

(EUR million)	4Q2018	4Q2017	Δ %	2018	2017	Δ %	3Q2018	4Q/3Q	2Q2018	1Q2018
Net interest income	20.7	21.8	-5 %	85.9	89.6	-4 %	21.0	-2 %	23.5	20.7
Net commission income	22.6	23.7	-5 %	95.6	91.4	5 %	22.9	-1 %	26.2	23.8
Net income from life-insurance	5.1	7.4	-31 %	21.4	26.6	-20 %	5.5	-7 %	5.0	5.8
Other operating income	-0.7	-0.3	-169 %	7.3	2.6	175 %	6.0	-	1.1	0.8
Total operating income	47.7	52.7	-9 %	210.1	210.3	0 %	55.4	-14 %	55.8	51.2
Total operating expenses	-39.4	-42.0	-6 %	-143.0	-160.7	-11 %	-31.8	24 %	-38.3	-33.5
Impairment of credits and other commitments	-0.1	-0.4	-70 %	-0.8	-0.6	46 %	-0.8	83 %	0.7	-0.6
Operating profit	8.0	10.3	-22 %	67.6	49.1	38 %	23.7	-66 %	18.2	17.7
Comparable operating profit¹	10.2	11.4	-10 %	65.4	59.9	9 %	18.6	-45 %	18.5	18.0
Cost-to-income ratio	0.83	0.80	4 %	0.68	0.76	-11 %	0.57	46 %	0.69	0.65
Comparable cost-to-income ratio ¹	0.79	0.78	1 %	0.69	0.71	-3 %	0.63	25 %	0.68	0.65
Earnings per share (EPS) ³ , EUR	0.09	0.12	-25 %	0.81	0.57	42 %	0.29	-69 %	0.21	0.22
Comparable earnings per share (EPS) ³ , EUR	0.12	0.13	-8 %	0.77	0.70	10 %	0.23	-48 %	0.22	0.22
Equity per share (NAV) ^{2,3} , EUR	8.56	8.70	-2 %	8.56	8.70	-2 %	8.48	1 %	8.26	8.61
Return on equity (ROE), %	4.4	5.5	-21 %	9.4	6.5	45 %	13.7	-68 %	10.1	10.2
Common Equity Tier 1 capital ratio (CET1) ² , %	17.5	18.0	-3 %	17.5	18.0	-3 %	16.6	5 %	16.3	16.4
Capital adequacy ratio ² , %	20.5	23.4	-12 %	20.5	23.4	-12 %	20.1	2 %	20.1	20.8
Dividend per share (proposal from Board Directors), EUR				0.61	0.57	7 %		-		

1) Alternative performance measures excluding items affecting comparability, see page 20

2) At the end of the period

3) Recalculated according to the number of shares after combining series A and R

CEO's comments



In 2018, we continued to implement our new strategy and the guidelines for the business were clarified. Now that we are starting a new year I have all the reason to be satisfied and proud of the success our company has reached. The Group's comparable operating profit for 2018 was EUR 65.4 million and increased by 9% from 2017. Especially the increased net commission income contributed to the growth, but also the development of expenses moved in the right direction. Operating expenses decreased by 11% during 2018 compared to the previous year, which supports our target to be a more efficient and profitable bank and consequently secure our competitiveness in a constantly changing business environment.

There are now many uncertainty factors on the market – both global and European – and the economic growth in Finland is also expected to slow down. The end of last year was characterized by strong moves on the stock market, which was reflected in Aktia's profit development during the last quarter, especially in the Group's commission income. All of this and the continued low interest rate level made the market challenging for us during the fourth quarter.

Aktia's Board of Directors proposes that a EUR 0.61 per share will be paid as dividend for 2018, which is in line with Aktia's target for dividend pay-out.

Customers are central in our business

During the last quarter of 2018 we informed about our new business model and changes in the Executive Committee as a part of our target to further develop our business. At the same time business areas were clarified and divided into three business areas: Private customers, Corporate customers and Asset Management.

Aktia's Asset Management has been rewarded prizes during several years. Last year we expanded our sales of emerging market fixed income funds to the international markets where demand has been high from the start. International customers' assets managed in the funds increased to over EUR 1.1 billion before the end of the year. The success of this magnitude is unique for a Finnish asset manager and it proves Aktia's one-of-a-kind competence and long-term work.

With the new year, we are going for growth by developing our core business according to the chosen strategy. Our target for 2019 is to further improve the quality of our business, to make our processes smoother and above all, provide even better and more personal service to our customers. I also see many opportunities to continue improving our internal operations, for instance by focusing on increased sales. We here at Aktia are cooperating in a purposeful way to earn our customers' trust also in the future – in that way we have the best possibilities to be the first choice for chosen customer segments as well as a reliable and long-term partner in all stages of life.

Helsinki, 14 February 2019

Mikko Ayub
CEO

Main events

Mikko Ayub, new CEO at Aktia

On 6 August 2018, the Board of Aktia Bank Plc appointed Mikko Ayub (M.Sc., MBA) as new Chief Executive Officer. Mikko Ayub is moving to Aktia from Nordea Bank where he most recently has been Executive Advisor for the Commercial and Business Banking operations and before that he was responsible for the Markets operations in Finland, Baltics and Russia. Mikko Ayub started as CEO on 1 October 2018.

Aktia renews its Executive Committee

On 23 November 2018, Aktia Bank Plc informed that the bank will renew its Executive Committee to more efficiently implement the strategy. As of 1 January 2019, Aktia will have three business areas, Private and Corporate customers and Asset Management, and renews the composition of the Executive Committee.

Aktia decreased its holdings in Aktia Real Estate Agency

Aktia Bank Plc decreased its holdings in Aktia Real Estate Agency Ltd to 19 % in the beginning of July. The change in the ownership structure supports the implementation of Aktia's new strategy and will improve Aktia Real Estate Agency's possibilities within its own branch. The transaction had no significant impact on the Group's result and financial position. The close cooperation between Aktia Bank and the Real Estate Agency continues even after the change in the ownership structure.

Aktia divested its holdings in Folksam Non-Life Insurance Company

In October, Aktia Bank Plc has made an agreement to sell its remaining 10 % holdings in Folksam Non-Life Insurance Company Ltd to Fennia Mutual Insurance Company. Aktia Bank now focuses on carrying out the strategy with focus on asset management and financing solutions, while competitive non-life insurance and pension insurance products are offered through partners.

Moody's upgraded Aktia's rating

In July, credit institution Moody's upgraded the long- and short-term deposit ratings of Aktia Bank from A3/P-2 to A1/P-1 and the long-term Senior Unsecured rating from A3 to A1. The main reason for the upgraded rating was the consistent improvement in Aktia's independent financial performance during the last two years, including successful diversification of the bank's mixed income through expanding asset management operations.

Combining the R and A shares

Aktia Bank Plc's Annual General Meeting approved the Board of Directors' proposal that the company's R and A shares should be combined without increasing the share capital, so that after the combination the company will have only one share class. The Annual General Meeting also accepted the amended Articles of Association and the directed payment-free issue of new shares to the holders of R shares so that the owners of R shares payment-free received 3 (three) new shares against every batch of 25 R shares. All in all, 2,383,851 new shares were issued to the holders of R shares. The combination was registered on 12 April 2018. Trading with the new share together with the existing share commenced on 13 April 2018 under the ISIN code FI4000058870 and trading symbol AKTIA.

Expanding to the international market

Aktia expanded sales of its specialist knowledge on emerging market government bonds to the international market. The new cooperation with the German company Universal-Investment GmbH, the largest independent manager in the German speaking Europe that offers investment services, continued. The company has over EUR 340 billion assets under management and offers its customers over 1,000 private label funds and mandates. Universal-Investment GmbH manages and distributes Aktia's funds through its sales organisation to institutional investors in the German speaking Europe.

Aktia's asset management in the top of Finnish fixed income fund management again

Aktia was again chosen Best Finnish Fixed Income Manager in Morningstar's competition "Finland Awards 2018". Additionally, the fund Aktia Corporate Bond+ finished among the three best funds in the Fixed Income Funds category. Asset Management at Aktia has been in the top in Morningstar's surveys since 2013. The long-standing success is proving the outstanding expertise within Aktia. Aktia's Wealth Management has specialised in three main areas within fixed income fund management: global inflation, European corporate bonds and government bonds issued by emerging markets.

Aktia Bank introduced a new share savings plan

To support the implementation of Aktia's new strategy, the Board of Aktia Bank Plc decided to introduce a new long-term share savings plan for the employees of the Aktia Group. The aim is to encourage Aktia's employees to invest in and hold the company's shares and with that rectify the interests and engagement of the staff and management towards value development and increased shareholder value.

Activity in January – December 2018

Business environment

The difficult negotiations regarding foreign trade between the US and China as well as concerns about the economic outlook on a broader level caused significant turbulence on the investment market at the end of the year.

The decrease in the world stocks and thus the low return on the stock market continued throughout the last quarter. Both the American S&P 500 index and the domestic OMX Helsinki Cap index decreased by approximately 14 % during the last quarter. The Nordic banking sector's index (N Bank's EUR PI) decreased by approximately 15 % during the same period. The Aktia share (AKTIA) increased by 5.6 % during 2018, but decreased by 2.0 % during the last quarter of the year. The Euribor rates mainly remained unchanged. The long reference rates and government bonds decreased due to the weaker cyclical development and the increased political risk.

The European Central Bank ceased its pegging purchases at the turn of the year. The first interest rate increase is expected during autumn 2019 but the uncertainty regarding this has increased due to a lower cyclical development in the euro area overall as well as a continued moderate development of inflation.

The financial development in Finland, based on the indicators we have, was relatively good during the final quarter of 2018 although the concern regarding the world economy is weighing the outlook. Statistics Finland's meter of the economic situation shows a 3.2 % growth during October compared to last year and the corresponding number in November was 1.8 %. The overall picture still looks relatively good but the downward risks in the prognosis are dominating.

In Finland the confidence is still on historically high levels even though the consumer confidence as well as the industry and service sector confidence have decreased from the highest levels in the beginning of 2018. There is still strong belief in the personal economy and many households see that the situation is favourable for further savings.

The inflation in Finland is still moderate both historically and in relation to the euro area. Consumer prices increased in December by 1.3 % while the corresponding number for the euro area was 1.6 %. The lower energy prices can already be seen in the inflation.

During autumn, investments and foreign trade have lagged while the consumption has continued to grow supported by the excellent employment development. In December, employment rates increased to 72.5 %. The unemployment rate has also decreased significantly during 2018 and during the last quarter unemployment decreased to 6.6 %.

The divided development on the Finnish real-estate market has continued and the overall picture of the development on the real-estate market is rather weak. The prices for older row and block house apartments have increased by under 1 % during the third quarter of the year. The aggregated numbers are due to vast regional differences. The prices in the Helsinki region increased by 2.2% while the prices decreased by 0.3 % in the rest of the country. However, in most growth centres the price development has continued favourably. The demand for mortgage loans was still strong, even though the hard competition for mortgage loan borrowers is still putting pressure on customer margins for new mortgage loans.

Key figures

Y-o-y	2019E*	2018E*	2017
GDP growth, %			
World	3.4	3.7	3.8
Euro area	1.5	1.9	2.4
Finland	1.8	2.4	2.8
Consumer price index, %			
Euro area	1.8	1.6	1.5
Finland	1.6	1.2	0.7
Other key ratios, %			
Development of real value of housing in Finland ¹	0.8	0.2	0.3
Unemployment in Finland ¹	7.0	7.4	8.6
Interest rates², %			
ECB	0.25	0.00	0.00
10-y interest rate, Finland	0.90	0.54	0.59
Euribor 12 months	-0.05	-0.12	-0.19
Euribor 3 months	-0.10	-0.31	-0.33

*Aktia's chief economist's prognosis 24 January 2019

1) annual average

2) at the end of the year

Rating

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

On 2 July 2018, credit institution Moody's Investors Service upgraded (and confirmed on 28 December 2018) the long- and short-term deposit ratings of Aktia Bank from A3/P-2 to A1/P-1 and the long-term Senior Unsecured rating from A3 to A1. Baseline Credit Assessment (BCA) was upgraded to a3. Furthermore, the foreign and local currency Counterparty Risk Ratings (CRR) were upgraded to Aa3/P-1 and the long- and short-term Counterparty Risk (CR) Assessments were upgraded to Aa3(cr)/P-1(cr). The outlook on the long-term deposit and senior ratings was changed from positive to stable.

Moody's Investors Service confirmed the rating Aaa for Aktia Bank's long-term covered bonds.

	Long-term borrowing	Short-term borrowing	Outlook	Covered bonds
Moody's Investors Service	A1	P-1	stable	Aaa
Standard & Poor's	A-	A-2	stable	-

Transition to IFRS 9

The income statement for the period is reported according to IFRS 9, while the reference period for 2017 is reported according to the previous IAS 39 standard.

The new rules for recognition and measurement had at the time of the transition no significant impact on the Group's result or financial position but caused increased volatility mainly in the net income from life-insurance.

The transition to IFRS 9 brought a new model for calculating and reporting impairments. The new model can cause increased volatility for impairments of credits and other commitments, for net income from life-insurance and for net income from financial transactions.

Profit October – December 2018

The Group's operating profit decreased to EUR 8.0 (10.3) million. The Group's profit decreased to EUR 6.4 (8.2) million. Operating profit excluding items affecting comparability was EUR 10.2 (11.4) million.

Items affecting comparability

(EUR million)	Oct-Dec 2018	Oct-Dec 2017
Net income from equity holding in Folksam Non-Life Insurance Company	0.0	-1.0
Value change of equity holding in Bohemian Wrappsody	-1.0	-
Costs for restructuring	-1.1	-0.2
Total	-2.2	-1.2

Income

The Group's operating income decreased to EUR 47.7 (52.7) million. Operating income excluding items affecting comparability decreased to EUR 48.7 (53.6) million.

Despite that the net interest income from borrowing and lending increased, the total net interest income decreased by 5 % to EUR 20.7 (21.8) million. Net interest income from borrowing and lending increased by 5 % to EUR 18.2 (17.3) million. Continued low market interest rates and thereby lower interest income from the

bank's liquidity portfolio decreased the Group's net interest income by EUR 1.2 million. Interest income from 2012 unwound interest rate hedges decreased by EUR 1.7 million while interest income from new active interest rate hedging was EUR 0.4 (-) million.

The net commission income decreased by 5 % to EUR 22.6 (23.7) million. The reference period includes commission income from the Real Estate Agency sold in July. Excluding commission from the Real Estate Agency during the reference period, the net commission income increased by 3 % from the corresponding period last year. Net commission income from borrowing and lending amounted to EUR 3.3 (3.0) million, which corresponds to a 12 % increase. Commission income from mutual funds, asset management and securities brokerage were EUR 14.6 (14.5) million. The total fund book decreased during the fourth quarter due to the challenging market development. Card and other payment service commissions increased by 14 % to EUR 6.3 (5.5) million.

The net income from life insurance decreased by 31 % to EUR 5.1 (7.4) million. The changed fair value accounting for shares and participations at the transition to IFRS 9 resulted in increased volatility in the net income from life insurance. The value change for the period, EUR -1.4 million, is included in the net income from life insurance while the value change for the reference period is included in the fund at fair value. The net income from day-to-day investment activities and the actuarially calculated result were also lower than last year.

Net income from financial transactions was EUR -1.2 (-0.6) million, which includes EUR -1.0 million value change of the holding in Bohemian Wrappsody. During the reference period, an EUR 1.0 million impairment of the holding in Folksam Non-Life Insurance was made. Net income from hedge accounting was EUR -0.2 (-0.1) million.

Other operating income was EUR 0.5 (0.4) million.

Expenses

The operating expenses decreased by 6 % to EUR 39.4 (42.0) million. Operating expenses excluding items affecting comparability decreased by 8 % to EUR 38.3 (41.8) million.

Staff costs amounted to EUR 18.1 (17.9) million, including EUR 1.1 (0.2) million costs for restructuring. The comparable staff costs decreased by 4 %.

IT expenses decreased by 6 % to EUR 7.6 (8.0) million due to lower operating costs.

The depreciation of tangible and intangible assets was unchanged and amounted to EUR 3.0 (3.0) million.

Other operating expenses decreased by 18 % to EUR 10.7 (13.0) million.

Impairment of credits and other commitments were still on a low level and amounted to EUR -0.1 (-0.4) million. The period includes a EUR 0.7 million reversal attributable to an individual larger credit entirety.

Profit 2018

The Group's operating profit was EUR 67.6 (49.1) million. The Group's profit was EUR 56.0 (39.3) million. Operating profit excluding items affecting comparability increased by 9 % to EUR 65.4 (59.9) million.

items affecting comparability

(EUR million)	2018	2017
Dividend from Suomen Luotto-osuuskunta	-	1.3
Net income from equity holding in Folksam Non-Life Insurance Company	4.0	-1.0
Value change of equity holding in Bohemian Wrappsody	-1.0	-
Profit from divestment of Aktia Real Estate Agency	1.1	-
Costs for restructuring	-1.8	-11.1
Total	2.2	-10.8

Income

The Group's operating income was on the same level as last year and amounted to EUR 210.1 (210.3) million. Operating income excluding items affecting comparability, however, decreased to EUR 206.1 (210.0) million.

Net interest income decreased by 4 % to EUR 85.9 (89.6) million. The net interest income from borrowing and lending increased by 2 % to EUR 70.1 (69.1) million even though last year includes interest income from unwound mortgage bank loans of EUR 2.0 million. Continued low market interest rates and thereby lower interest income from the bank's liquidity portfolio decreased the Group's net interest income by EUR 6.6 million. Interest income from the 2012 unwound interest rate hedges decreased by EUR 4.1 million. In June, the European Central Bank set the expense for Aktia's TLTRO refinancing and during the period a positive impact on the net interest income of EUR 3.5 million was recognised.

Net commission income increased by 5 % to EUR 95.6 (91.4) million. Net commission income from borrowing and lending amounted to EUR 13.8 (12.1) million, which corresponds to a 14 % increase. Commission income from mutual funds, asset management and securities brokerage increased by 10 % to EUR 59.6 (54.2) million. Card and other payment service commissions increased by 18 % to EUR 24.4 (20.7) million.

The net income from life insurance decreased by 20 % to EUR 21.4 (26.6) million. The actuarially calculated result has increased from last year while the net income from investment activities has

decreased. The transition to IFRS 9 caused increased volatility in the net income from life insurance and the period includes value changes of EUR -4.6 million.

Net income from financial transactions was EUR 4.9 (0.8) million. In November, Aktia divested its remaining holdings in Folksam Non-Life Insurance, which resulted in a EUR 4.0 million sales gain. Net income from hedge accounting was EUR -0.4 (-0.3) million.

Other operating income amounted to EUR 2.3 (1.5) million and includes a EUR 1.1 million sales gain from the divestment of Aktia Real Estate Agency.

Expenses

The operating expenses amounted to EUR 143.0 (160.7) million. Operating expenses excluding items affecting comparability decreased by 6 % to EUR 141.2 (150.0) million.

The staff costs amounted to EUR 66.7 (79.1) million. The period includes costs for restructuring, amounting to EUR 1.8 (9.2) million. Comparable staff costs decreased by 7 % to EUR 64.9 (69.9) million.

IT expenses decreased by 16 % to EUR 25.6 (30.5) million due to lower operating costs.

Depreciations of tangible and intangible assets amounted to EUR 12.4 (9.5) million, of which depreciation for the core banking system amounted to EUR 6.1 (3.0) million.

Other operating expenses amounted to EUR 38.3 (41.7) million and include the EU statutory expense to the fund for financial stability of EUR 2.3 million. The biggest decreases are attributable to marketing expenses and rental expenses. The reference period includes EUR 1.4 million costs for restructuring.

Last year includes an EUR 0.5 million impairment of tangible assets, which relates to costs for restructuring.

Impairment of credits and other commitments were still low and amounted to EUR -0.8 (-0.6) million.

Balance sheet and off-balance sheet commitments

The Group's balance sheet total at the end of December was EUR 9,266 (9,550) million.

Liquidity

Aktia Bank's liquidity portfolio, which consists of interest-bearing securities, was EUR 1,368 (1,816) million. The short-term financing requirement was financed with repurchase agreements to a value of EUR 99 (146) million.

To monitor liquidity risks, a so-called survival horizon is used. The survival horizon measures how long the cash flows of the liquidity reserve will last to cover the contractual outgoing cash flows from the capital market without access to new financing. On 31 December 2018 the Bank Group would survive for over 21 months in a scenario with completely closed capital markets.

In addition, the liquidity risk is followed up by the Liquidity Coverage Ratio (LCR). On 31 December 2018 the LCR was 134 (161) %. The LCR level fluctuates among other things because of the maturity structure of the bonds issued by the bank.

Liquidity coverage ratio (LCR)*	31 Dec 2018	31 Dec 2017
LCR %	134 %	161 %

* LCR is calculated according to the resolution published by the EU Commission in October 2014. The authority's minimum requirement for LCR is 100 %.

Borrowing

Borrowing from the public and public sector entities decreased to EUR 3,963 (4,119) million. At the end of December Aktias market share of deposits was 3.3 (3.5) %.

In total, the value of bonds issued by the Aktia Group was EUR 2,460 (2,451) million. Of these, EUR 1,666 (1,669) million was covered bonds issued by Aktia Bank.

During the period, Aktia Bank issued a new long-term covered bond to a value of EUR 500 million and a maturity of 5 years. The issue was carried out to very favourable terms and it was oversubscribed more than 2.5 times. As security for the CB issue, bonds with a value of EUR 2,264 (2,110) million were reserved at the end of December.

During the period, Aktia Bank has also issued new long-term unsecured bonds to the value of EUR 250 million within the scope of the bank's EMTN programme, which were carried out to repay the EUR 235 million bonds that matured during the period and to ensure that the bank meets the future regulatory requirements.

Lending

Total Group lending to the public amounted to EUR 6,106 (5,839) million at the end of December, an increase of EUR 267 million.

Loans to private households accounted for EUR 4,756 (4,714) million, or 77.9 (80.7) % of the loan book.

The housing loan book totalled EUR 4,698 (4,655) million, of which the share for households was EUR 3,958 (3,971) million. Aktia's new lending to households amounted to EUR 811 (838) million. At the end of December, Aktia's market share in housing loans to households was 4.1 (4.2) %.

Corporate lending accounted for 11.6 (10.1) % of Aktia's loan book. Total corporate lending amounted to EUR 707 (592) million. Loans to housing companies increased by 23 % to EUR 604 (491) million, making up 9.9 (8.4) % of Aktia's total loan book.

Loan book by sector

(EUR million)	31 Dec 2018	31 Dec 2017	Δ	Share, %
Households	4,756	4,714	42	77.9 %
Corporates	707	592	116	11.6 %
Housing companies	604	491	112	9.9 %
Non-profit organisations	35	38	-3	0.6 %
Public sector entities	4	4	0	0.1 %
Total	6,106	5,839	267	100.0 %

Financial assets

Aktia Group's financial assets consist of the liquidity portfolio of the Bank Group and other interest-bearing investments amounting to EUR 1,368 (1,816) million, the life insurance company's investment portfolio amounting to EUR 551 (574) million and the real estate and equity holdings of the Bank Group amounting to EUR 4 (9) million.

Technical provisions

The life insurance company's technical provisions amounted to EUR 1,156 (1,217) million, of which EUR 757 (802) million were unit-linked. Interest-related technical provisions decreased to EUR 399 (415) million.

Equity

Aktia Group's equity amounted to EUR 590 (598) million. The fund at fair value decreased to EUR 18 (52) million. EUR 24 million of the total decrease of EUR 34 million is attributable to the reclassifications in conjunction with the implementation of IFRS 9.

Commitments

Off-balance sheet commitments, consisting of credit limits, other loan promises and bank guarantees amounted to EUR 519 (553) million.

Managed assets

The Group's total managed assets amounted to EUR 10,973 (10,563) million.

Assets under management comprise managed and brokered mutual funds and managed capital in the subsidiaries in the Wealth Management segment. The assets presented in the table below reflect net volumes, so that AuM in multiple companies have been eliminated.

Group financial assets comprise the liquidity portfolio in the Bank Group managed by the treasury function and the life insurance company's investment portfolio.

Managed assets

(EUR million)	31 Dec 2018	31 Dec 2017	Δ %
Assets under management	8,860	7,961	11 %
Group financial assets	2,113	2,602	-19 %
Total	10,973	10,563	4 %

Capital adequacy and solvency

At the end of the period, the Common Equity Tier 1 capital ratio of Aktia Bank Group (Aktia Bank Plc and all its subsidiaries except Aktia Life Insurance Ltd) was 17.5 (18.0) %. After deductions, Common Equity Tier 1 capital increased by EUR 8.7 million during the period which improved the CET1 capital ratio by 0.4 percentage points. Risk-weighted commitments increased by EUR 119.0 million which reduced the CET1 capital ratio by 1.0 percentage points. The change is mainly attributable to the risk weight floor of 15 % for mortgage loans which increased risk-weighted commitments by EUR 225.9 million. During the period the corporate exposures have also increased.

The 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 57 (54) % of the Bank Group's exposures are calculated according to the IRB approach. Aktia has submitted an IRBA application regarding corporate exposures (Foundation Internal Ratings Based Approach, F-IRB) and unsecured credits (Advanced Internal Ratings Based Approach, A-IRB) to the Financial Supervisory Authority.

Capital adequacy, %	31 Dec 2018	31 Dec 2017
Bank Group		
CET1 capital ratio	17.5	18.0
T1 capital ratio	17.5	18.0
Total capital ratio	20.5	23.4
Aktia Bank		
CET1 capital ratio	16.9	17.9
T1 capital ratio	16.9	17.9
Total capital ratio	20.0	23.2

The total capital requirement for the banking business consists of a minimum requirement (so-called Pillar 1), buffer requirement based on assessment (so-called Pillar 2) and other buffer requirements. The minimum requirement for CET1 capital ratio under Pillar 1 is 4.5 % and 8 % for the total capital ratio. Pillar 2 is specific to banks and is based on the Supervisory Review and Evaluation Process, SREP. The additional requirements for capital buffers increase the capital requirements and limit the distribution of profit if the CET1 capital ratio does not meet the requirements.

The Finnish Financial Supervisory Authority has set a consolidated Pillar 2 requirement for Aktia. The requirement amounts to 1.75 % and covers the concentration risk within credit risk and structural interest rate risk. For these risks there are no specific capital requirements (Pillar 1) in the EU's Capital Requirements Regulation (CRR). According to the decision, the requirement shall be met with CET1 capital. The requirement entered into force on 30 June 2017.

The requirement for the capital conservation buffer will increase the minimum requirement by 2.5 percentage points. The countercyclical buffer will vary between 0.0 and 2.5 percentage points and is calculated by taking the geographic distribution of exposures into account. The board of the Financial Supervisory Authority will quarterly decide the magnitude of the requirement for the countercyclical capital buffer for Finnish exposures based on analysis of macroeconomic stability. The latest decisions on the requirement (20 December 2018) set no countercyclical capital buffer requirement on the banks for Finnish exposures. Authorities in some other countries have set requirements for a countercyclical buffer and in cases when Aktia has exposures in those countries, the Group's capital requirement is increased. This requirement also applies to certain exposures in the Bank Group's liquidity portfolio. Aktia Bank Group's requirement for institute specific countercyclical buffer amounted to 0.05 % as per 31 December 2018, taking the geographic distribution of exposures into account.

The Financial Supervisory Authority has defined Other Systemically Important Institutions (O-SIIs) in Finland and set buffer requirements for them. No O-SII buffer requirement was set for Aktia. Taking all buffer requirements into account, the minimum total capital ratio level for the Bank Group was 12.30 %, and 10.30 % for Tier 1 capital ratio at the end of the period.

The Finnish Financial Supervisory Authority's decision to introduce a minimum level of 15 % for the average risk weight on residential mortgage loans for credit institutions that have adopted the IRB approach entered into force on 1 January 2018. According to the decision the limit only applies to housing loans as defined in the Consumer Protection Act. At the end of the period, the average risk weight for such housing loans according to the IRB approach was 9.5 %. The minimum risk weight decreased CET1 by 2.0 percentage points.

Total capital requirement

31 Dec 2018	Pillar 1 minimum requirement		Pillar 2 requirement	Buffer requirements				Total capital requirement
	Capital Conservation	Counter- cyclical		O-SII	Systemic risk			
CET1 capital	4.50	1.75	2.50	0.05	0.00	0.00	8.80	
AT1 capital	1.50	0.00					1.50	
Tier 2 capital	2.00	0.00					2.00	
Total	8.00						12.30	

The board of Financial Supervisory Authority has decided to put systemic risk buffer requirements for Finnish credit institutes. According to the Financial Supervisory Authority, the buffer requirement aims to strengthen the credit institute's structural systemic risk tolerance. The requirement varies between the credit institutes and a 1 % systemic risk buffer has been set for Aktia Bank Plc. The systemic risk buffer is to be met with CET1 capital and enters into force on 1 July 2019.

The Aktia Group has implemented IFRS 9 as of 1 January 2018. The transition to IFRS 9 had a marginal impact on the Bank Group's capital adequacy.

Aktia Bank Group's leverage ratio was 4.7 (4.5) %.

Leverage Ratio ¹	31 Dec 2018	31 Dec 2017
Tier 1 capital	384	375
Total exposures	8,111	8,259
Leverage Ratio, %	4.7	4.5

1) The leverage ratio is calculated based on end of quarter figures

The Financial Stability Board set the minimum requirement for Aktia Bank on eligible liabilities that can be written down (MREL requirement). The requirement set is twice the minimum capital requirement, including the total buffer requirement according to the Finnish Credit Institutions Act, however, at least 8 % of the balance sheet total. The requirement entered into force on 31 December 2018. Non-preferred senior instruments have been implemented into Finnish legislation during the last quarter.

MREL-requirement (EUR million)	31 Dec 2018	31 Dec 2017
RWA based	539.7	512.1
Balance sheet based	645.5	659.4
Own funds and eligible liabilities		
CET1	384.2	375.5
AT1 instruments	0.0	0.0
Tier 2 instruments	148.3	211.3
Other liabilities	660.6	566.1
Total	1,193.1	1,152.8

The life insurance company follows the Solvency II directive, in which the calculation for solvency requirements are measured at market value. According to Solvency II, the company calculates its Solvency

Capital Requirement (SCR) and Minimum Capital Requirement (MCR) and identifies its available solvency capital within Solvency II. Aktia Life Insurance applies the standard formula for SCR, with consideration of the transitional measure for technical provisions in accordance with the permission granted by the Financial Supervisory Authority.

At the end of the period, SCR amounted to EUR 76,4 (85.1) million, MCR to EUR 22.7 (23.9) million and the available capital to EUR 175.5 (169.5) million. Thus, the solvency ratio was 229.8 (199.2) %. Without transitional measures SCR amounted to EUR 89.0 (98.6) million, MCR to EUR 24.7 (26.1) million and the available capital to EUR 125.8 (116.3) million. The solvency ratio without transitional measures was 141.5 (117.9) %. The transition to IFRS 9 had no impact on the solvency of Aktia Life Insurance.

The financial conglomerate's capital adequacy ratio was 166.1 (164.5) %. The financial conglomerate's capital adequacy increased during the period, due to increase in the conglomerate's capital base. The statutory minimum stipulated in the Act on the Supervision of Financial and Insurance Conglomerates is 100 %. The transition to IFRS 9 had no significant impact on the conglomerate's capital adequacy.

Segment overview

Aktia Bank's operations were divided into three business segments: Personal & Corporate Banking, Wealth Management and Group Functions. Operations not a part of the business segments are reported in the Other segment.

Personal & Corporate Banking

Personal Banking provides Aktia's private customers a wide range of financing, insurance, savings and investment products and services thorough various channels. The segment also comprises the concept Aktia Premium. Corporate Banking serves companies and organisations, from micro sized companies and associations to listed companies.

The segment's operating profit

(EUR million)	2018	2017	Δ %
Operating income	120.1	115.1	4 %
Operating expenses	-91.6	-99.5	-8 %
Operating profit	27.6	14.6	89 %
Comparable operating profit	28.2	23.1	22 %

The demand for housing loans is still high but hard competition for good housing loan borrowers is still putting pressure on customer margins for new housing loans. At the same time, rent corridor and rent ceiling products have been in high demand. The total fund book of the segment decreased during the fourth quarter due to the challenging market development. Despite the challenging market development, the sales of funds through Aktia's branch network were positive for the year.

Lending to private customers was EUR 4,653 (4,611) million. The loan book for the corporate business increased to EUR 1,305 (1,111) million.

The increase in the corporate business loan book reflects the strong demand on the market for both corporate investments and property financing. The corporate business's strategic focus on small and medium-sized companies and financial solutions for larger corporate customers has contributed to the positive development of the loan book.

Net interest income from borrowing and lending has stayed on a good level due to low interest rates on deposits and stable growth in lending. Taking the segment's income of EUR 1.0 million from phasing out of Aktia Real Estate Mortgage Bank last year into account, the net interest income from borrowing and lending has increased by EUR 0.6 million. Impairment of credits and other commitments remained low.

The renewed customer concepts in line with the new strategy and price adjustments resulted in higher commission income from payment services and borrowing.

The operating expenses decreased as a result of implementation of a new model of operations and restructuring of the branch network at the end of 2017.

Private customers' savings in deposits decreased to EUR 2,520 (2,554) million and savings in funds decreased to EUR 1,368 (1,419) million.

Wealth Management

The segment comprises asset management, private banking and life insurance businesses. The segment offers wealth management and financing services to wealthy private customers and institutional investors. The segment also offers a wide range of investment and life insurance products for distribution in Aktia's all customer segments.

The segment's operating profit

(EUR million)	2018	2017	Δ %
Operating income	63.2	65.7	-4 %
Operating expenses	-42.8	-41.8	2 %
Operating profit	20.5	23.8	-14 %
Comparable operating profit	21.5	26.1	-18 %

During the year, great success was reached with Nordic and European institutions through the cooperation with the fund management company Universal-Investment (UI) in Luxembourg. As of 2018, UI-Aktia EMD fund products have been offered to institutional investors and the UI-Aktia mutual fund capital was EUR 1,121 million at the end of December.

The net commission income of the segment developed in a positive way during the year. Net commission income increased by 7 % for Private Banking and by 9 % for Asset Management.

Aktia Fund Management Company's fund stock was EUR 4.4 billion, which is EUR 0.4 billion lower than the previous year. The market change for the period was negative. Sales to domestic institutional investors for the year were negative while sales of funds through Aktia's branch network were still positive.

Institutional sales on a total level have continued well despite the turbulence on the market during the past year. The total fund sales amounted to EUR 954 (678) million. Most of the sales were carried out to foreign institutions that subscribed to funds through Universal-Investment in Luxembourg. Domestic institutional sales were lower than the previous year.

During 2018, the following new funds were launched; UI-Aktia EM Local Currency Bond+, Aktia Opportunistic Credit, Aktia Alternative and Aktia Commercial Properties. It is noteworthy that in our current fund selection, our fixed income fund Aktia Emerging Markets Local Currency Bond + is the world's most successful of its kind and it turned 10 years in 2018. The fund has had the highest historical return for three, five, seven as well as for ten years' return.

Aktia's competence is unique even globally and the company's asset management has been rewarded during several years. During 2018, Aktia was again chosen Best Fixed Income Manager in Morningstar's competition Finland Awards 2018. Aktia has been in the top three for six years running and has won the competition four times. Additionally, the fund Aktia Corporate Bond+ finished among the three best funds in the Fixed Income Funds category. Institutional investors highly appreciate Aktia Asset Management and the company was awarded third best asset manager for the second year running in the External Asset Management Institutions 2018 Finland survey by KANTAR SIFO Prospera.

The transition to IFRS 9 caused increased volatility in net income from life insurance which decreased to EUR 17.9 (23.6) million. Net income from life insurance was burdened by unrealised value changes of EUR -4.6 million for the period.

The life insurance company's technical provisions were EUR 1,156 (1,217) million, of which EUR 757 (802) million were unit-linked. Interest-related technical provisions decreased to EUR 399 (415) million. The average discount rate for the interest-linked technical provisions was 3.4 %. Technical provisions include an interest reserve of EUR 16.0 (16.0) million, which can be used to cover the future interest rate requirements.

Taking the restructuring costs of EUR 1.0 (2.2) million into account, the segment's comparable operating expenses increased by EUR 2.1 million. The expense ratio for the life insurance business was at a good level and amounted to 77.0 (78.9) %.

Assets under management totalled EUR 8,860 (7,962) million.

(EUR million)	31 Dec 2018	31 Dec 2017	Δ %
Assets under management	8,860	7,962	11 %
of which Institutional assets	5,824	4,590	27 %

Group functions

Group Functions comprises the Group's treasury business and the Group's other support and staff functions. The entities oversee the Group's financing and liquidity management and assists the other business segments with sales, IT and product support and development. The Group Functions also include monitoring and controlling risk and financial follow-up. The largest source of income is income from the Group's treasury business.

The segment's operating profit

(EUR million)	2018	2017	Δ %
Operating income	29.9	30.1	0 %
Operating expenses	-13.4	-20.2	-34 %
Operating profit	16.5	9.7	69 %
Comparable operating profit	13.8	9.8	40 %

The book value of the liquidity portfolio amounted to EUR 1,356 (1,799) million, equivalent to 22 (31) % of the lending portfolio. The interest income of the liquidity portfolio decreased to EUR 8.3 (14.9) million due to the current level of low interest rates. Despite the challenging interest rate situation, positive interest income has been retained by reinvesting.

The net interest income for the segment decreased due to lower interest income of the liquidity portfolio and lower interest income from the unwound interest rate hedges. Since March 2015, Aktia participates in the European Central Bank's long-term refinancing operations (TLTRO), which has enabled Aktia to offer financing with favourable and competitive terms. In June, the European Central Bank set the expense for Aktia's TLTRO refinancing. During the period a positive impact on the net interest income of EUR 3.5 million was recognised.

Income from the unwound interest derivatives in 2012 decreased to EUR 10.3 (14.4) million. In 2019, the positive impact on the net interest income will amount to approximately EUR 2.4 million.

Lower financing expenses mainly from senior financing is partially compensating for decreasing income from the liquidity portfolio and unwound interest rate hedges.

The comparable staff costs increased by 5 % to EUR 30.5 (29.0) million due to new business model during the end of 2017.

The running IT expenses decreased, and the depreciations increased due to the implementation of the new core banking system. The new business model and the EUR 2.3 million EU statutory costs to the fund for financial stability increased other operating expenses.

Other

Other activities do not constitute a reporting business segment.

The Group's other activities has mainly consisted of Aktia Real Estate Agency Ltd. Aktia decreased its holdings in Aktia Real Estate Agency Ltd to 19 % in the beginning of July. The divestment resulted in a sales gain of EUR 1.1 million. The change in the ownership structure supports the implementation of Aktia's new strategy and had no significant impact on the Group's result and financial position. The close cooperation between Aktia Bank and the Real Estate Agency continues even after the changes in the ownership structure.

The Group's risk exposures

Definitions and general principles for asset and risk management can be found in Aktia Bank Plc's Annual Report for 2017 (www.aktia.com), in note G2 on pages 71–84, or in Aktia Bank Plc's Capital and Risk Management Report on the Group's website www.aktia.com.

Lending-related risks within banking business

Non-performing loans more than 90 days overdue in stage 3, where the counterparty's inability or probable inability to handle its obligations towards the bank according to agreed terms, increased to EUR 34.1 (32.4) million, corresponding to 0.56 (0.56) % of the loan book. Loans to households more than 90 days overdue in stage 3 corresponded to 0.45 (0.46) % of the entire loan book and to 0.57 (0.56) % of the household loan book.

Loans past due in stage 2, where the credit risk has increased significantly since the recognition date, increased to EUR 23.2 (20.6) million, corresponding to 0.38 (0.35) % of the loan book.

Loans past due in stage 1, where the credit risk has not increased significantly since the recognition date, decreased to EUR 3.2 (12.0) million, corresponding to 0.05 (0.20) % of the loan book.

Loans past due by time overdue and ecl stages

1 Jan 2018				
(EUR million)	Stage 1	Stage 2	Stage 3	Total
Days				
≤ 30	12.0	7.1	1.8	20.8
of which households	10.6	6.0	1.8	18.5
> 30 ≤ 90	0.0	13.5	4.3	17.8
of which households	0.0	12.7	3.7	16.3
> 90	0.0	0.0	32.4	32.4
of which households	0.0	0.0	26.6	26.6

31 Dec 2018				
(EUR million)	Stage 1	Stage 2	Stage 3	Total
Days				
≤ 30	3.2	5.1	0.0	8.3
of which households	2.9	5.1	0.0	8.0
> 30 ≤ 90	0.0	18.1	0.1	18.2
of which households	0.0	17.8	0.1	17.9
> 90	0.0	0.0	34.1	34.1
of which households	0.0	0.0	27.3	27.3

Impairment of credits and other commitments

The change in the loss allowance for expected credit losses (ECL) in accordance with IFRS 9 resulted in impairment of credits and other commitments amounting to EUR -0.8 (-0.6) million.

Total impairment of credits amounted to 0.01 (0.01) % of total lending. The share of impairment of corporate loans in relation to corporate lending amounted to -0.20 (-0.42) %.

Distribution of risk across financial assets

The Bank Group maintains a liquidity portfolio as a buffer for situations where, for some reason, borrowing from the capital markets is not possible under common conditions. Fixed-rate investments within the liquidity portfolio are also used to reduce the structural interest rate risk.

In the life insurance business, the investment portfolio is covering the technical provisions and is measured on an ongoing basis at market value.

Interest-rate investments expose the Group to counterparty risks. Direct interest-rate investments are rated by international credit rating agencies such as Standard & Poor's, Fitch or Moody's. This rating is primarily affected by the counterparty's country and financial position, but also by the type of instrument and its right of priority.

The Bank Group's liquidity portfolio and other interest-bearing investments

Investments within the liquidity portfolio and other interest-bearing investments decreased during the period by EUR 449 million to EUR 1,368 (1,816) million.

Rating distribution for the Bank Group's liquidity portfolio and other interest-bearing investments

(EUR million)	31 Dec 2018	31 Dec 2017
	1,368	1,816
Aaa	56.7 %	53.1 %
Aa1 - Aa3	24.4 %	27.4 %
A1 - A3	3.6 %	5.0 %
Baa1 - Baa3	1.2 %	2.3 %
Ba1 - Ba3	0.0 %	0.0 %
B1 - B3	0.0 %	0.0 %
Caa1 or lower	0.0 %	0.0 %
Finnish municipalities (no rating)	14.0 %	11.6 %
No rating	0.0 %	0.6 %
Total	100.0 %	100.0 %

At the end of the period, there were bonds for a total value of EUR 18 million that did not meet the eligibility requirements for refinancing at the central bank. Two of the bonds did not meet the eligibility requirements for refinancing at the central bank because their home countries were not countries within the EEA area or G7 countries, this being a criterion for refinancing of covered bonds at the central bank. One of the bonds from a Finnish credit institution did not meet the eligibility requirements for refinancing at the central bank since the issue had no rating.

Other market risks within the banking business

The banking business conducts no equity trading or investments in real estate property for yield purposes.

At the end of the period, real estate holdings amounted to EUR 0.0 (0.1) million and investments in shares necessary for the business amounted to EUR 3.6 (9.3) million.

Investment portfolio of the life insurance company

The market value of the life insurance company's total investment portfolio amounted to EUR 551 (574) million. The life insurance company's direct real estate investments amounted to EUR 39 (55) million. The properties are located in the Helsinki region and in other growth areas in Southern Finland, and they mostly have long tenancies.

Rating distribution for the life insurance business' direct interest-rate investments (excl. investments in interest-rate funds, real estates, equity instruments and alternative investments)

	31 Dec 2018	31 Dec 2017
(EUR million)	329	373
Aaa	50.4 %	50.0 %
Aa1 - Aa3	34.3 %	32.4 %
A1 - A3	5.6 %	3.3 %
Baa1 - Baa3	3.3 %	3.8 %
Ba1 - Ba3	0.9 %	0.5 %
B1 - B3	0.0 %	0.0 %
Caa1 or lower	0.0 %	0.0 %
Finnish municipalities (no rating)	0.0 %	1.6 %
No rating	5.5 %	8.3 %
Total	100.0 %	100.0 %

Bank Group's geopolitical and instrument type distribution

(EUR million)	Government and Govt. guaranteed		Covered Bonds		Financial institutions excl. CB		Corporate bonds		Equity instruments		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Finland	216	225	68	49	19	82	-	10	-	-	303	366
Norway	-	-	248	257	12	-	-	-	-	-	260	257
Sweden	-	-	152	133	56	108	-	-	-	-	208	241
France	65	66	68	79	-	32	-	-	-	-	133	176
Canada	-	-	79	89	-	-	-	-	-	-	79	89
Poland	1	1	54	54	-	-	-	-	-	-	55	55
Germany	48	48	-	-	-	-	-	-	-	-	48	48
United Kingdom	-	-	34	76	-	-	-	-	-	-	34	76
Netherlands	-	-	10	67	20	49	-	-	-	-	31	116
Spain	11	11	20	-	-	-	-	-	-	-	31	11
Belgium	3	41	22	22	-	-	-	-	-	-	25	64
Austria	15	15	12	12	-	-	-	-	-	-	27	27
Supranationals	83	181	-	-	-	-	-	-	-	-	83	181
Other	3	-	48	110	-	-	-	-	-	-	51	162
Total	444	589	816	948	107	269		10			1,368	1,816

Life Insurance company's geopolitical and instrument type distribution

(EUR million)	Government and Govt. guaranteed		Covered Bonds		Financial institutions excl. CB		Corporate bonds		Real estate		Alternative investments		Equity instruments		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Finland	21	28	6	-	65	35	42	80	67	78	2	2	-	-	202	222
France	38	38	80	80	1	-	7	7	-	-	-	-	-	-	126	126
Netherlands	4	11	28	29	9	13	2	2	-	-	-	-	-	-	44	55
United Kingdom	-	-	28	34	0	-	1	1	-	-	-	-	-	-	29	36
Austria	22	23	6	6	-	-	0	0	-	-	-	-	-	-	28	29
Denmark	-	-	18	18	3	1	-	-	-	-	-	-	-	-	20	20
Sweden	-	-	-	6	4	7	2	2	-	-	0	0	-	-	6	15
Norway	-	-	-	-	2	-	-	-	-	-	-	-	-	-	2	-
Supranationals	7	9	-	-	-	-	-	-	-	-	-	-	-	-	7	9
Other	3	54	-	-	1	1	80	9	-	-	3	-	-	-	87	64
Total	95	162	166	174	85	57	134	101	67	78	5	2			551	574

Value changes reported through the fund at fair value

Taking cash flow hedging for the Group into consideration, the fund at fair value amounted to EUR 17.7 (51.5) million after deferred tax. EUR -23.9 million of the total decrease of EUR -33.9 million is attributable to the reclassifications in conjunction with the implementation of IFRS 9.

Cash flow hedging, which comprises unwound interest-rate derivative contracts that have been acquired for the purposes of hedging the banking business' net interest income, amounted to EUR 0.0 (-0.1) million.

The fund at fair value

(EUR million)	31 Dec 2018	31 Dec 2017	Reclassification (IFRS 9)	Δ
Shares and participations				
Banking Business	-	1.3	-1.3	-
Life Insurance Business	-	3.7	-3.7	-
Direct interest-bearing securities				
Banking Business	4.0	7.6	0.0	-3.6
Life Insurance Business	13.6	39.0	-18.9	-6.5
Cash flow hedging	-	-0.1	-	0.1
Fund at fair value	17.7	51.5	-23.9	-10.0

Operational risks

No operational risk causing significant financial damage occurred during the year.

Events concerning related parties

Related parties include shareholders with significant influence and key persons in management positions and close family members, as well as companies where a key person in a management position has a controlling influence. The Aktia Group's key persons are the members of the Board of Directors, the CEO, the CEO's alternate and other members of the Executive Committee.

Further information on events concerning related parties is described in notes G44 and P45 in the Financial statements 2017.

Other events during the reporting period

Aktia Bank Plc has on 15 January 2018 divested 39,831 series A treasury shares held by the company for payment of deferred instalments for the share-based reward scheme earning periods 2013–2014, 2014–2015 and 2015–2016 and the share ownership scheme to 24 key persons included in the share-based incentive scheme.

On 21 May 2018, Aktia Bank Plc has divested 82,835 Aktia shares as payment of shares from the share-based reward scheme earning periods 2016–2017, 2017–Q122018 as well as matching shares within the scope of the company's share ownership scheme 2015–2018. Furthermore, shares held by the company have been divested to carry out payment of 40 % of the Board member's annual remuneration in the form of Aktia shares.

In May, Aktia refinanced the covered bond that matured in June. The demand for the new five-year EUR 500 million covered bond was high. The market showed confidence in Aktia when the issue was oversubscribed over 2.5 times and the issue could be carried out with very favourable terms with an all-time low margin.

On 29 June 2018, The Financial Supervisory Authority set an 1 % additional capital requirement for Aktia Bank Plc which is a so-called system risk buffer requirement. According to the decision, the requirement can only be met with CET1 capital and therefore increases the bank's CET1 capital requirement as of 1 July 2019 when the requirement enters into force. Aktia has a strong capital adequacy and can already now meet the additional capital requirement with good margin. More information about capital adequacy under Capital adequacy and solvency.

In accordance with Aktia's new strategy, Aktia has on 6 August 2018 ended cooperation with Folksam Non-Life Insurance and has stopped brokering their insurances. Aktia continues offering service to customers in matters regarding life, inability to work and loan protection.

On 31 August 2018, Aktia Bank Plc acquired 25 % of Paikallispankkien PP-Laskenta Oy from Samlink. The change does not affect Aktia's operations and the cooperating continues as before. All the new owners are customers of PP-Laskenta.

In September, Aktia Bank has as a part of its EMTN programme issued new long-term bonds worth EUR 200 million. At the same time, a EUR 150 million bond was repurchased. Its original due date was in the end of October 2018. The issue of the new bonds was carried out to ensure that the bank will comply with future regulatory requirements.

In October, Aktia Bank Plc has made an agreement to sell its remaining 10 % holdings in Folksam Non-Life Insurance Company Ltd to Fennia Mutual Insurance Company. Aktia Bank now focuses on carrying out the strategy with focus on asset management and financing solutions, while competitive non-life insurance and pension insurance products are offered through partners. Concurrently, a letter of intent was signed with Fennia to investigate the possibility of cooperation regarding non-life insurance products in the future.

Aktia Bank Plc has on 1 November 2018 within the scope of the share savings scheme AktiaUna issued 65,132 new shares. The new shares were registered into the Trade Register on 15 November 2018. After the issue, the number of shares was 69,027,794.

On 23 November 2018, Aktia Bank Plc informed that the bank will renew its Executive Committee to more efficiently implement the strategy. As of 1 Januari 2019, Aktia will have three business areas, Private and Corporate customers and Asset Management, and renews the composition of the Executive Committee. M.Sc. Max Sundström has been appointed as a new member of the Executive Committee and he will be responsible for the Group's concept and strategy. The previous members of the Executive Committee, Merja Sergelius and Sam Olin, will continue to be responsible for Private and Premium customers. Minna Miettinen has left Aktia on 23 November 2018.

Aktia Bank Plc has on 26 November 2018 divested 10,002 Aktia shares held by the company to three key persons in the company's management for payment of matching shares within the scope of the company's share-based ownership scheme 2017.

Events after the end of the period

Aktia Bank Plc has on 15 Januari 2019 divested 34,156 Aktia treasury shares held by the company for payment of deferred instalments for the share-based reward scheme earning periods 2014–2015, 2015–2016, 2016–2017 and 2017–2018 and the share ownership scheme to 29 persons included in the share-based incentive scheme.

Since the other owners of Samlink have now chosen a new core banking solution, it is in accordance with Aktia's strategy to divest all shares in the company together with the other owners of Samlink. On 23 January 2019 Aktia Bank Plc has entered into an agreement to divest its holdings (22.56 %) in Oy Samlink Ab to Cognizant Technology Solutions Finland Ltd. The transaction will generate approximately an EUR 8 million sales gain, which affects the Group's reported operating profit for 2019. The transaction does not have effect on the Group's comparable operating profit. The transaction is planned to be carried out on 1 April 2019.

Staff

The number of full-time employees decreased by 25 from the previous year and was at the end of December 779 (804). The average number of full-time employees decreased by 100 from the previous year to 803 (903).

Incentive scheme

As of 2018, Aktia Bank Plc has launched a new long-term share savings plan for Aktia's employees in order to support the implementation of Aktia's new strategy.

The share savings plan will be offered to approximately 800 Aktia employees, who will be offered an opportunity to save 2–4 % of their salaries (the members of the Group's Executive Committee up to 7 %) and regularly acquire the company's shares at a 10 % reduced price. Furthermore, the participants are motivated by granting them free matching shares against shares acquired in the share savings plan after approximately two years. The total savings amount and thus the value of the matching shares to be paid based on the savings period 2018–2019 to the participants amounts to a maximum total of 1,800,000 euros upon the launch of the plan, corresponding to the value of 195,000 Aktia shares. This programme replaces Aktia's Personnel Fund. At the end of the year 57 % of Aktia's personnel participated in the share savings plan AktiaUna.

Within the scope of the above mentioned AktiaUna savings plan, approximately 60 key employees, including the CEO and the members of the Group's Executive Committee, have been offered a possibility to participate in a performance-based share savings plan. This part of the programme replaces the previous Executive Committee's share-based incentive scheme. The performance criteria of the performance period 2018–2019 are the Aktia Group's comparable operating profit and net commission income during the performance period. The value of the reward for the performance period 2018–2019 amounts up to a maximum total of 2,600,000 euros upon the launch of the plan, corresponding to the value of 280,000 Aktia shares.

For more information on the incentive scheme see www.aktia.com > Corporate Governance > Remuneration.

Board of Directors and Executive Committee

Aktia Bank Plc's Board of Directors for the term running until the end of the next Annual General Meeting:

- Chair Lasse Svens, M.Sc. (Econ.)
- Vice chair Arja Talma, M.Sc. (Econ.), eMBA
- Christina Dahlblom, M.Sc. (Econ.)
- Stefan Damlin, M.Sc. (Econ.)
- Maria Jerhamre Engström, eMBA
- Johannes Schulman, M.Sc (Econ.)
- Catharina von Stackelberg-Hammarén, M.Sc. (Econ.)

Aktia Bank Plc's Board of Directors on 31 December 2018 was:

- Mikko Ayub, M.Soc.Sc., MBA, CEO
- Juha Hammarén, vice District Court Judge, Executive Vice President and COO
- Merja Sergelius, eMBA, Executive Vice President with responsibility for private customers
- Anssi Rantala, Dr. Soc.Sc., Executive Vice President with responsibility for Aktia Asset Management, Aktia Fund Management Company and Aktia Life Insurance
- Carola Nilsson, M.Sc. (Econ.), Executive Vice President with responsibility for private banking
- Irma Gillberg-Hjelt, LL.M., Vice President; with responsibility for corporate customers
- Sam Olin, B.Sc. (Econ.), Vice President with responsibility for premium customers
- Outi Henriksson, M.Sc. (Econ.), Chief Financial Officer with responsibility for finance, treasury, investor relations and legal matters
- Juha Volotinen, M.Sc. (Econ.), Chief IT and Data Architecture officer
- Anu Tuomolin, M.Sc. (Econ.), Chief HR officer

There is also a staff representative in the Executive Committee.

Aktia Bank Plc's Board of Directors and CEO Martin Backman agreed together that Martin Backman stepped down from his position on 7 March 2018. Juha Hammarén, COO and Deputy to CEO was acting as interim CEO until 30 September 2018. Aktia's new CEO Mikko Ayub took office on 1 October 2018.

A Nomination Board shall be appointed annually with the duty to prepare a proposal for members of the Board of Directors as well as for the remuneration of them to the Annual General Meeting. The Nomination Board comprises representatives of the five largest shareholders according to number of shares held. Further, the chairman of the Board of Directors participates in the work of the Nomination Board. The composition of the Nomination Board up until 30 August 2019 is:

- Attorney Nina Wilkman, appointed by Stiftelsen Tre Smeder
- Managing Director Carl Pettersson, appointed by the Pension Insurance Company Veritas
- Managing Director Dag Wallgren, appointed by The Society of Swedish Literature in Finland

- Bachelor of Laws, M.Sc. (Econ.). Johan Hammarén, appointed by Oy Hammarén & Co Ab
- Honorary Counsellor Peter Boström, appointed by the Åbo Akademi University Endowment
- Chairman of the Board of Aktia Bank Plc Lasse Svens

Decisions of Aktia Bank Plc's Annual General Meeting 2018

The Annual General Meeting of Aktia Bank Plc on 10 April 2018 adopted the consolidated financial statements of the parent company and the group, and discharged the members of the Board of Supervisors, the members of the Board of Directors, the Managing Director and his alternate from liability.

In accordance with the proposal of the Board of Directors, the Annual General Meeting decided to distribute a dividend of EUR 0.57 per share totalling approximately EUR 37.8 million for the financial period 1 January–31 December 2017.

The Annual General Meeting determined that the number of auditors shall be one, and re-elected KPMG Oy Ab as auditor with APA Marcus Tötterman as auditor-in-charge.

The Annual General Meeting approved the Board of Directors' proposal of combining the company's two share classes A and R without increasing the share capital, so that the company after the combination only has one share class, which is subject to public trading. The share entitles the holder to one (1) vote per share and equal rights. The Annual General Meeting also approved the amended Paragraph 3 of Articles of Association pertaining to the combination and the directed payment-free issue of a maximum of 2,384,650 new shares to the holders of R shares deviating from shareholders' pre-emptive subscription right so that the owners of R shares payment-free receive 3 (three) new shares against every batch of 25 R shares held in the same book-entry account.

Due to the combination of A and R share classes, the Trade Register has on 12 April 2018 registered a total amount of 2,383,851 new shares issued through a directed payment-free issue to the holders of R shares. At the same time the combination of the share classes and the amended Articles of Association pertaining to the combination has been registered in the Trade Register.

The Annual General Meeting adopted the proposals by the Board of Directors concerning the authorisation to issue shares, the authorisation to acquire treasury shares to be used in the company's share-based incentive scheme and/or as remuneration to members of executive bodies in the company as well as the authorisation to divest treasury shares.

All proposals mentioned above are included in the Summons to the AGM published on the website www.aktia.com under About Aktia > Corporate Governance > Annual General Meeting > Annual General Meeting 2018.

Share capital and ownership

Aktia Bank Plc's share capital amounts to EUR 163 million. In the end of December 2018, the number of Aktia shares was 69,027,794. The total amount of registered holders amounted to 37,475 (31 December 2017: 39,757). 8.0 % of the shares were in foreign ownership. The number of unregistered shares was 765,811 (765,829), corresponding to 1.1 (1.1) % of the total number of shares. On 31 December 2018, the Group held 111,430 Aktia shares. Aktia Bank Plc's market value on 28 December 2018, the last trading day of the period, was EUR 621 (631) million. Aktia's stock exchange value on 28 December 2018 was EUR 9.0. The highest price for the Aktia share was EUR 9.58 and the lowest EUR 7.90.

Shares

The average daily turnover of the Aktia share during January–December 2018 was EUR 582,114 or 65,340 shares. After the combination of R and A shares Aktia Bank Plc only has one share series which is subject to public trading and for which each share entitles to one (1) vote per share and equal rights. The combination was registered on 12 April 2018. Trading with the company's only share class and the new shares commenced on 13 April 2018 (ISIN code FI4000058870, trading symbol AKTIA).

Outlook and risks

Outlook 2019

The continued low interest rate environment and decreased income from previously unwound interest-rate hedges (2012) will still have a negative impact on the total net interest income 2019.

The uncertainty regarding the future economic development brings uncertainty to the prognosis, which may have a considerable effect especially on the income from wealth management and investment activities in the net commission income and net income from life-insurance.

Impairment of credits are expected to remain on a low level in 2019.

Despite the uncertainty of the economic development, the comparable operating profit 2019 is expected to be approximately on the same level as for 2018.

Risks

Aktia's result is affected by many factors, of which the most important are the general economic situation, fluctuations in share prices, interest rates and exchange rates, as well as the competitive situation. The demand for banking, insurance, and wealth management services can be changed by these factors.

Changes in interest rate level, yield curves and credit margins are hard to predict and can affect Aktia's interest margins and thus profitability. Aktia is pursuing a proactive management of interest rate risks.

Any future impairment of credits in Aktia's loan book could be due to many factors, of which the most important are the general economic situation, the interest rate level, the level of unemployment and the development of house prices.

The availability of liquidity on the financial market is important for Aktia's refinancing activities. Like other banks, Aktia relies on deposits from households to service some of its liquidity needs.

The market value of Aktia's financial and other assets can change, among other things, as a result of requirements among investors for higher returns.

Increased regulation of banking and insurance operations has led to more stringent capital and liquidity requirements for the bank. The new regulations have also resulted in increased competition for deposits, higher demands on long-term financing and higher fixed costs.

Financial objectives up until 2022

The financial objectives stipulated by the Board of Directors in October 2017 are:

- Improve the comparable operating profit to approximately EUR 80 million (2018; EUR 65.4 million)
- Improve the comparable cost-to-income ratio to 0.61 (2018; 0.69)
- Improve Return on Equity (ROE) to 9.7 % (2018; 9.4 %)
- Common Equity Tier 1 capital ratio (CET1) 1.5-3 percentage points over the regulatory requirement (2018; 7.2 percentage points over the minimum capital requirement 10.3 %)

Key figures

(EUR million)	2018	2017	Δ %	4Q2018	3Q2018	2Q2018	1Q2018	4Q2018
Earnings per share (EPS), EUR ³	0.81	0.57	42 %	0.09	0.29	0.21	0.22	0.12
Total earnings per share, EUR ³	0.67	0.37	79 %	0.08	0.21	0.20	0.17	0.09
Equity per share (NAV), EUR, euro ^{*1,3}	8.56	8.70	-2 %	8.56	8.48	8.26	8.61	8.70
Average number of shares (excl. treasury shares), million ^{2,3}	68.8	68.9	0 %	68.8	68.8	68.8	68.8	68.9
Number of shares at the end of the period (excl. treasury shares), million ^{1,3}	68.9	68.7	0 %	68.9	68.8	68.8	68.8	68.7
Return on equity (ROE), % *	9.4	6.5	45 %	4.4	13.7	10.1	10.2	5.5
Return on assets (ROA), % *	0.60	0.41	46 %	0.28	0.84	0.63	0.64	0.34
Cost-to-income ratio *	0.68	0.76	-11 %	0.83	0.57	0.69	0.65	0.80
Common Equity Tier 1 capital ratio, CET1 (Bank Group), % ¹	17.5	18.0	-3 %	17.5	16.6	16.3	16.4	18.0
Tier 1 capital ratio (Bank Group), % ¹	17.5	18.0	-3 %	17.5	16.6	16.3	16.4	18.0
Capital adequacy ratio (Bank Group), % ¹	20.5	23.4	-12 %	20.5	20.1	20.1	20.8	23.4
Risk-weighted commitments (Bank Group) ¹	2,199.2	2,080.2	6 %	2,199.2	2,262.0	2,318.0	2,271.6	2,080.2
Capital adequacy ratio (finance and insurance conglomerate), % ¹	166.1	164.5	1 %	166.1	157.0	152.9	151.7	164.5
Equity ratio, % ^{*1}	6.3	6.3	0 %	6.3	6.2	6.0	6.3	6.3
Group financial assets ^{*1}	2,112.9	2,601.9	-19 %	2,112.9	2,265.0	2,350.0	2,413.1	2,601.9
Assets under Management ^{*1,4}	8,860.3	7,961.5	11 %	8,860.3	9,277.5	8,969.7	8,425.1	7,961.5
Borrowing from the public ¹	3,962.5	4,118.5	-4 %	3,962.5	4,024.8	4,099.9	3,932.7	4,118.5
Lending to the public ¹	6,106.0	5,838.8	5 %	6,106.0	6,028.8	5,957.7	5,893.1	5,838.8
Premiums written before reinsurers' share *	105.6	125.9	-16 %	19.3	19.8	34.3	32.3	33.3
Expense ratio, % (life insurance company) ^{*2}	77.0	78.9	-2 %	77.0	75.3	76.8	77.8	78.9
Solvency ratio (life insurance company), %	229.8	199.2	15 %	229.8	216.1	204.7	193.8	199.2
Own funds (life insurance company)	175.5	169.5	4 %	175.5	177.2	170.7	167.0	169.5
Investments at fair value (life insurance company) ^{*1}	1,230.5	1,342.8	-8 %	1,230.5	1,314.8	1,326.7	1,304.1	1,342.8
Technical provisions for risk insurances and interest-related insurances ¹	398.9	415.0	-4 %	398.9	402.5	407.5	413.1	415.0
Technical provisions for unit-linked insurances ¹	756.8	802.3	-6 %	756.8	821.9	815.4	792.3	802.3
Group's personnel (FTEs), average number of employees	803	903	-11 %	780	810	831	793	859
Group's personnel (FTEs), at the end of the period ¹	779	804	-3 %	779	770	868	796	804
Alternative performance measures excluding items affecting comparability:								
Comparable cost-to-income ratio *	0.69	0.71	-3 %	0.79	0.63	0.68	0.65	0.78
Comparable earnings per share (EPS), EUR ^{*3}	0.77	0.70	10 %	0.12	0.23	0.22	0.22	0.13
Comparable return on equity (ROE), % ^{*3}	8.9	7.9	13 %	5.5	10.8	10.2	10.3	6.0

* Aktia has defined the alternative performance measures to be presented in the Group's financial reports in accordance with the guidelines for Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA). The Alternative Performance Measures (APMs) are financial measures that have not been defined in the IFRS rules, the capital requirements regulation (CRD/CRR) or in the Solvency II framework (SII). Therefore, the APMs shall not be regarded as substitutes for financial measures in accordance with IFRS. The APMs make comparison of different periods easier and gives users of financial reports useful further information. As from the second quarter of 2017, Aktia presents a number of new APMs, from which items affecting comparability are excluded. Items affecting comparability are not associated with day-to-day business, and such items are income and expenses attributable to restructuring, divestment of operations as well as impairment of assets departing from day-to-day business. The items affecting comparability are shown in a table under the Group's income statement and comprehensive income on pages 20 and 21.

1) At the end of the period

2) Cumulative from the beginning of the year

3) Recalculated according to the number of shares after combining series A and R

4) Assets under management excluding custody assets (comparison periods recalculated)

Basis of calculation for the key figures are presented in Aktia Bank Plc's Annual Report 2017 on page 59.

Consolidated income statement

(EUR million)	Note	2018	2017	Δ %
Net interest income	4	85.9	89.6	-4 %
Dividends		0.1	0.3	-63 %
Commission income		107.9	102.5	5 %
Commission expenses		-12.3	-11.1	-12 %
Net commission income		95.6	91.4	5 %
Net income from life-insurance	5	21.4	26.6	-20 %
Net income from financial transactions	6	4.9	0.8	477 %
Net income from investment properties		0.0	-	-
Other operating income		2.3	1.5	57 %
Total operating income		210.1	210.3	0 %
Staff costs		-66.7	-79.1	-16 %
IT expenses		-25.6	-30.5	-16 %
Depreciations of tangible and intangible assets		-12.4	-9.5	31 %
Other operating expenses		-38.3	-41.7	-8 %
Total operating expenses		-143.0	-160.7	-11 %
Impairment of tangible and intangible assets		-	-0.5	-
Impairment of credits and other commitments	8	-0.8	-0.6	46 %
Share of profit from associated companies		1.3	0.6	125 %
Operating profit		67.6	49.1	38 %
Taxes		-11.6	-9.8	18 %
Profit for the period		56.0	39.3	42 %
Attributable to:				
Shareholders in Aktia Bank Plc		56.0	39.3	42 %
Total		56.0	39.3	42 %
Earnings per share (EPS), EUR ¹		0.81	0.57	42 %
Earnings per share (EPS), EUR, after dilution ¹		0.81	0.57	42 %
Operating profit excluding items affecting comparability:				
Operating profit		67.6	49.1	38 %
Operating income:				
Dividend from Suomen Luottokunta		-	-1.3	-
Net income from equity holding in Folksam Non-Life Insurance Company		-4.0	1.0	-
Value change of equity holding in Bohemian Wrappsody		1.0	-	-
Profit from divestment of Aktia Real Estate Agency		-1.1	-	-
Operating expenses:				
Costs for restructuring		1.8	11.1	-84 %
Comparable operating profit		65.4	59.9	9 %

1) Recalculated according to the number of shares after combining series A and R

Consolidated comprehensive income

(EUR million)	2018	2017	Δ %
Profit for the period	56.0	39.3	42 %
Other comprehensive income after taxes:			
Change in fair value for financial assets	-8.9	-12.8	30 %
Change in fair value for cash flow hedging	0.1	0.1	15 %
Transferred to the income statement for financial assets	-1.1	-3.0	62 %
Comprehensive income from items which can be transferred to the income statement	-10.0	-15.8	37 %
Defined benefit plan pensions	0.0	2.1	-99 %
Comprehensive income from items which can not be transferred to the income statement	0.0	2.1	-99 %
Total comprehensive income for the period	46.0	25.7	79 %
Total comprehensive income attributable to:			
Shareholders in Aktia Bank Plc	46.0	25.7	79 %
Total	46.0	25.7	79 %
Total earnings per share, EUR ¹	0.67	0.37	79 %
Total earnings per share, EUR, after dilution ¹	0.67	0.37	79 %
Total comprehensive income excluding items affecting comparability:			
Total comprehensive income	46.0	25.7	79 %
Operating income:			
Dividend from Suomen Luottokunta	-	-1.0	-
Net income from equity holding in Folksam Non-Life Insurance Company	-4.0	1.0	-
Value change of equity holding in Bohemian Wrappsody	0.8	-	-
Profit from divestment of Aktia Real Estate Agency	-1.1	-	-
Operating expenses:			
Costs for restructuring	1.5	8.9	-84 %
Comparable comprehensive income	43.3	34.5	25 %

1) Recalculated according to the number of shares after combining series A and R

Items affecting consolidated income statement and comprehensive income

(EUR million)	2018	2017	Δ %
Net income from financial transactions	2.9	0.3	786 %
Other operating income	1.1	-	-
Total operating income	4.0	0.3	-
Staff costs	-1.8	-9.2	-81 %
Other operating expenses	0.0	-1.4	-98 %
Total operating expenses	-1.8	-10.6	-83 %
Impairment of tangible and intangible assets	-	-0.5	-
Operating profit	2.2	-10.8	-
Taxes	0.6	2.0	71 %
Total comprehensive income for the period	2.8	-8.8	-

Consolidated balance sheet

(EUR million)	Note	31 Dec 2018	31 Dec 2017	Δ %
Assets				
Interest-bearing securities		8.7	-	-
Shares and participations ¹		136.2	-	-
Investments for unit-linked investments		757.8	802.6	-6 %
Financial assets measured at fair value through income statement	9	902.7	802.6	12 %
Interest-bearing securities ²	7	1,340.9	1,797.2	-25 %
Shares and participations ¹		-	128.2	-
Financial assets measured at fair value through other comprehensive income	9	1,340.9	1,925.4	-30 %
Interest-bearing securities ³	8,9	308.0	367.8	-16 %
Lending to Bank of Finland and credit institutions	8,9	23.1	49.9	-54 %
Lending to the public and public sector entities	8,9	6,106.0	5,838.8	5 %
Cash and balances with central banks	9	289.2	282.5	2 %
Financial assets measured at amortised cost		6,726.2	6,538.9	3 %
Derivative instruments	7,9	70.0	84.0	-17 %
Investments in associated companies and joint ventures		0.1	0.0	-
Intangible assets		66.7	71.1	-6 %
Investment properties		39.1	55.2	-29 %
Tangible assets excl. investment properties		3.2	4.8	-33 %
Tangible and intangible assets		109.0	131.1	-17 %
Other assets		114.9	63.3	81 %
Income tax receivables		0.0	0.5	-91 %
Deferred tax receivables		2.3	4.2	-45 %
Tax receivables		2.4	4.6	-49 %
Total assets		9,266.1	9,550.0	-3 %
Liabilities				
Liabilities to central banks		400.0	400.0	0 %
Liabilities to credit institutions		202.6	294.4	-31 %
Liabilities to the public and public sector entities		3,962.5	4,118.5	-4 %
Deposits	9	4,565.1	4,813.0	-5 %
Derivative instruments	7,9	17.1	33.6	-49 %
Debt securities issued		2,460.3	2,450.7	0 %
Subordinated liabilities		207.8	235.2	-12 %
Other liabilities to credit institutions		45.6	60.0	-24 %
Other liabilities to the public and public sector entities		100.0	-	-
Other financial liabilities	9	2,813.7	2,746.0	2 %
Technical provisions for risk insurances and interest-related insurances		398.9	415.0	-4 %
Technical provisions for unit-linked insurances		756.8	802.3	-6 %
Technical provisions		1,155.7	1,217.3	-5 %
Other liabilities		70.8	83.3	-15 %
Income tax liabilities		3.3	1.8	84 %
Deferred tax liabilities		50.3	57.1	-12 %
Tax liabilities		53.6	58.9	-9 %
Total liabilities		8,676.1	8,952.0	-3 %
Equity				
Restricted equity		180.7	214.5	-16 %
Unrestricted equity		409.3	383.5	7 %
Total equity		589.9	598.0	-1 %
Total liabilities and equity		9,266.1	9,550.0	-3 %

1) In 2017, shares and participations have been included in the category Financial assets available for sale according to IAS39 and have been measured at fair value through other comprehensive income. As of 1 January 2018, shares and participations are included in the category Financial assets measured at fair value through the income statement.

2) In 2017, these interest-bearing securities correspond the category Financial assets available for sale according to IAS39.

3) In 2017, these interest-bearing securities correspond the category Financial assets held until maturity according to IAS39.

Consolidated statement of changes in equity

(EUR million)	Share capital	Fund at fair value	Fund for share-based payments	Unrestricted equity reserve	Retained earnings	Total equity
Equity as at 1 Jan 2017	163.0	67.3	2.0	108.3	272.6	613.1
Acquisition of treasury shares					-1.7	-1.7
Divestment of treasury shares				0.1	1.2	1.3
Dividend to shareholders					-39.9	-39.9
Profit for the period					39.3	39.3
Financial assets		-15.8				-15.8
Cash flow hedging		0.1				0.1
Defined benefit plan pensions					2.1	2.1
Total comprehensive income for the year		-15.8			41.4	25.7
Other change in equity			-0.5			-0.5
Equity as at 31 Dec 2017	163.0	51.5	1.5	108.4	273.6	598.0
Equity as at 1 Jan 2018	163.0	51.5	1.5	108.4	273.6	598.0
IFRS 9 transition effects		-23.9			5.9	-18.0
Divestment of treasury shares				0.5	1.2	1.8
Dividend to shareholders					-37.8	-37.8
Profit for the period					56.0	56.0
Financial assets		-10.1				-10.1
Cash flow hedging		0.1				0.1
Defined benefit plan pensions					0.0	0.0
Total comprehensive income for the period		-10.0			56.0	46.0
Other change in equity			-0.1			-0.1
Equity as at 31 Dec 2018	163.0	17.7	1.4	108.9	298.9	589.9

Consolidated cash flow statement

(EUR million)	2018	2017	Δ %
Cash flow from operating activities			
Operating profit	67.6	49.1	38 %
Adjustment items not included in cash flow	12.1	0.9	-
Paid income taxes	-6.2	-4.9	-28 %
Cash flow from operating activities before change in receivables and liabilities	73.4	45.1	63 %
Increase (-) or decrease (+) in receivables from operating activities	185.4	-226.2	-
Increase (+) or decrease (-) in liabilities from operating activities	-216.8	164.8	-
Total cash flow from operating activities	42.0	-16.3	-
Cash flow from investing activities			
Investments in group companies and joint ventures	-0.2	-3.6	95 %
Proceeds from sale of group companies and associated companies	1.0	10.4	-91 %
Investment in investment properties	-5.0	-2.8	-79 %
Proceeds from sale of investment properties	21.1	-	-
Investment in tangible and intangible assets	-6.3	-14.6	57 %
Proceeds from sale of tangible and intangible assets	0.0	0.0	-100 %
Total cash flow from investing activities	10.6	-10.6	-
Cash flow from financing activities			
Subordinated liabilities	-27.4	-8.4	-226 %
Dividend/share issue to the non-controlling interest	-1.7	-1.1	-59 %
Acquisition of treasury shares	-	-1.7	-
Divestment of treasury shares	1.2	1.3	-8 %
Paid dividends	-37.8	-39.9	5 %
Total cash flow from financing activities	-65.7	-49.8	-32 %
Change in cash and cash equivalents	-13.2	-76.7	83 %
Cash and cash equivalents at the beginning of the year	320.1	396.8	-19 %
Cash and cash equivalents at the end of the year	306.9	320.1	-4 %
Cash and cash equivalents in the cash flow statement consist of the following items:			
Cash in hand	4.4	4.8	-7 %
Bank of Finland current account	284.8	277.7	3 %
Repayable on demand claims on credit institutions	17.7	37.6	-53 %
Total	306.9	320.1	-4 %
Adjustment items not included in cash flow consist of:			
Impairment of interest-bearing securities	0.3	2.5	-89 %
Unrealised change in value for financial assets measured at fair value through income statement	4.9	-	-
Impairment of credits and other commitments	0.8	0.6	46 %
Change in fair value	4.8	4.9	-2 %
Depreciation and impairment of tangible and intangible assets	13.4	10.0	34 %
Sales gains and losses from tangible and intangible assets	-2.3	-0.8	-181 %
Unwound fair value hedging	-10.3	-14.4	28 %
Change in provisions	-	-1.4	-
Change in fair values of investment properties	-0.5	-0.6	13 %
Change in share-based remuneration	-0.9	-1.3	31 %
Other adjustments	1.9	1.4	39 %
Total	12.1	0.9	-

Quarterly trends in the Group

(EUR million)							
Income statement	4Q2018	3Q2018	2Q2018	1Q2018	4Q2017	2018	2017
Net interest income	20.7	21.0	23.5	20.7	21.8	85.9	89.6
Dividends	0.0	0.0	0.1	0.0	-	0.1	0.3
Net commission income	22.6	22.9	26.2	23.8	23.7	95.6	91.4
Net income from life-insurance	5.1	5.5	5.0	5.8	7.4	21.4	26.6
Net income from financial transactions	-1.2	4.6	0.7	0.6	-0.6	4.9	0.8
Net income from investment properties	-	0.0	-	-	-	0.0	-
Other operating income	0.5	1.3	0.3	0.2	0.4	2.3	1.5
Total operating income	47.7	55.4	55.8	51.2	52.7	210.1	210.3
Staff costs	-18.1	-14.3	-17.8	-16.5	-17.9	-66.7	-79.1
IT-expenses	-7.6	-6.1	-6.3	-5.6	-8.0	-25.6	-30.5
Depreciation of tangible and intangible assets	-3.0	-3.1	-3.2	-3.1	-3.0	-12.4	-9.5
Other operating expenses	-10.7	-8.4	-11.0	-8.2	-13.0	-38.3	-41.7
Total operating expenses	-39.4	-31.8	-38.3	-33.5	-42.0	-143.0	-160.7
Impairment of tangible and intangible assets	-	-	-	-	0.0	-	-0.5
Impairment of credits and other commitments	-0.1	-0.8	0.7	-0.6	-0.4	-0.8	-0.6
Share of profit from associated companies	-0.1	0.9	-	0.5	-	1.3	0.6
Operating profit	8.0	23.7	18.2	17.7	10.3	67.6	49.1
Taxes	-1.6	-3.9	-3.5	-2.6	-2.1	-11.6	-9.8
Profit for the period	6.4	19.8	14.7	15.1	8.2	56.0	39.3
Attributable to:							
Shareholders in Aktia Bank Plc	6.4	19.8	14.7	15.1	8.2	56.0	39.3
Total	6.4	19.8	14.7	15.1	8.2	56.0	39.3
Earnings per share (EPS), EUR ¹	0.09	0.29	0.21	0.22	0.12	0.81	0.57
Earnings per share (EPS), EUR, after dilution ¹	0.09	0.29	0.21	0.22	0.12	0.81	0.57
Operating profit excluding items affecting comparability:	4Q2018	3Q2018	2Q2018	1Q2018	4Q2017	2018	2017
Operating profit	8.0	23.7	18.2	17.7	10.3	67.6	49.1
Operating income:							
Dividend from Suomen Luottokunta	-	-	-	-	-	-	-1.3
Net income from equity holding in Folksam Non-Life Insurance Company	0.0	-4.0	-	-	1.0	-4.0	1.0
Value change of equity holding in Bohemian Wrappsody	1.0	-	-	-	-	1.0	-
Profit from divestment of Aktia Real Estate Agency	-	-1.1	-	-	-	-1.1	-
Operating expenses:							
Costs for restructuring	1.1	-	0.3	0.4	0.2	1.8	11.1
Comparable operating profit	10.2	18.6	18.5	18.0	11.4	65.4	59.9

1) Recalculated according to the number of shares after combining series A and R

(EUR million)

Comprehensive income	4Q2018	3Q2018	2Q2018	1Q2018	4Q2017	2018	2017
Profit for the period	6.4	19.8	14.7	15.1	8.2	56.0	39.3
Other comprehensive income after taxes:							
Change in fair value for financial assets	-0.3	-4.8	-0.8	-3.1	-2.6	-8.9	-12.8
Change in fair value for cash flow hedging	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Transferred to the income statement for financial assets	-0.6	-0.3	-0.2	0.0	-2.1	-1.1	-3.0
Comprehensive income from items which can be transferred to the income statement	-0.9	-5.0	-1.0	-3.1	-4.7	-10.0	-15.8
Defined benefit plan pensions	0.0	-	-	-	2.4	0.0	2.1
Comprehensive income from items which can not be transferred to the income statement	0.0	-	-	-	2.4	0.0	2.1
Total comprehensive income for the period	5.6	14.7	13.8	12.0	5.9	46.0	25.7
Total comprehensive income attributable to:							
Shareholders in Aktia Bank Plc	5.6	14.7	13.8	12.0	5.9	46.0	25.7
Total	5.6	14.7	13.8	12.0	5.9	46.0	25.7
Total earnings per share, EUR ¹	0.08	0.21	0.20	0.17	0.09	0.67	0.37
Total earnings per share, EUR, after dilution ¹	0.08	0.21	0.20	0.17	0.09	0.67	0.37

Total comprehensive income excluding items affecting comparability:	4Q2018	3Q2018	2Q2018	1Q2018	4Q2017	2018	2017
Total comprehensive income	5.6	14.7	13.8	12.0	5.9	46.0	25.7
Operating income:							
Dividend from Suomen Luottokunta	-	-	-	-	-	-	-1.0
Net income from equity holding in Folksam Non-Life Insurance Company	0.0	-4.0	-	-	1.0	-4.0	1.0
Value change of equity holding in Bohemian Wrappsody	0.8	-	-	-	-	0.8	-
Profit from divestment of Aktia Real Estate Agency	-	-1.1	-	-	-	-1.1	-
Operating expenses:							
Costs for restructuring	0.9	-	0.3	0.3	0.2	1.5	8.9
Comparable total comprehensive income	7.3	9.7	14.0	12.3	7.0	43.3	34.5

1) Recalculated according to the number of shares after combining series A and R

Quarterly trends in the Segments

Personal & Corporate Banking	4Q2018	3Q2018	2Q2018	1Q2018	4Q2017	2018	2017
Net interest income	16.0	15.7	15.6	15.3	15.9	62.5	62.9
Net commission income	13.8	13.9	15.4	14.1	13.1	57.2	51.9
Other operating income	0.1	0.0	0.1	0.1	0.1	0.4	0.3
Total operating income	29.9	29.6	31.1	29.4	29.1	120.1	115.1
Staff costs	-4.4	-3.4	-4.7	-4.3	-4.6	-16.8	-24.8
Other expenses ¹	-21.2	-17.1	-19.2	-17.4	-19.5	-74.9	-74.6
Total operating expenses	-25.5	-20.5	-23.9	-21.7	-24.1	-91.6	-99.5
Impairment of tangible and intangible assets	-	-	-	-	0.0	-	-0.5
Impairment of credits and other commitments	-0.1	-0.8	0.7	-0.6	-0.4	-0.9	-0.5
Operating profit	4.2	8.3	7.9	7.2	4.6	27.6	14.6
Comparable operating profit	4.4	8.3	8.2	7.3	4.8	28.2	23.1
Wealth Management	4Q2018	3Q2018	2Q2018	1Q2018	4Q2017	2018	2017
Net interest income	0.5	0.5	0.5	0.5	0.5	2.1	2.5
Net commission income	10.8	10.9	10.8	10.5	10.4	43.0	39.4
Net income from life insurance	4.3	4.6	4.1	4.9	6.6	17.9	23.6
Other operating income	0.1	0.1	0.1	0.0	0.0	0.3	0.2
Total operating income	15.7	16.0	15.6	16.0	17.6	63.2	65.7
Staff costs	-5.1	-3.8	-4.1	-3.8	-4.3	-16.8	-17.1
Other expenses ¹	-7.4	-6.1	-6.4	-6.0	-6.7	-26.0	-24.7
Total operating expenses	-12.5	-10.0	-10.5	-9.8	-11.0	-42.8	-41.8
Operating profit	3.1	6.1	5.1	6.1	6.6	20.5	23.8
Comparable operating income	4.1	6.1	5.1	6.2	6.6	21.5	26.1
Group functions	4Q2018	3Q2018	2Q2018	1Q2018	4Q2017	2018	2017
Net interest income	4.2	4.8	7.4	4.9	5.3	21.3	24.2
Net commission income	0.6	0.9	0.5	0.8	1.0	2.8	3.5
Other operating income	-0.8	4.8	1.0	0.8	-0.3	5.8	2.3
Total operating income	4.0	10.6	8.9	6.5	6.0	29.9	30.1
Staff costs	-8.7	-7.1	-7.7	-7.6	-7.9	-31.1	-32.8
Other expenses ¹	5.5	3.6	3.7	4.9	0.9	17.7	12.5
Total operating expenses	-3.2	-3.4	-4.0	-2.7	-7.0	-13.4	-20.2
Impairment of credits and other commitments	-	-	0.0	-	0.0	0.0	-0.1
Operating profit	0.7	7.1	4.9	3.8	-1.0	16.5	9.7
Comparable operating profit	1.8	3.1	4.9	4.0	0.0	13.8	9.8

1) The net expenses for support and staff functions are allocated from the Group Functions to the business segments Personal & Corporate Banking and Wealth Management. This cost allocation is included in the segments' other expenses.

Notes to the accounts announcement

Note 1. Basis for preparing the accounts announcement and important accounting principles

Basis for preparing the accounts announcement

Aktia Bank Plc's consolidated financial statement is prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU.

The accounts announcement for the period 1 January–31 December 2018 has been prepared in accordance with IAS 34 "Interim Financial Reporting". The accounts announcement does not contain all the information and notes required for an annual report and should therefore be read together with the Aktia Group's annual report of 31 December 2017. Figures in the tables are presented in millions of euros rounded to one decimal. Therefore the total of individual amounts may differ from the presented total.

The accounts announcement for the period 1 January–31 December 2018 was approved by the Board of Directors on 14 February 2019.

Aktia Bank Plc's financial statements and interim reports are available on Aktia's website www.aktia.com.

Key accounting principles

In preparing the accounts announcement the Group has followed the accounting principles applicable to the annual report of 31 December 2017.

As of 1 January 2018, as a part of the previously published new strategy, Aktia has renewed the business segments. Aktia is reporting according to three business segments as of 1 January 2018, which are Personal & Corporate Banking, Wealth Management and Group Functions. Other business is reported separately but does not make a reporting business segment. The Private Banking and Institutional customers, which previously were included in the Banking Business segment, are included in the new segment Wealth Management. The Group's treasury operations as well as other support and staff functions, which previously were included in the segments Banking Business and Miscellaneous, are included in the new segment Group functions. Other business comprised mainly Aktia Real Estate Agency Ltd until 30 June 2018. The new segment Personal & Corporate Banking consists of the previous segment Banking Business, taking the above mentioned changes into account.

The following new and amended IFRSs has taken effect as of 1 January 2018:

The standard **IFRS 9** Financial Instruments was approved by the EU in November 2016, and it replaces IAS 39 Financial Instruments: Recognition and measurement. The Aktia Group implemented IFRS 9 when the standard became mandatory on 1 January 2018. The difference in book value of financial assets and liabilities was booked to retained earnings and to the fund at fair value in equity at the implementation of IFRS 9. Comparative figures according to IFRS 9 have not been recalculated for the previous year. Thus the information presented in the income statement and balance sheet for 2018 is not comparable with 2017.

IFRS 9 introduces new requirements for recognition and measurement of financial assets and liabilities. The model for risk management and the characteristics of financial instruments in respect of future cash flows have an impact on the classification of the Group's financial assets and liabilities. The Group's financial assets are as of 1.1.2018 classified in the categories amortised cost, fair value through other comprehensive income, and fair value through the income statement. The reporting of financial assets according to a mixed business model, where changes in fair value according to IFRS 9 are reported through other comprehensive income, corresponds to the reporting of financial assets available for sale according to the previous IAS 39 standard.

The new rules for recognition and measurement with the transition to IFRS 9 led to less reclassification from the previous category Financial assets available for sale to the categories Financial assets measured at amortised cost and Financial assets measured at fair value through the income statement. The reclassifications had no significant impact on the Group's result or financial position with the transition to IFRS 9.

Differing from the previous model concerning provisions for credit losses based on occurred events, the requirements concerning impairment in IFRS 9 are based on a model for expected credit losses. Calculation of provisions for expected credit losses comprises financial assets measured at amortised cost and financial assets measured at fair value through other comprehensive income as well as financial guarantee contracts and loan promises. The implementation of ECL (Expected Credit Loss) models in accordance with IFRS 9 marginally decreased the provisions for write-downs. The decrease had no significant impact on the Group's result or financial position with the transition to IFRS 9.

The effects of reclassification and revaluation of financial assets and new model for write-downs slightly reduced the Group's equity. The effects on the Bank Group and on capital adequacy were marginal.

The requirements for hedge accounting in accordance with IFRS 9 made the method for assessing the efficiency of hedge accounting less based on rules and more adjusted according to the Group's risk management. The Group will implement the exclusion from the rules, according to which IAS 39 may be applied to so-called portfolio hedging. Changes in hedge accounting rules have no significant impact on the Group's result or financial position.

The effect of reclassification and revaluation of financial assets and the impact on equity with the transition to IFRS 9 is presented in Changes in equity. The changes in provisions for credit losses with the implementation of ECL (Expected Credit Loss) models according to IFRS 9 is presented in note 8.

Accounting principles in accordance with IFRS 9 as of 1 January 2018:

From 1 January 2018, Aktia is applying IFRS 9 where financial assets are reported in three valuation categories. Classification and measurement of financial assets is based on the business model on which the instrument is managed and the instrument's properties in respect of the contractual cash flows.

The Group classifies financial assets in the following categories:

- Reported at amortised cost (AC)
- Measured at fair value through other comprehensive income (FVOCI)
- Measured at fair value through the income statement (FVTPL)

The category **Financial assets reported at amortised cost** includes:

- interest-bearing securities
- loans and other receivables
- cash and balances with central banks

Financial assets are reported at amortised cost if the asset is managed according to a business model where the instrument is expected to be held until maturity in order to obtain contractual cash flows. The contractual cash flows consist only of the payment of capital and interest on the outstanding capital (SPPI). The instruments in this category are reported on entering into agreements at fair value (acquisition cost minus attributable transaction costs) and then at amortised cost. Impairments are based on a three-stage model for expected credit losses (ECL) and are described under the heading Impairment of financial assets. Interest income, impairments as well as sales gains and losses are recorded in the income statement.

The category **Financial assets measured at fair value through other comprehensive income** includes:

- shares and participations
- interest-bearing securities

Financial assets are measured at fair value through other comprehensive income if:

- the asset is an interest-bearing security (debt instrument) managed according to a business model where the securities are held both in order to obtain contractual cash flows (only concerns the payment of capital and interest on the outstanding capital) and which may be sold if necessary
- the asset is shares and participations (equity instrument) which is not held for trading and is chosen to be classified in this category at the first recognition

The instruments in this category are reported on entering into agreements at fair value (acquisition cost minus attributable transaction costs) and then at fair value through other comprehensive income. Impairment of debt instruments (interest-bearing securities) is based on a three-stage model for expected credit losses (ECL) and are described in more detail under the heading Impairment of financial assets. The ECL is not calculated for shares and participations. Changes in value are reported on an ongoing basis in other comprehensive income with a deduction for deferred tax. Interest income, dividends and write-downs are reported in the income statement and the return of capital is reported in other comprehensive income. The counteritem to write-downs relating to the three-stage model for expected credit losses is recognised in the fund at fair value (other comprehensive income) and thus does not affect the fair value of the asset in the balance sheet. In connection with the sale of debt securities (debt instruments), the cumulative unrealised profit or loss is transferred from the fund at fair value to the income statement.

The decision to classify shares and participations in this category on the occasion of first accounting is irrevocable, which means that future sales gains and losses on such instruments are reported in other comprehensive income.

The category **Financial assets measured at fair value through the income statement** includes:

- derivative instruments
- life insurance investments providing cover for unit-linked agreements
- shares and participations
- interest-bearing securities
- loans and other receivables

Financial assets are measured at fair value through the income statement if the asset is a derivative, the asset is held for trading or is a debt instrument that does not meet the requirement for contractual cash flows. Shares and participations are included in this category if the possibility to be classified in

the category Financial assets measured at fair value through other comprehensive income at first recognition is not used. To meet the requirement for contractual cash flows, the cash flows may only comprise the payment of capital and interest on the outstanding capital (SPPI). Financial assets held for trading are assets acquired for a short time with the intent to earn revenue and where the intention is to actively trade in these instruments. If a financial asset relates to liabilities measured at fair value through the income statement, the company may, on the occasion of first accounting, irrevocably choose also to measure the asset at fair value through the income statement if this reduces or eliminates accounting imbalance. On entering into agreements, the instruments in this category are reported at fair value and then at fair value through the income statement. Transaction costs are recorded in the income statement when they occur. Interest income, dividends, changes in fair value and sales gains and losses are reported on an ongoing basis in the income statement.

Reclassification: In connection to acquiring a financial asset, the asset is classified according to one of the three categories of recognition. Latter reclassification of a financial asset can only be done if the business model, according to which the assets are managed, is changed. Latter reclassification can also be done if an instrument no longer meets the criteria needed for entering a certain business model. Financial liabilities are not reclassified.

Reclassification of a financial asset according to the above-mentioned requirements is to be applied going forward from the reclassification day. Previously reported profits and losses (including profits and losses from write-downs) are not recalculated retroactively.

Reclassification between different valuation categories are reported as follows:

- From amortised cost to fair value through the income statement: The asset is measured at fair value and the difference between the fair value and the amortised cost is reported as profit or loss in the income statement.
- From fair value through the income statement to amortised cost: The fair value of the asset on the reclassification day is its new acquisition value. An expected credit loss is reported on the reclassification day according to the rules of the new valuation category and an effective interest rate for the instrument is stipulated.
- From amortised cost to fair value through other comprehensive income: The asset is measured at fair value and the difference between the fair value and the amortised cost is reported as profit or loss in other comprehensive income. The expected credit loss does not change due to reclassification.
- From fair value through other comprehensive income to amortised cost: The fair value of the asset on the reclassification day is its new acquisition value. The cumulative profits and losses which previously were recognised in other comprehensive income is moved from equity and adjusts the book value of the asset. This means that the asset is reported as if it always had been reported at amortised cost. The expected

credit loss does not change due to reclassification.

- From fair value through the income statement to fair value through other comprehensive income: The asset is still measured at fair value. From the reclassification day the changes in fair value are recognised through other comprehensive income and an expected credit loss is on the reclassification day to be reported according to the rules of the new valuation category.
- From fair value through other comprehensive income to fair value through the income statement: The asset is still measured at fair value. As of the reclassification day cumulative profits and losses are re-entered, as previously reported in other comprehensive income, from equity to income statement. The effect of the reclassification can be seen in the income statement and in other comprehensive income but the total comprehensive income of the reclassification is zero.

Hedge accounting: In accordance with the Aktia Group's hedge accounting policy, hedge accounting is defined either as fair value hedging or cash flow hedging. Documentation and establishment of the hedging relationship between the hedging instrument, the hedged item, the risk management aim and the strategy, occur when hedging is entered into. When a high negative correlation exists between the hedging instrument's change in value and the change in value of the hedged item or cash flow, the hedging is considered to be effective. The effectiveness of the hedging relationship is continually assessed and evaluated through prospective efficiency testing and measured on a cumulative basis. If the hedging relationship between the derivatives and the hedged items is not a 100 % match, the ineffective part is reported in the income statement. Aktia applies IFRS 9 hedge accounting for all hedge relationships except for portfolio hedging of interest rate risk for which the Group has chosen to use the possibility to continue to apply the rules set out in IAS 39.

Impairment of financial assets: The Group applies a three-stage model to calculate the expected credit losses (ECL) for the following financial assets that are not measured at fair value through the income statement:

- debt instruments (interest-bearing securities and loans and other receivables) measured at amortised cost
- debt instruments (interest-bearing securities) measured at fair value through other comprehensive income
- loan promises
- financial guarantee contracts

Expected credit loss (ECL) is not calculated for shares and participations.

Financial assets are transferred between the following three stages based on the change in the credit risk from the date of recognition:

- Stage 1 12 months' ECL:
 - Expected credit losses for twelve months are calculated for non-defaulted exposures where the credit risk has not increased significantly since the date of recognition. The effective interest rate is calculated on the gross book value.
- Stage 2 ECL for the remaining duration of non-defaulted exposures
 - The expected credit losses for the instrument's remaining duration are calculated for non-defaulted exposures where the credit risk has increased significantly since the date of recognition. The effective interest rate is calculated on the gross book value.
- Stage 3 ECL for the remaining duration of defaulted exposures
 - Stage 3 includes exposures for which one or more events that have a significant negative impact on the future estimated cash flows has occurred. For defaulted assets in stage 3, expected credit losses for the instruments remaining duration are booked on an ongoing basis, whereas the effective interest rate is calculated on the impaired book value.

At each reporting date, an evaluation is made as to whether a **significant increase in the credit risk** has occurred, by comparing the probability of default at the reporting date with the situation on the date of recognition. The evaluation considers all relevant and available information which can be accessed without excessive cost or effort. This includes qualitative and quantitative and financial information that describes the future. An exposure migrates through the various ECL stages when the credit quality decreases. In a similar way, the exposure migrates back from the ECL for the entire duration to ECL 12 months if the credit quality in future periods is improved and a previous assessment of a substantial increase in credit risk is revised. Exposures whose credit quality has not substantially deteriorated since the date of recognition are considered as low credit risk. For such exposures, a 12 months ECL is calculated. When an asset is no longer recoverable, a credit loss is booked against the impairment allowance in the balance sheet. A credit loss is booked when all recovery actions have been completed and the final loss has been established. Any future payments are booked in the income statement as a reversal of the credit loss.

The **expected credit losses (ECL) are calculated** as an objective probability-weighted estimate of future losses. The calculation includes:

- Non-impaired or defaulted financial assets at the time of reporting. ECL is calculated as the present value of all estimated defaults over the financial asset's calculated term of maturity or during the following 12 months. The estimated defaults are the difference between the asset's contractual cash flows and the cash flows the Group expects to receive.
- impaired or defaulted financial assets at the time of reporting. ECL is calculated as the difference between the amortised cost and the present value of the financial asset's estimated future

cash flows discounted with the effective interest rate.

- loan promises granted but not used. ECL is calculated as the difference between the contractual cash flows in case a credit is used and the cash flow the Group expects to receive.
- financial guarantee contracts. ECL is calculated as the difference between the expected payments and the amount the Group expects to recover.

Management's assessment is required when estimating the amount and timing of future cash flows when evaluating impairment of financial assets. When estimating these cash flows, an assessment is made of the debtor's ability to pay and the net realisable value of any securities. The estimates are based on assumptions regarding various factors that can affect the ECL calculation. The actual result may vary in relation to these assumptions, which affects future changes in provisions for impairments.

Calculation of the expected credit losses (ECL): The group has internally developed models for the evaluation of the creditworthiness derived from different sources with historical data. The models are used in the assessment of the probability of default when providing loans and other financial exposures to counterparties and customers. The Group has in advance defined probabilities for counterparty risks regarding the Group's all private and corporate loans and other receivables. For **credits and other receivables**, ECL is calculated on the basis of the exposure's risk parameters PD, LGD and EAD. These parameter estimates are derived from the same models used in the IRB solvency calculation, but are based on a so-called "Point-in-Time" calibration reflecting the prevailing or anticipated economic situation at the accounting horizon. For credits in Stage 1, ECL is equal to the product of the PD, LGD and EAD, i.e. 12-month ECL. For credits in Stage 2 and 3, ECL is calculated as the sum of 12-month ECL over the lifetime of the claim, adjusted for the probability that the exposure defaults during a previous period. Lifetime ECL also takes into account the contractual amortisation plan that is reflected in both the EAD and LGD estimate. Lifetime ECL for **interest-bearing securities** is calculated on the basis of the interest certificate's contractual calendar. Lifetime ECL is calculated as LGD multiplied by the sum of all expected and discounted cash flows times the probability of a credit event (PD). PD is calculated separately for each security by allocating an appropriate risk curve and by taking into account the liquidity and tax effects. 12-month ECL is then calculated by scaling down the lifetime ECL with a securities-specific proportionality constant which comprises the credit risk quota during the certificate's lifetime and the credit risk in the coming year.

Significant increase of credit risk: When determining whether a significant increase in credit risk has occurred since the date of recognition, the Group uses both quantitative and qualitative information and analysis. The information and analysis are based on the historical data and expert assessment of the credit risk and also include financial information that describes the future.

For **credits and other receivables** an increase in credit risk is considered to have occurred:

- based on an absolute change in PD for the remaining maturity
- at the latest when a payment is over 30 days delayed or when a customer is covered by mitigating circumstances. These criteria define an absolute baseline for when an increase in credit risk has occurred when there are indications of other qualitative factors that have not been visible in regular quantitative analyses. In such cases the Group can use expert evaluations and relevant historical information

For **interest-bearing securities**, the increase in credit risk is evaluated according to two different criteria. The first criterion for an increase in credit risk is a significant drop in external credit rating. The second criterion is that the value development for the interest-bearing security keeps within its volatility range. Volatility is calculated according to the price development throughout the instrument's lifetime. In addition to the above-mentioned criteria, expert evaluation is used if necessary. The expert evaluation is carried out taking the Groups internal rating into consideration.

Assessment of need of write-downs (definition of default): In the model for calculating expected credit losses (ECL) the Group has defined default as described in the Group's credit regulations and processes when assessing the need for impairment. Default means the counterparty's inability or probable inability according to agreed terms handle all its obligations towards the bank.

A counterparty is considered defaulted if at least one of the following criteria is met:

- A significant loan repayment is delayed 90 days or more
- A significant loan repayment is delayed less than 90 days but at least one of the following criteria are met:
 - the bank has applied for or the counterparty has been declared bankrupt
 - the counterparty is in debt reconstruction
 - according to the bank's assessment it is unlikely that the customer fully can pay its loan obligations to the bank without the bank having to take action, e.g. liquidising possible collateral

Interest-bearing securities are considered defaulted if the financial position of the company, where the investment is made, meets one of the following criteria:

- The company has been declared bankrupt or is de facto insolvent and unable to make payments
- The company has entered into an agreement about business debt restructuring or has applied for protection against its creditors or is undergoing significant restructuring which affects creditors
- The company has missed a payment according to contractual cash flow and has not been corrected within 30 days

In addition to default, interest-bearing securities are checked individually for assessing the need for write-downs if the security's rate has dropped under 50 %.

Information describing the future: The Group has established a panel of experts which takes account of various relevant future macro-economic factors to define an objective assumption supporting the ECL calculations. The expert panel consists of the management of the risk and economy function as well as the Group's Chief Economist, amongst others. Relevant regional and sector-specific adjustments are made to capture deviations from general macro-economic scenarios. The adjustments reflect the best assumption on future macro-economic conditions which are not incorporated in the ECL calculations. Macro-economic factors taken into account include, for example, unemployment, interest rate level, inflation, residential and commercial property prices. The methodologies and scenarios for future macro-economic conditions are revised regularly.

For **credits and other receivables (credit portfolio)** the risk parameters are adjusted according to assumptions in the relevant macro scenario in calculation of lifetime ECL. The PD estimate is adjusted based on a macro economic model that takes e.g. developments of unemployment into account. If unemployment is expected to increase, the PD estimate of household credits will increase. The LGD estimate takes the assumed development of house and real estate prices into account. If the market value of the securities decreases in the scenario, this has a positive effect on the LGD estimate, given that the amortisation speed does not exceed the decrease in the market value of the securities.

The ECL calculation for **interest-bearing securities (liquidity and investment portfolio)** uses directly observable market prices and therefore needs no stochastic or constructed estimates. When the models use market information as much as possible, the market's expectation of the future development is implicitly represented in the model.

Classification of financial assets and liabilities under IFRS 9 as of 1 January 2018

Classification of financial instruments 1 January 2018	Classification under IAS39	Classification under IFRS9	Carrying amount IAS39	Reclassification	Remeasurement *	Carrying amount IFRS 9	Equity impact as at 1 Jan 2018
Cash and balances with central banks	Loans and other receivables	Amortised cost	282,477	-	-	282,477	-
Interest-bearing securities		Amortised cost		92,852	-23,627	69,225	-18,902
Interest-bearing securities	Held for sale	Fair value through other comprehensive income	1,797,199	-98,416	-	1,698,782	-
Interest-bearing securities		Fair value through the income statement		5,565	-	5,565	-
Interest-bearing securities ¹	Held to maturity	Amortised cost	367,800	-	-	367,800	122
Shares and participations	Held for sale	Fair value through the income statement	128,159	-	-	128,159	-
Derivative instruments	Fair value through the income statement	Fair value through the income statement	84,046	-	-	84,046	-
Lending to Bank of Finland and other credit institutions	Loans and other receivables	Amortised cost	49,910	-	-	49,910	-
Lending to the public and public sector entities	Loans and other receivables	Amortised cost	5,838,764	-	1,016	5,839,780	813
Investments for unit-linked insurances	Fair value through the income statement	Fair value through the income statement	802,575	-	-	802,575	-
Total			9,350,929	-	-22,611	9,328,318	-17,967

* Includes value change and change in provisions for credit loss in connection with the transition to IFRS 9. The change in provisions for credit loss is further presented in note 8.

1) In connection with the transition to IFRS 9, the periodised overvalue of reclassified interest-bearing securities held until maturity under IAS 39 is transferred from the fund at fair value to retained earnings. Simultaneously, the deferred tax liability of the overvaluation disappears and its effect is reported under Equity impacts as of 1 Jan 2018 in the table above.

IFRS 9 does not affect the classification of financial liabilities, which consequently will continue to be reported in the corresponding way as according to IAS 39.

IFRS 15 Revenue from contracts with customers replaced all earlier standards and interpretations of revenue recognition. The standard was approved by the EU in October 2016, and it is mandatory as of 1 January 2018. The Aktia Group implemented IFRS 15 when the standard became mandatory. IFRS 15 includes a comprehensive five-step model for revenue recognition. In the Aktia Group, revenue recognition is reported using the accruals convention when recognising expenses and revenue. Interests are recognised according to the effective interest rate and commissions are recognised on a pro rata basis as from the time of the contract. Commission income is recognised when the work to carry out a transaction is done and the transaction is completed. Changes in accounting principles for revenue recognition are not expected to have any significant impact on the Group's result or financial position.

The following new and amended IFRSs may affect the reporting of future transactions and business

On 13 January 2016, IASB published a new standard, **IFRS 16** Leases, to supersede IAS 17 Leases. IFRS 16 eliminates the distinction between operating and finance leases for lessees, introducing a new model instead, where assets and liabilities for all leases with lease terms exceeding 12 months shall be reported in the balance sheet. For leases where the lease term is 12 months or less, or where the value of the underlying

asset is low, exemptions may be applied. For the leased asset, depreciation and interest expenses relating to the lease liability are reported separately. The requirements concerning lessor accounting remain largely unchanged from IAS 17, and the distinction between operating and finance leases is retained. The new standard will mainly change the accounting of rented property and leased cars. An assessment of the likely rental period is used to define the leasing period and the discount rate is defined according to the market requirement of return. The lease asset and the lease liability will marginally increase the balance sheet total at the transition to IFRS 16. At the transition to IFRS 16, the Group will apply the so-called simplified method, which means that the right-of-use asset will be as big as the lease liability. Changes in accounting principles for leases will not have any significant impact on the Group's result or financial position. The standard was approved by the EU in October 2017. The Aktia Group implemented IFRS 16 when the standard became mandatory as of 1 January 2019. The effect of implementing IFRS 16 will be further presented in the Aktia Group's Annual Report 2018.

The Group does not expect other new or revised IFRSs or interpretations from IFRIC (International Financial Reporting Interpretations Committee) to have an impact on the Group's future result, financial position or explanatory notes.

Note 2. Group's segment reporting

(EUR million)	Personal & Corporate Banking		Wealth Management		Group functions		Other		Eliminations		Total Group	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Income statement												
Net interest income	62.5	62.9	2.1	2.5	21.3	24.2	0.0	0.0	-	0.1	85.9	89.6
Net commission income	57.2	51.9	43.0	39.4	2.8	3.5	3.6	7.4	-11.0	-10.8	95.6	91.4
Net income from life-insurance	-	-	17.9	23.6	-	-	-	-	3.5	3.0	21.4	26.6
Other operating income	0.4	0.3	0.3	0.2	5.8	2.3	1.1	-	-0.2	-0.2	7.3	2.6
Total operating income	120.1	115.1	63.2	65.7	29.9	30.1	4.7	7.4	-7.8	-7.9	210.1	210.3
Staff costs	-16.8	-24.8	-16.8	-17.1	-31.1	-32.8	-2.0	-4.4	-	-	-66.7	-79.1
Other expenses ¹	-74.9	-74.6	-26.0	-24.7	17.7	12.5	-1.3	-2.8	8.0	8.0	-76.4	-81.6
Total operating expenses	-91.6	-99.5	-42.8	-41.8	-13.4	-20.2	-3.3	-7.1	8.0	8.0	-143.0	-160.7
Impairment of tangible and intangible assets	-	-0.5	-	-	-	-	-	-	-	-	-	-0.5
Impairment of credits and other commitments	-0.9	-0.5	-	-	0.0	-0.1	-	-	-	-	-0.8	-0.6
Share of profit from associated companies	-	-	-	-	-0.1	-	-	-	1.4	0.6	1.3	0.6
Operating profit	27.6	14.6	20.5	23.8	16.5	9.7	1.3	0.3	1.7	0.7	67.6	49.1
Comparable operating profit	28.2	23.1	21.5	26.1	13.8	9.8	0.3	0.3	1.7	0.7	65.4	59.9

Balance sheet	Personal & Corporate Banking		Wealth Management		Group functions		Other		Eliminations		Total Group	
	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017	31 Dec 2018	31 Dec 2017
Financial assets measured at fair value through income statement	0.1	-	899.1	802.6	3.5	-	-	-	-	-	902.7	802.6
Financial assets measured at fair value through other comprehensive income	-	0.1	223.7	485.2	1,117.2	1,440.1	-	0.0	-	-	1,340.9	1,925.4
Cash and balances with central banks	4.3	4.6	0.1	0.2	284.8	277.7	-	-	-	-	289.2	282.5
Interest-bearing securities measured at amortised cost	-	-	69.0	-	239.0	367.8	-	-	-	-	308.0	367.8
Loans and other receivables	5,958.5	5,721.7	218.3	171.5	28.1	45.0	-	3.7	-75.8	-53.2	6,129.1	5,888.7
Other assets	11.1	16.7	5.7	81.5	342.2	261.9	0.2	0.5	-62.9	-77.5	296.2	283.1
Total assets	5,974.0	5,743.1	1,415.9	1,541.0	2,014.8	2,392.4	0.2	4.2	-138.7	-130.6	9,266.1	9,550.0
Deposits	3,352.6	3,443.1	718.4	781.0	569.8	641.7	-	-	-75.6	-52.8	4,565.1	4,813.0
Debt securities issued	0.6	1.2	-	-	2,459.7	2,449.6	-	-	-	-	2,460.3	2,450.7
Technical provisions	-	-	1,155.7	1,217.3	-	-	-	-	-	-	1,155.7	1,217.3
Other liabilities	2.8	5.5	29.8	41.0	465.5	433.2	-	1.6	-3.1	-10.5	495.0	470.9
Total liabilities	3,356.0	3,449.8	1,903.8	2,039.3	3,495.0	3,524.5	-	1.6	-78.8	-63.3	8,676.1	8,952.0

1) The net expenses for support and staff functions are allocated from the Group Functions to the business segments Personal & Corporate Banking and Wealth Management. This cost allocation is included in the segments' other expenses.

Note 3. Group's risk exposures

The Bank Group's Capital Adequacy

Banking Group includes Aktia Bank Plc and all its subsidiaries except for Aktia Life Insurance Ltd, and forms a consolidated group in accordance with regulations pertaining to capital adequacy.

(EUR million)	31 Dec 2018		31 Dec 2017	
	The Group	The bank Group	The Group	The Bank Group
Calculation of the Bank Group's capital base				
Total assets	9,266.1	8,069.2	9,550.0	8,242.1
of which intangible assets	66.7	66.3	71.1	70.6
Total liabilities	8,676.1	7,558.5	8,952.0	7,741.5
of which subordinated liabilities	207.8	207.8	235.2	235.2
Share capital	163.0	163.0	163.0	163.0
Fund at fair value	17.7	4.0	51.5	8.9
Total restricted equity	180.7	167.0	214.5	171.9
Unrestricted equity reserve and other funds	110.4	110.3	109.9	109.9
Retained earnings	242.9	184.5	234.3	190.8
Profit for the reporting period	56.0	48.9	39.3	28.1
Unrestricted equity	409.3	343.7	383.5	328.8
Shareholders' share of equity	589.9	510.7	598.0	500.6
Equity	589.9	510.7	598.0	500.6
Total liabilities and equity	9,266.1	8,069.2	9,550.0	8,242.1
Off-balance sheet commitments	518.8	491.6	553.0	544.2
Equity in the Bank Group		510.7		500.6
Provision for dividends to shareholders		-42.0		-37.8
Intangible assets		-66.3		-70.6
Debentures		67.5		111.0
Additional expected losses according to IRB		-11.9		-9.8
Deduction for significant holdings in financial sector entities		-7.1		-7.9
Other incl. unpaid dividend		0.8		0.8
Total capital base (CET1 + AT1 + T2)		451.7		486.5

(EUR million)

	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017
The Bank Group's capital adequacy					
Common Equity Tier 1 Capital before regulatory adjustments	469.7	461.3	464.1	464.3	465.1
Common Equity Tier 1 Capital regulatory adjustments	-85.5	-85.0	-86.9	-92.7	-89.6
Total Common Equity Tier 1 Capital (CET1)	384.2	376.4	377.2	371.6	375.5
Additional Tier 1 capital before regulatory adjustments	-	-	-	-	-
Additional Tier 1 capital regulatory adjustments	-	-	-	-	-
Additional Tier 1 capital after regulatory adjustments (AT1)	-	-	-	-	-
Total Tier 1 capital (T1 = CET1 + AT1)	384.2	376.4	377.2	371.6	375.5
Tier 2 capital before regulatory adjustments	67.5	78.0	88.9	100.0	111.0
Tier 2 capital regulatory adjustments	-	-	-	-	-
Total Tier 2 capital (T2)	67.5	78.0	88.9	100.0	111.0
Total Own funds (TC = T1 + T2)	451.7	454.4	466.1	471.6	486.5
Total Risk weighted exposures	2,199.2	2,262.0	2,318.0	2,271.6	2,080.2
of which credit risk, the standardised approach	898.3	915.8	976.6	924.4	855.8
of which credit risk, the IRBA approach	721.4	808.1	823.4	860.3	874.5
of which 15 % risk-weight floor for residential mortgages	225.9	188.1	168.1	136.9	-
of which market risk	-	-	-	-	-
of which operational risk	353.6	349.9	349.9	349.9	349.9
Own funds requirement (8 %)	175.9	181.0	185.4	181.7	166.4
Own funds buffer	275.8	273.4	280.7	289.9	320.1
CET1 capital ratio	17.5 %	16.6 %	16.3 %	16.4 %	18.0 %
T1 capital ratio	17.5 %	16.6 %	16.3 %	16.4 %	18.0 %
Total capital ratio	20.5 %	20.1 %	20.1 %	20.8 %	23.4 %
Own funds floor (CRR article 500)					
Own funds	451.7	454.4	466.1	471.6	486.5
Own funds floor ¹	201.9	202.4	204.3	199.2	193.0
Own funds buffer	249.9	252.0	261.8	272.4	293.5

1) 80% of the capital requirement based on standardised approach (8 %).

Calculation of capital adequacy is made using ratings from Moody's Investors Services to define risk weight of exposures.

The Bank Group's risk-weighted amount for operational risks

(EUR million)

Risk-weighted amount for operational risks	2016	2017	2018	Dec 2018	Sep 2018	Jun 2018	Mar 2018	Dec 2017
Gross income	183.3	188.9	193.6					
- average 3 years			188.6					
Capital requirement for operational risk				28.3	28.0	28.0	28.0	28.0
Risk-weighted amount				353.6	349.9	349.9	349.9	349.9

The capital requirement for operational risk is 15 % of average gross income for the last three years. The risk-weighted amount for operational risks is calculated by dividing the capital requirement by 8 %.

(EUR million)

	31 Dec 2018				
	Contractual exposure	Exposure at default	Risk weight, %	Risk-weighted amount	Capital requirement 8 %
The Bank Group's total exposures					
Exposure class					
Credit risk, IRB approach					
Retail - Secured by immovable property non-SME	4,535.3	4,528.3	10 %	465.3	37.2
Retail - Secured by immovable property SME	177.8	176.8	46 %	81.3	6.5
Retail - Other non-SME	139.2	134.8	33 %	44.1	3.5
Retail - Other SME	24.8	23.2	83 %	19.4	1.5
Risk-weight floor for residential mortgages, 15 %	-	-	15 %	225.9	18.1
Equity exposures	42.8	42.8	260 %	111.2	8.9
Total exposures, IRB approach	4,919.8	4,905.9	19 %	947.2	75.8
Credit risk, standardised approach					
States and central banks	391.8	456.1	0 %	0.8	0.1
Regional governments and local authorities	281.0	301.5	0 %	0.7	0.1
Multilateral development banks	15.2	15.2	0 %	-	-
International organisations	66.7	66.7	0 %	-	-
Credit institutions	428.0	240.0	27 %	65.7	5.3
Corporates	468.1	309.6	92 %	283.7	22.7
Retail exposures	298.7	142.9	72 %	102.3	8.2
Secured by immovable property	961.2	917.4	35 %	323.1	25.9
Past due items	28.7	6.7	112 %	7.5	0.6
Covered bonds	714.9	714.9	10 %	71.5	5.7
Other items	63.5	63.5	46 %	29.4	2.4
Total exposures, standardised approach	3,717.8	3,234.5	27 %	884.9	70.8
Total risk exposures	8,637.6	8,140.4	23 %	1,832.1	146.6

(EUR million)

	31 Dec 2017				
	Contractual exposure	Exposure at default	Risk weight, %	Risk-weighted amount	Capital requirement 8 %
The Bank Group's total exposures					
Exposure class					
Credit risk, IRB approach					
Retail - Secured by immovable property non-SME	4,493.6	4,489.6	13 %	585.0	46.8
Retail - Secured by immovable property SME	141.6	141.3	50 %	70.4	5.6
Retail - Other non-SME	140.5	131.4	45 %	58.9	4.7
Retail - Other SME	33.9	32.2	93 %	30.0	2.4
Equity exposures	47.6	47.6	273 %	130.2	10.4
Total exposures, IRB approach	4,857.2	4,842.1	18 %	874.5	70.0
Credit risk, standardised approach					
States and central banks	401.0	488.6	0 %	-	-
Regional governments and local authorities	240.7	264.3	1 %	1.3	0.1
Multilateral development banks	51.0	51.0	0 %	-	-
International organisations	128.0	128.0	0 %	-	-
Credit institutions	702.8	433.9	25 %	109.8	8.8
Corporates	412.5	229.1	99 %	226.8	18.1
Retail exposures	276.1	127.2	68 %	86.6	6.9
Secured by immovable property	903.0	839.3	36 %	299.8	24.0
Past due items	36.0	9.0	104 %	9.3	0.7
Covered bonds	836.4	836.4	10 %	83.6	6.7
Other items	70.5	64.6	40 %	26.0	2.1
Total exposures, standardised approach	4,058.0	3,471.3	24 %	843.4	67.5
Total risk exposures	8,915.2	8,313.3	21 %	1,717.9	137.4

The financial conglomerate's capital adequacy

(EUR million)	31 Dec 2018	30 Sep 2018	30 Jun 2018	31 Mar 2018	31 Dec 2017
Summary					
The Group's equity	589.9	583.5	568.5	592.3	598.0
Sector-specific assets	73.3	84.0	95.2	106.5	117.8
Intangible assets and other reduction items	-107.3	-120.8	-118.7	-162.0	-174.8
Conglomerate's total capital base	556.0	546.8	545.0	536.8	540.9
Capital requirement for banking business	258.5	266.2	273.1	267.6	243.9
Capital requirement for insurance business ¹	76.4	82.0	83.4	86.2	85.1
Minimum amount for capital base	334.8	348.2	356.5	353.8	328.9
Conglomerate's capital adequacy	221.2	198.6	188.4	183.0	212.0
Capital adequacy ratio, %	166.1 %	157.0 %	152.9 %	151.7 %	164.5 %

1) From 1 January 2016 Solvency II requirement (SCR)

The conglomerate's capital adequacy is based on consolidation method and is calculated according to the rules of the Finnish Act on the Supervision of Financial and Insurance Conglomerates and the standards of the Finnish Financial Supervision Authority.

Note 4. Net interest income

(EUR million)	2018	2017	Δ %
Borrowing and lending	70.1	69.1	2 %
Liquidity portfolio	8.3	14.9	-44 %
Hedging measures through interest rate derivatives	11.4	14.4	-21 %
Other, incl. funfing from wholesale market	-4.0	-8.8	55 %
Total	85.9	89.6	-4 %

Borrowing and lending include the covered bonds issued by mortgage bank operations and the interest rate hedging that was made in connection with the issues. Other consists mainly of senior financing, its interest rate hedging and risk debentures.

Note 5. Net income from life-insurance

(EUR million)	2018	2017	Δ %
Premiums written	104.9	125.2	-16 %
Net income from investments	13.9	20.4	-32 %
of which change in ECL impairment	0.0	-	-
of which unrealised value changes for shares and participations	-3.3	-	-
Insurance claims paid	-110.4	-106.7	-3 %
Net change in technical provisions	12.9	-12.2	-
Total	21.4	26.6	-20 %

Note 6. Net income from financial transactions

(EUR million)	2018	2017	Δ %
Net income from financial assets measured at fair value through income statement	-1.0	-0.9	-11 %
Net income from securities and currency trading	6.2	1.5	309 %
of which unrealised value changes for shares and participations	3.7	-	-
Net income from financial assets measured at fair value through other comprehensive income	0.1	0.5	-90 %
of which change in ECL impairment	-0.2	-	-
Net income from interests-bearing securities measured at amortised cost	0.0	-	-
of which change in ECL impairment	0.0	-	-
Net income from hedge accounting	-0.4	-0.3	-37 %
Total	4.9	0.8	477 %

Note 7. Derivative instruments

Hedging derivative instruments (EUR million)	31 Dec 2018		
	Total nominal amount	Assets. fair value	Liabilities. fair value
Fair value hedging			
Interest rate-related	2,102.0	54.2	0.7
Total	2,102.0	54.2	0.7
Derivative instruments measured through the income statement			
Interest rate-related ¹	380.8	15.8	16.4
Currency-related	3.0	0.0	0.0
Total	383.8	15.8	16.4
Total derivative instruments			
Interest rate-related	2,482.8	70.0	17.1
Currency-related	3.0	0.0	0.0
Total	2,485.8	70.0	17.1

Hedging derivative instruments (EUR million)	31 Dec 2017		
	Total nominal amount	Assets. fair value	Liabilities. fair value
Fair value hedging			
Interest rate-related	1,927.0	56.9	2.4
Total	1,927.0	56.9	2.4
Cash flow hedging			
Interest rate-related	85.1	-	3.9
Total	85.1	-	3.9
Derivative instruments measured through the income statement			
Interest rate-related ¹	696.5	27.1	27.2
Currency-related ²	8.8	0.0	0.0
Total	705.3	27.2	27.2
Total derivative instruments			
Interest rate-related	2,708.6	84.0	33.5
Currency-related	8.8	0.0	0.0
Total	2,717.4	84.0	33.6

1) Interest-linked derivatives include interest rate hedging provided for local banks which after back-to-back hedging with third parties amounted to EUR 380.0 (695.0) million.

Note 8. Financial assets and impairment by stage

(EUR million)	Stage 1	Stage 2	Stage 3	Total
Distribution of financial assets 31 Dec 2018				
Interest-bearing securities	1,648.9	-	-	1,648.9
Lending	5,948.1	134.9	46.1	6,129.1
Off-balance sheet commitments	511.4	7.2	0.1	518.8
Total	8,108.5	142.1	46.2	8,296.8
Distribution of financial assets 1 Jan 2018				
Interest-bearing securities	2,165.0	-	-	2,165.0
Lending	5,718.8	124.0	45.8	5,888.7
Off-balance sheet commitments	547.1	5.4	0.5	553.0
Total	8,430.9	129.4	46.3	8,606.7

Credits and other commitments

(EUR million)	Stage 1	Stage 2	Stage 3	Impairment (IAS 39)	Total
Impairment of credits and other commitments 31 Dec 2017 according to IAS 39	-	-	-	47.7	47.7
Restated in conjunction with adoption of IFRS 9	2.0	4.7	40.0	-47.7	-1.0
Impairment of credits and the other commitments 1 January 2018 according to IFRS 9	2.0	4.7	40.0	-	46.6
Transferred from stage 1 to stage 2	-1.5	1.5	-	-	-
Transferred from stage 1 to stage 3	-0.4	-	0.4	-	-
Transferred from stage 2 to stage 1	0.1	-0.1	-	-	-
Transferred from stage 2 to stage 3	-	-0.6	0.6	-	-
Transferred from stage 3 to stage 1	0.0	-	0.0	-	-
Transferred from stage 3 to stage 2	-	0.1	-0.1	-	-
Reversal of impairment	-	-	0.0	-	0.0
Other changes	2.3	-1.8	0.4	-	0.9
Impairment January-December 2018 in the income statement	0.6	-1.0	1.2	-	0.8
Realised losses for which impairments were recognised in previous years	-	-	-8.1	-	-8.1
Reversal of impairment	-	-	0.0	-	0.0
Impairment of credits and the other commitments 31 Dec 2018 according to IFRS 9	2.6	3.7	33.1	-	39.4

Interest-bearing securities

(EUR million)	Stage 1	Stage 2	Stage 3	Impairment (IAS 39)	Total
Impairment of interest-bearing securities 31 Dec 2017 according to IAS 39	-	-	-	-	-
Restated in conjunction with adoption of IFRS 9	0.9	-	-	-	0.9
Impairment of interest-bearing securities 1 January 2018 according to IFRS 9	0.9	-	-	-	0.9
Other changes	0.3	0.0	0.0	-	0.3
Impairment January-December 2018 in the income statement	0.3	-	-	-	0.3
Impairment of interest-bearing securities 31 Dec 2018 according to IFRS 9	1.1	-	-	-	1.1

Note 9. Financial assets and liabilities

Fair value of financial assets and liabilities

(EUR million)	31 Dec 2018		31 Dec 2017	
	Book value	Fair value	Book value	Fair value
Financial assets				
Financial assets measured at fair value through income statement	902.7	902.7	802.6	802.6
Financial assets measured at fair value through other comprehensive income	1,340.9	1,340.9	1,925.4	1,925.4
Interest-bearing securities measured at amortised cost	308.0	336.6	367.8	376.5
Loans and other receivables	6,129.1	6,136.3	5,888.7	5,811.2
Cash and balances with central banks	289.2	289.2	282.5	282.5
Derivative instruments	70.0	70.0	84.0	84.0
Total	9,039.8	9,075.7	9,350.9	9,282.1
Financial liabilities				
Deposits	4,565.1	4,561.1	4,813.0	4,803.5
Derivative instruments	17.1	17.1	33.6	33.6
Debt securities issued	2,460.3	2,457.2	2,450.7	2,465.7
Subordinated liabilities	207.8	209.8	235.2	238.2
Other liabilities to credit institutions	45.6	46.3	60.0	60.4
Other liabilities to the public and public sector entities	100.0	100.1	-	-
Total	7,396.0	7,391.7	7,592.5	7,601.3

In the table, the fair value and the book value of the financial assets and liabilities, are presented per balance sheet item. The fair values are determined both for agreements with fixed and variable interest rates. The fair values are calculated without accrued interest and without the effect of possible hedging derivatives attributable to the balance sheet item.

Fair values on investment assets are primarily determined by market prices quoted on active markets. If quoted market prices are not available, the value of the balance sheet items is mainly determined by discounting future cash flows using market interest rates on the day the accounts were closed. In addition to the credit risk profile of current stock, costs for re-financing are considered in the discount rate when determining fair values on loans. For cash and balances with central banks, the nominal value is used as fair value.

For deposits repayable on demand, the nominal value is assumed to be equivalent to the fair value. Deposits with maturity are determined by discounting future cash flows at market interest rates on the day the accounts were closed. The fair value of issued debts is mainly determined based on quotes on the market. In the discount rate for unquoted issued debts and subordinated liabilities, a marginal corresponding the seniority of the instrument is applied.

Derivatives are measured at fair value corresponding to quotes on the market.

Measurement of financial assets at fair value

Level 1 consists of financial instruments that are valued using prices listed on an active market. In an active market transactions occur with sufficient volume and frequency to provide pricing information on an ongoing basis. This category includes listed bonds and other securities, listed equity instruments and derivatives, for which tradable price quotes exist.

Level 2 consists of financial instruments that do not have directly accessible listed prices from an effective market. The fair value has been determined by using valuation techniques, which are based on assumptions supported by observable market prices. Such market information may include listed interest rates, for example, or prices for closely related instruments. This category includes the majority of OTC derivative instruments, as well as many other instruments that are not traded on an active market. In addition, the Bank makes an independent valuation adjustment to the market value of the outstanding OTC derivatives for the counterparty credit risk as well as for the own credit risk.

Level 3 consists of financial instruments for which the fair value cannot be obtained directly from quoted market prices or indirectly by using valuation techniques or models supported by observable market prices. This category mainly includes unlisted equity instruments and funds, and other unlisted funds and securities where there currently are no fixed prices.

(EUR million)	31 Dec 2018				31 Dec 2017			
	Fair value classified into				Fair value classified into			
Financial instruments measured at fair value	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through the income statement								
Investments for unit-linked investments	756.8	-	-	756.8	802.6	-	-	802.6
Interest-bearing securities	8.6	-	0.2	8.7	-	-	-	-
Shares and participations	101.1	-	35.0	136.2	-	-	-	-
Total	866.5	-	35.2	901.7	802.6	-	-	802.6
Financial assets measured at fair value through other comprehensive income								
Interest-bearing securities	1,124.8	55.1	161.1	1,340.9	1,457.6	93.2	246.4	1,797.2
Shares and participations	-	-	-	-	94.3	-	33.9	128.2
Total	1,124.8	55.1	161.1	1,340.9	1,551.9	93.2	280.3	1,925.4
Derivative instrument, net	0.0	52.9	-	52.9	0.0	50.5	-	50.5
Total	0.0	52.9	-	52.9	0.0	50.5	-	50.5
Total	1,991.2	108.0	196.3	2,295.5	2,354.5	143.7	280.3	2,778.4

Transfers between levels 1 and 2

Transfers between levels may occur when there are indications of changes in market conditions, e.g. when instruments cease to be actively traded. During the period no transfers between level 1 and level 2 have occurred. The decrease in level 2 is mainly due to decreased business volumes and prematurely divested securities.

Aktia Group's Risk control has the responsibility for classifying financial instrument into levels 1, 2 and 3. The valuation process, which is made on an ongoing basis, is the same for financial instruments in all levels. The process determines to which level a financial instrument will be classified. In cases where internal assumptions have a material impact on fair value, the financial instrument is reported in level 3. The process also includes an evaluation based on the quality of the valuation data, if a type of financial instrument is to be transferred between levels.

Changes within level 3

The following table present the change from year-end regarding level 3 Financial assets measured at fair value.

Reconciliation of the changes for financial instruments belonging to level 3 (EUR million)	Financial assets measured at fair value through income statement			Financial assets measured at fair value through other comprehensive income			Total		
	Interest-bearing securities	Shares and participations	Total	Interest-bearing securities	Shares and participations	Total	Interest-bearing securities	Shares and participations	Total
Carrying amount 1 Jan 2018	-	-	-	246.4	33.9	280.3	246.4	33.9	280.3
Reclassified according to IFRS 9	0.3	33.9	34.1	-0.3	-33.9	-34.1	-	-	-
New purchases	-	8.9	8.9	-	-	-	0.0	8.9	8.9
Sales	-	-7.1	-7.1	-18.1	-	-18.1	-18.1	-7.1	-25.2
Matured during the period	-	-	-	-65.0	-	-65.0	-65.0	0.0	-65.0
Realised fair value change in the income statement	-	-	-	-	-	-	-	-	-
Unrealised fair value change in the income statement	-0.1	-0.6	-0.7	-	-	-	-0.1	-0.6	-0.7
Fair value change recognised in other comprehensive income	-	-	-	0.0	-	0.0	0.0	0.0	0.0
Transfer from level 1 and 2	-	-	-	-	-	-	-	-	-
Transfer to level 1 and 2	-	-	-	-2.0	-	-2.0	-2.0	0.0	-2.0
Carrying amount 31 Dec 2018	0.2	35.0	35.2	161.1	-	161.1	161.3	35.0	196.3

Sensitivity analysis for level 3 Financial instruments

The value of financial instruments reported at fair value in level 3 includes instruments, that have been valued partly or in total, using techniques based on assumptions not supported by observable market prices.

This information shows the effect that relative uncertainty can have on the fair value of financial instruments whose valuation is dependent on non-observable parameters. The information should not be seen as predictions or as indication of future changes in fair value.

The following table shows the sensitivity of fair value in level 3 instruments in the event of market changes. Interest-bearing securities have been tested by assuming a 3 percentage points parallel shift of the interest rate level in all maturities. At the same time the market prices for shares and participations are assumed to change by 20 %. These assumptions would mean a result or valuation effect via the fund at fair value corresponding to 2.1 (2.6) % of the finance and insurance conglomerate's own funds.

Sensitivity analysis for financial instruments belonging to level 3 (EUR million)	31 Dec 2018			31 Dec 2017		
	Effect at an assumed movement			Effect at an assumed movement		
	Carrying amount	Positive	Negative	Carrying amount	Positive	Negative
Financial assets measured at fair value through income statement						
Investments for unit-linked investments	-	-	-	-	-	-
Interest-bearing securities	0.2	0.0	0.0	-	-	-
Shares and participations	35.0	7.0	-7.0	-	-	-
Total	35.2	7.0	-7.0	-	-	-
Financial assets measured at fair value through other comprehensive income						
Interest-bearing securities	161.1	4.8	-4.8	246.4	7.4	-7.4
Shares and participations	-	-	-	33.9	6.8	-6.8
Total	161.1	4.8	-4.8	280.3	14.2	-14.2
Total	196.3	11.8	-11.8	280.3	14.2	-14.2

Set off of financial assets and liabilities

(EUR million)	31 Dec 2018		31 Dec 2017	
	Derivatives	Reverse repurchase agreements	Derivatives	Reverse repurchase agreements
Assets				
Financial assets included in general agreements on set off or similar agreements	70.0	-	84.0	-
Set off amount	-	-	-	-
Carrying amount recognised in the balance sheet	70.0	-	84.0	-
Amount not set off but included in general agreements on set off or similar	0.4	-	5.8	-
Collateral assets	64.0	-	76.6	-
Total amount of sums not set off in the balance sheet	64.4	-	82.4	-
Net amount	5.6	-	1.7	-
Liabilities				
Financial liabilities included in general agreements on set off or similar agreements	17.1	98.8	33.6	146.2
Set off amount	-	-	-	-
Carrying amount recognised in the balance sheet	17.1	98.8	33.6	146.2
Amount not set off but included in general agreements on set off or similar	0.4	-	5.8	-
Collateral liabilities	5.4	99.0	12.3	145.9
Total amount of sums not set off in the balance sheet	5.8	99.0	18.1	145.9
Net amount	11.4	-0.2	15.5	0.3

The table shows financial assets and liabilities that are not set off in the balance sheet, but have potential rights associated with enforceable master set-off arrangements or similar arrangements, such as ISDA Master Agreements, together with related collateral. The net amount shows the exposure in normal business as well as in the event of default or insolvency.

Note 10. Specification of Aktia Group's funding structure

(EUR million)	31 Dec 2018	31 Dec 2017
Deposits from the public and public sector entities	3,962.5	4,118.5
Short-term liabilities, unsecured debts		
Banks	39.7	71.7
Certificates of deposits issued and Money Market deposits	100.0	-
Total	139.7	71.7
Short-term liabilities, secured debts (collateralised)		
Banks - received cash in accordance with collateral agreements	64.0	76.6
Repurchase agreements - banks	98.8	146.2
Total	162.9	222.7
Total short-term liabilities	302.6	294.4
Long-term liabilities, unsecured debts		
Issued debts, senior financing	793.9	782.2
Other credit institutions	27.6	37.0
Subordinated debts	207.8	235.2
Total	1,029.3	1,054.4
Long-term liabilities, secured debts (collateralised)		
Central bank and other credit institutions	418.0	423.0
Issued covered bonds	1,666.4	1,668.6
Total	2,084.4	2,091.6
Total long-term liabilities	3,113.7	3,146.0
Interest-bearing liabilities in the banking business	7,378.8	7,559.0
Technical provisions in the life insurance business	1,155.7	1,217.3
Total other non interest-bearing liabilities	141.5	175.7
Total liabilities	8,676.0	8,952.0

Short-term liabilities = liabilities which original maturity is under 1 year

Long-term liabilities = liabilities which original maturity is over 1 year

Note 11. Collateral assets and liabilities

Collateral assets (EUR million)	31 Dec 2018	31 Dec 2017
Collateral for own liabilities		
Securities	529.1	575.2
Outstanding loans constituting security for covered bonds	2,264.0	2,110.4
Total	2,793.1	2,685.5
Other collateral assets		
Pledged securities ¹	121.7	146.7
Cash included in pledging agreements and repurchase agreements	5.4	12.3
Total	127.1	158.9
Total collateral assets	2,920.2	2,844.5
Collateral above refers to the following liabilities		
Liabilities to credit institutions ²	516.8	569.2
Issued covered bonds ³	1,666.4	1,668.6
Derivatives	5.4	12.3
Total	2,188.7	2,250.0

1) Refers to securities pledged for the intra day limit. As at 31 December 2018, a surplus of pledged securities amounted to EUR 5 (21) million.

2) Refers to debts to the central bank, the European Investment Bank and to repurchase agreements with standardised GMRA (Global Master Repurchase Agreement) terms and conditions.

3) Own repurchases deducted.

Collateral liabilities (EUR million)	31 Dec 2018	31 Dec 2017
Cash included in pledging agreements ¹	64.0	76.6
Total	64.0	76.6

1) Refers to derivative transactions where collaterals were received from the counterparty in accordance with ISDA/CSA agreements.

Note 12. Off-balance sheet commitments

(EUR million)	31 Dec 2018	31 Dec 2017
Commitments provided to a third party on behalf of the customers		
Guarantees	31.3	31.7
Other commitments provided to a third party	3.6	7.3
Irrevocable commitments provided on behalf of customers		
Unused credit arrangements	456.7	505.2
Other commitments provided to a third party	27.2	8.8
Off-balance sheet commitments	518.8	553.0

This report has not been subject to external auditing.

Helsinki 14 February 2019

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