Aktia Bank Plc

CAPITAL AND RISK MANAGEMENT REPORT 2015

Aktia

Aktia Bank plc
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Bank | Asset Management | Insurance | Real Estate Agency

Contents

1. Highlights of 2015 2

2. Introduction 4
- 2.1 Description of Aktia Group 4
- 2.2 Statement of key risks in Aktia's operations 4
- 2.3 Legal and organizational structure 6

3. Governance of risk 7
- 3.1 Risk management 7
  - 3.1.1 Board of Supervisors 7
  - 3.1.2 Board of Directors 7
  - 3.1.3 Board's Risk Committee 7
  - 3.1.4 Executive Committee 7
  - 3.1.5 The Group's risk control function 7
  - 3.1.6 Three lines of defence 8
- 3.2 Internal control and risk management system associated with the financial reporting process 8

4. Capital management 10
- 4.1 Capital position 10
  - 4.1.1 Minimum capital requirements 10
  - 4.1.2 Own funds 11
  - 4.1.3 Buffer requirements 12
  - 4.1.4 Capital ratios and leverage ratio 12
  - 4.1.5 Aktia Life Insurance and the financial conglomerate 12
- 4.2 Capital management and internal capital requirements 13
  - 4.2.1 Capital management and recovery planning . 13
  - 4.2.2 Capital policy 14
  - 4.2.3 Internal capital requirements 14
  - 4.2.4 Stress testing 15

5. Credit risk 16
- 5.1 Management, governance and measurement of credit risk 17
  - 5.1.1 Credit risks in the banking business 17
- 5.2 Credit risk approach 18
- 5.3 Development of exposure and RWA 22
- 5.4 Rating and scoring 24
- 5.5 Collateral 24
  - 5.5.1 Loan-to-value ratio of collateral 25
  - 5.5.2 Risk-based pricing 25
- 5.6 Estimation and validation of credit risk parameters 25
- 5.7 Loan portfolio, impaired loans and loan losses . . . 25
- 5.8 Counterparty risk in derivative contracts 27

6. Market risk 28
- 6.1 Management, governance and measurement of market risk 28
- 6.2 Interest rate risk in the banking book (IRRBB) 28
- 6.3 Foreign exchange rate risk 28
- 6.4 Equity and real estate risk 28
- 6.5 Measurement and stress testing of the market risk in financial assets available for sale . . . 29
  - 6.5.1 Sensitivity analysis for interest rate risk and credit spread risk 29

7. Operational risk 30

8. Liquidity risk and funding 31
- 8.1 Management, governance and measurement of liquidity risk 31
  - 8.1.1 Management of liquidity risk 31
  - 8.1.2 Governance of liquidity risk 32
  - 8.1.3 Measurement of liquidity risk 32
- 8.2 Asset encumbrance 33

9. Risk and capital in the life insurance business 34
- 9.1 Risk management system and governance 34
- 9.2 Key risks in the life insurance company 34
  - 9.2.1 Market risk 34
  - 9.2.2 Underwriting risk 37
- 9.3 Capital management and solvency position 38
  - 9.3.1 Solvency I 38
  - 9.3.2 Solvency II 38

10. Regulatory development 40

List of abbreviations 41

Appendix contents 42
- Appendix 1 43
  - Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories 43
  - Main sources of differences between regulatory exposure amounts and carrying values in financial statements 43
- Appendix 2 Full disclosure of items and deductions in own funds, 31 Dec 2015 44
- Appendix 3 Main features of CET1 capital instruments, 31 Dec 2015 49
- Appendix 4 Main features of T2 capital instruments, 31 Dec 2015 50

1. Highlights of 2015

Aktia achieved a good result despite the tougher market situation with negative market interest rates and uncertainty on the capital markets at the end of the year. Lower net interest income were compensated through an increase in commission income.

Strong capital adequacy enables Aktia to focus on future growth and to maintain a good dividend pay-out. At present, Aktia intensifies efforts within mobile services in order to improve accessibility and offer first class customer service also in the future.

Aktia's capital adequacy strengthened in 2015. The improvement in the capital adequacy was mainly due to the transition to the IRB approach for retail exposure. As a result, the Common Equity Tier 1 (CET1) capital ratio strengthened to 22.6% (14.6%) at the end of the first quarter in 2015 after the permission was granted by the Financial Supervisory Authority in February the same year. The average risk weight for retail exposures secured by residential real estate calculated according to the IRB approach was roughly 15%, compared to 35% using the standardised method. This explains the main part of the improvement.

In March 2015, Aktia Bank divested a further 24% of its holdings in Folksam Non-Life Insurance Ltd. Thus, Aktia Bank's ownership in Folksam Non-Life Insurance decreased to 10% (34%). The total effect of the transaction on the Bank Group's equity was negative, amounting to EUR -3.3 million, of which EUR -0.5 million burdened the operating profit.

Aktia Bank entered into an agreement with savings banks and POP Banks concerning the acquisition of minority shares in Aktia Real Estate Mortgage Bank plc during the third quarter. The bank's CET1 capital ratio decreased by approximately two percentage points as a result at the end of that quarter. Capital adequacy will increase again concurrently with savings banks and POP Banks repurchasing their respective shares of Aktia Real Estate Mortgage Bank's loan book. The acquisition of shares will not take place until the financial statements of Aktia Real Estate Mortgage Bank for 2016 have been completed.

Aktia's liquidity and funding levels remained at strong levels. Aktia Bank's liquidity portfolio, which consists mainly of interest-bearing securities, was EUR 2,295 (2,502) million. At the end of December, the Bank Group's liquidity buffer was equivalent to 39 months of the estimated outgoing cash flow of wholesale funding. The Liquidity Coverage Ratio (LCR) was 275%.

The business environment remained challenging due to the continued low interest rate environment. Low interest rate is a challenge to the bank's business models and profitability. During the year there were no significant changes in the levels of unemployment or housing prices in Finland, but economic growth was modest.

Credit quality remained strong and the expected loss numbers remained at low levels. Non-performing loans totalled EUR 44 (46) million, or 0.75% of the loan book. Write-downs on credits remained low and amounted to EUR -0.3 (-1.7) million.

Implementation of the new core banking system has been postponed until the second half of 2016. The project to change the core banking system is a highly complex project, and comprehensive testing is being conducted in order to ensure the smoothest possible transition.

Aktia's previously launched strategy "Action Plan 2015", aimed at improving Aktia's cost efficiency and competitiveness, is largely completed. The largest project – the core banking system project – is ongoing, as is the phasing-out of Aktia Real Estate Mortgage Bank.

The bank's strong capital adequacy ratio and balance sheet allow Aktia to focus on growth. According to the new "Growth 2018" strategy, Aktia focuses mainly on services for private customers and their families, but also for family businesses and owner-operated companies. The objective is to double the annual number of new customers before the end of 2018. Aktia is also seeking growth in loans to housing companies that need to carry out renovations, for which the bank may offer competitive loans.

Simultaneously with presenting the company's new strategy in the first quarter, Aktia also updated its financial objectives and revised its dividend policy to include a higher pay-out ratio:

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

Figure 1.1 Aktia's Growth Strategy 2018

Financial year 2015:

Aktias total income decreased somewhat to EUR 208.4 (212.3) million during 2015. The total balance sheet was EUR 9,882 (10,707) million. The volume of deposits stayed virtually unchanged at EUR 3,922 (3,979) million. The interest rates remained low, which resulted in a decrease in net interest income by 5%, amounting to a total of EUR 97.3 (102.8) million. This was compensated by an increase in net commission income by 7% to EUR 80.0 (74.9) million. Total Group lending to the public amounted to EUR 5,856 (6,416) million at the end of December, a decrease of EUR 560 million. Loans to private households (including mortgages brokered by savings banks and POP Banks) accounted for EUR 5,177 (5,697) million or 88.4 (88.8) % of the total loan book. Aktia's loan book, including the bank's share in Aktia Real Estate Mortgage Bank, amounted to EUR 5,083 (5,043) million. The loans brokered by savings banks and POP Banks decreased by 44% to EUR 774 (1,373) million.

Aktia Life Insurance received permission to apply Solvency II transitional measures in December 2015. The Financial Supervisory Authority granted Aktia Life Insurance Ltd permission to apply a transitional rule for the calculation of technical provision within the Solvency II framework entering into force on 1 January 2016. The application of the transitional measures increases the company's available capital as calculated according to Solvency II rules, thus improving the company's solvency. Without the transitional measures, the available solvency capital amounts to 118% of the solvency capital requirement (SCR). Taking the transitional measures into consideration, the available solvency capital amounts to 182% of the solvency capital requirement (SCR).

The life insurance company's solvency margin according to Solvency I rules amounted to EUR 130.4 (133.4) million, where the minimum requirement is EUR 34.8 (34.2) million. The solvency ratio was 22.3% (23.3%). The financial conglomerate's capital adequacy ratio was 226.7% (216.5%). The statutory minimum stipulated in the Act on the Supervision of Financial and Insurance Conglomerates is 100%.

Standard and Poor's confirmed its rating of Aktia Bank plc's creditworthiness on 2 December 2015. The rating for long-term borrowing is A-, and for short-term borrowing it is A2, both with a negative outlook. Moody's Investors Service confirmed Aktia Bank plc's credit rating on 16 December 2015. Aktia Bank plc's credit rating for long-term borrowing was confirmed as A3 and for short-term borrowing as P-2, and its financial strength as C-. The outlook was confirmed as stable. Moody's Investors Service confirmed its rating of Aaa for Aktia Bank's long-term covered bonds.

The rating for the Government of Finland stayed at Aaa from Moody's, but S&P lowered its rating one notch to AA- in September 2015. Both ratings have a negative outlook.

2. Introduction

Aktia Bank Plc, with Finnish business ID 2181702-8 provides these public disclosures according to Part Eight of Regulation (EU) No 575/2013, on the basis of its consolidated situation.

This report constitutes Aktia Group's primarily source for disclosure of the risks, risk management and capital management of the Group, excluding disclosures on remuneration and additional disclosures according to Article 435 (2), which are disclosed separately in the Annual Report and on www.aktia.com.

This report is presented based on the requirement stated in the Capital Requirements Regulation (CRR), Part 8. By approving this report, Executive Committee approves of the formal statement of key risks in Chapter 2, and formally declare the adequacy of risk management arrangements given Aktia's risk profile. The statement and declaration are made in accordance with Article 435(1). All figures in this report are as of year-end 2015, unless otherwise stated.

Capital and risk management report 2015 has been subject to an external assessment.

2.1 Description of Aktia Group

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

Aktia Bank is the fourth largest bank [in terms of total assets] in the Finnish retail market, with a focus on growth areas in Finland such as the Helsinki Metropolitan Area, the coastal area and selected inland growth centres. The majority of Finland's population lives in this area. Households accounts for 88% of the loan portfolio and 77% of the deposit stock. Aktia has established a position as one of the leading asset and fund management groups in Finland. Aktia has about 350,000 private customers and about 50,000 corporate customers. They are served at 47 branch offices and via comprehensive Internet and telephone services. Aktia is a listed company; the majority of its shares are owned by savings bank foundations, institutions, companies and private individuals.

The group focuses primarily on banking, asset management, life insurance operations and real estate agency services. Risks and risk management are thus a substantial part of Aktia's operating environment and business activities. The main areas of risk are credit, interest and liquidity risks in the banking sector, and interest and other market risks and insurance risks in the life insurance business. All of the Group's operations are exposed to business and operational risks. Business risks are reduced by diversification in operations.

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

2.2 Statement of key risks in Aktia's operations

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

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

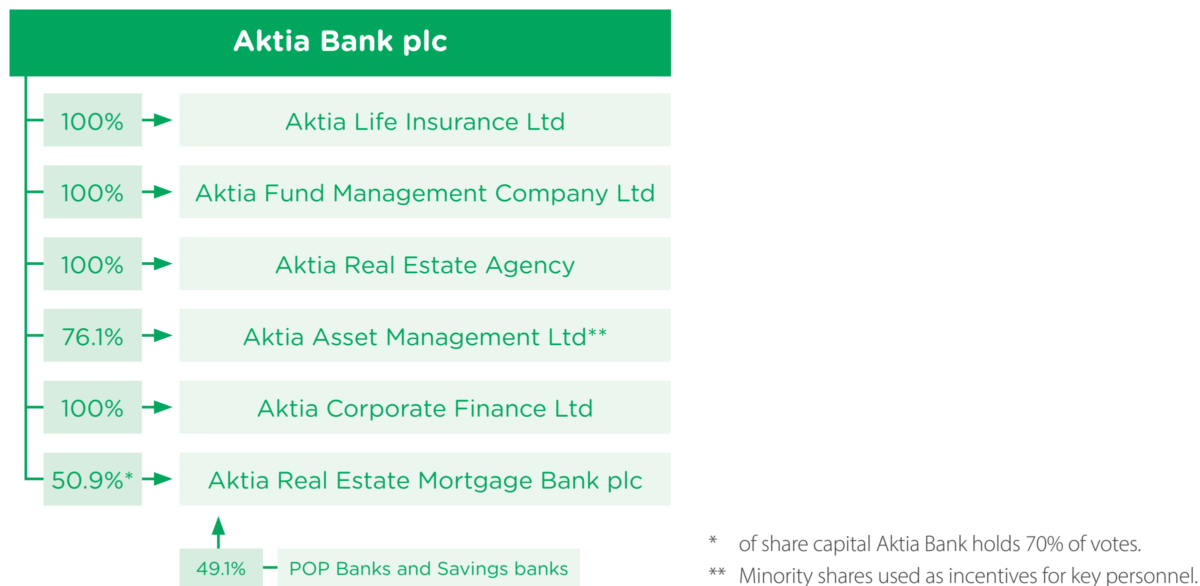
Life insurance operations are based on bearing and managing the risk of loss events, as well as the risks involved in the asset side and, on the other hand, on liabilities. Volatility in the solvency and results from the life insurance operations can be attributed primarily to market risks in the investment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

Table 2.1 Risk definitions and risk profile

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

2.3 Legal and organizational structure

Figure 2.2 Group structure



* of share capital Aktia Bank holds 70% of votes.
** Minority shares used as incentives for key personnel.

Figure 2.3 Governance structure

3. Governance of risk

3.1 Risk management

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

3.1.1 Board of Supervisors

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

The Supervisory Board of Aktia was involved in the process of approving the recovery plan in 2015. Later in 2015 the legislation changed, and now the recovery plan will be approved by the Board of Directors.

3.1.2 Board of Directors

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

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

The board of directors regularly monitors the group's compliance with the risk policy, and risk positions. Utilisation of risk limits is reported to the Board of Directors at least quarterly.

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

3.1.3 Board's Risk Committee

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

The Board's risk committee consisted of three members of the Board with expertise in the field of risk management, lending and investment activities. The risk committee met 12 times during 2015. In these meetings, the committee discussed and made decisions, among other issues, on 21 credit applications. Risk-related information and several new policies and guidelines were discussed and decided upon during 2015.

3.1.4 Executive Committee

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

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

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

The Executive committee met roughly once a month in meetings dedicated to risk-related matters during 2015. The role of these meetings is to handle and prepare issues for decisions by the Board of Directors and to develop risk management processes within the Group. Representatives of the risk control function take part in the meetings. Risk control, however, does not participate in decision-making.

3.1.5 The Group's risk control function

The Group's risk control function (Risk Control) reports to the Board of Directors. Risk Control monitors risk management in the business units and is responsible for maintaining appropriate calculations, analysis and monitoring of risks in all areas of the group's operations, including subsidiaries. Risk Control assesses the Group's overall risk position and in relation to the

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

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

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

3.1.6 Three lines of defence

The primary responsibility for internal control lies with the business units responsible for the day-to-day running of business, operative processes and their control as well as for risk management measures. Risk management is the key element of internal control. The control functions consist of the group's Risk Control unit, the Compliance function and Financial Reporting and Analysis, which are independent of the business units. In addition, there are persons responsible for control functions in two of the subsidiaries: Aktia Life Insurance and Aktia Fund Management Company. These persons report to the head of compliance function and the head of risk control respectively.

The first line of defence – business units

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

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

The second line of defence comprises of the independent control functions Risk Control, Compliance, and Financial Reporting and Analysis.

The role of the Risk Control function is to develop the principles, methods and instructions for managing risks, analysis and assessment of risk positions as well as for monitoring how risk management is implemented in business operations. In addition, Risk Control makes proposals for limits for risk-taking, measures and analyses risk, estimates the need for economic capital, and monitors how risk management is realised in the business organisation. Risk Control lead by the Head of Risk Control reports directly to the Group's Board of Directors. In addition, there is an independent control function in Aktia Fund Management Company, which reports to the Fund Management Company's Board of Directors as well as to the Head of Risk Control.

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

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

The third line of defence – Internal Audit

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

External parties, such as the Group's auditors, also assess internal control and its adequacy.

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

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

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

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

reporting, comprising both external and internal reporting and contributing to consistent management of financial reporting at different levels on an ongoing basis.

Parts of the Group's current accounting have been outsourced to external companies that provide ac-countancy services. These accountancy services also include the maintenance of securities, fixed asset ledgers and the preparation of accounts in accordance with Finnish accounting standards. The services are rendered in accordance with agreements entered into between the parties and comply with the guidelines and directives issued by the Financial Supervisory Authority and other authorities. In order to develop and assess cooperation, meetings are arranged regularly with service providers.

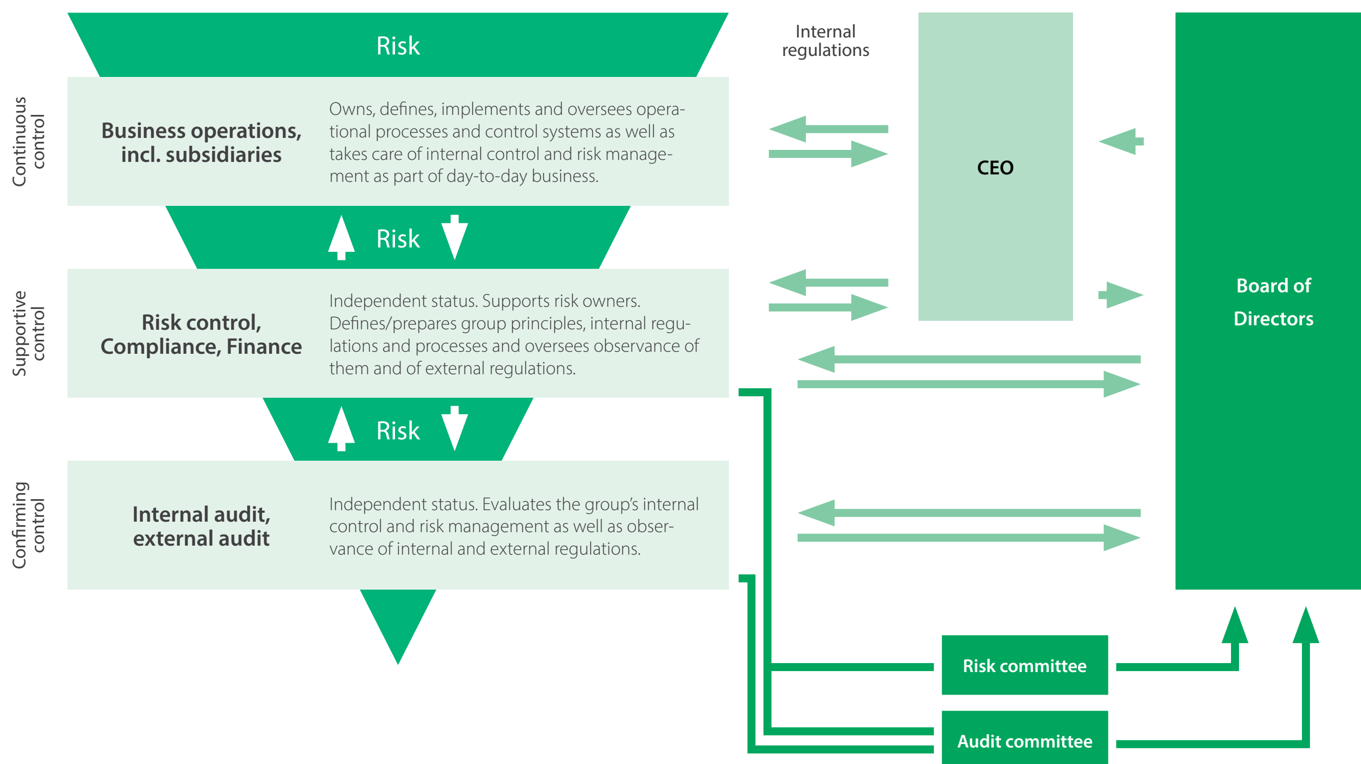
Within the Aktia Group, duties and responsibilities have been organised so that people involved in the financial reporting process only have very restricted rights of use to the different production systems and business applications in the respective business area. The Aktia Group's Finance Function,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

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

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

Internal control and risk management in the Aktia Group is summarised in Figure 3.1.

Figure 3.1 Aktia Group Internal control and risk management



4. Capital management

Aktia's capital adequacy continued to strengthen in 2015 as a result of receiving permission to apply IRB for retail exposures.

4.1 Capital position

4.1.1 Minimum capital requirements

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

On 10 February 2015, the Financial Supervisory Authority in Finland granted Aktia Bank Group permission to apply the internal ratings-based (IRB) approach to retail and equity exposures. This represents 58% of the Bank Group's credit risk exposure. The rest of the credit exposures are calculated

Table 4.1 Minimum capital requirements and REA	31 Dec 2015			31 Dec 2014		
(EUR million)	Minimum capital requirement	REA	Credit exposure	Minimum capital requirement	REA	Credit exposure
Credit risk	**129.2**	**1,614.8**	**8,627.9**	**228.5**	**2,856.0**	**9,625.2**
- of which counterparty credit risk	1.1	14.0	47.8	1.6	20.4	59.6
IRB	**80.0**	**999.4**	**5,323.0**	**0.0**	**0.0**	**0.0**
- of which retail	**69.4**	**867.3**	**5,273.6**	**0.0**	**0.0**	**0.0**
- of which secured by immovable property	65.3	816.6	5168.0	0.0	0.0	0.0
- of which other retail	2.6	32.2	83.5	0.0	0.0	0.0
- of which SME	1.5	18.5	22.0	0.0	0.0	0.0
- of which equity	**10.6**	**132.1**	**49.3**	**0.0**	**0.0**	**0.0**
Standardised	**49.2**	**615.4**	**3,304.9**	**228.5**	**2,856.0**	**9,625.2**
- of which central governments or central banks	0.0	0.0	498.0	0.0	0.0	901.4
- of which regional governments or local authorities	0.0	0.2	225.9	0.0	0.2	195.9
- of which multilateral development banks	0.0	0.0	65.0	0.0	0.0	75.7
- of which international organisations	0.0	0.0	159.5	0.0	0.0	159.9
- of which institutions	11.5	144.1	469.5	18.2	227.8	705.2
- of which corporate	5.1	63.8	66.2	6.7	84.3	95.3
- of which retail	5.6	69.7	99.8	11.6	144.6	331.3
- of which secured by mortgages on immovable property	14.8	184.4	476.9	162.4	2,030.3	5,811.9
- of which in default	1.0	12.2	11.2	4.1	51.8	49.0
- of which associated with particularly high risk	0.0	0.0	0.0	0.1	0.9	0.9
- of which covered bonds	9.5	118.4	1,183.8	9.8	122.6	1,198.4
- of which equity	0.0	0.0	0.0	13.9	173.8	64.4
- of which other items	1.8	22.5	49.2	1.6	19.8	36.0
Credit value adjustment risk	**2.2**	**27.8**		**3.5**	**44.1**	
Market risk	**0.0**	**0.0**		**0.0**	**0.0**	
Operational risk (basic indicator approach)	**28.5**	**356.1**		**29.1**	**363.2**	
Total	**159.9**	**1,998.8**		**261.1**	**3,263.3**	

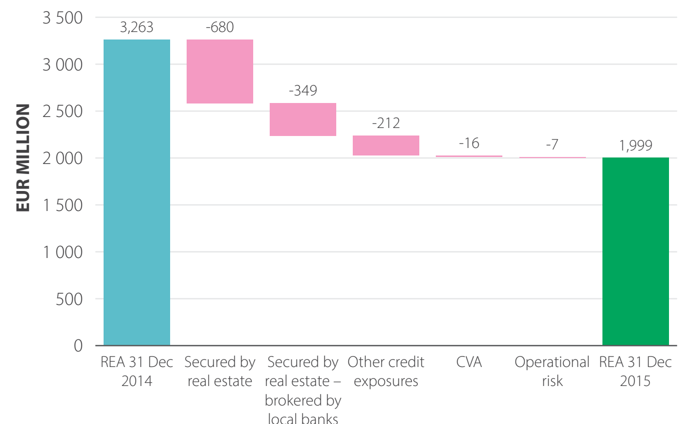
with the standardised approach. For counterparty credit risk in the OTC-derivatives, the Mark-to-market Method is applied to calculate the exposure value. The capital requirement for the credit valuation adjustment risk is calculated with the standardised method. The basic indicator approach was used for operational risks. There are no capital requirements for market risks because of the small trading book and limited FX positions.

The Solvency I of Aktia Life Insurance Ltd is calculated in accordance with the provisions set down in the Insurance Companies Act and the financial statements are prepared in accordance with Finnish accounting standards (FAS). The Solvency II framework entered into force for insurance companies on 1 January 2016.

For the financial conglomerate, Aktia uses the consolidation method as stipulated in the Act on the Supervision of Financial and Insurance Conglomerates.

Table 4.1 presents the composition of Aktia Bank Group's minimum capital requirement. The table also presents the changes in credit exposures and the split between calculation approaches. Figure 4.2 summarises the changes in REA during the year. The vast majority of REA deduction is due the lower risk weight in the IRB approach for the retail loans secured by real estate compared to the standardised approach. The average risk weight for retail exposures with real estate collateral calculated according to the IRB approach was 15%, compared to 35% in the standardised approach. The decrease in the REA is also due to the diminishing volume of mortgage loans brokered by savings banks and POP Banks.

Figure 4.2 Split of REA changes



4.1.2 Own funds

Table 4.3 presents a summary of Aktia Bank Group's own funds and their development in 2015. The total amount of the Bank Group's own funds decreased by EUR 80.1 million during 2015. This is mainly due to the reporting of minority interests as liabilities after the agreement with savings banks and POP Banks concerning the acquisition of minority shares in Aktia Real Estate Mortgage Bank plc. It mainly affected the consolidated CET1 capital. Also the minority interests which were included in the consolidated AT1 and Tier 2 capital was eliminated as a result of the agreement.

Table 4.3 Summary of consolidated own funds and developments in 2015

Aktia Bank Group (EUR million)	Own funds 31 Dec 2014	31 Dec 2014 recalculated according to transition rules applied in 2015	Development in 2015	Own funds 31 Dec 2015
Equity	163.0	163.0	0.0	163.0
Reserves, retained earnings and profit after dividend	289.0	289.0	10.2	299.2
Minority interests included in CET1	57.9	57.9	-57.9	0.0
Unrealised gains on AFS financial assets	0.0	40.5	-16.5	24.0
Intangible assets	-33.5	-33.5	-14.2	-47.8
EL shortfall	0.0	0.0	-19.2	-19.2
Significant holdings in financial sector entities	0.0	0.0	-4.4	-4.4
Other items	-1.2	-1.2	-0.3	-1.5
CET1 total	**475.1**	**515.6**	**-102.2**	**413.4**
Qualifying Tier 1 capital included in consolidated AT1 capital, incl. minority interests not included in CET1	1.0	1.0	-1.0	0.0
Tier 1 capital	**476.1**	**516.6**	**-103.2**	**413.4**
Unrealised gains on AFS financial assets	40.5	0.0	0.0	0.0
Qualifying Tier 2 capital included in consolidated Tier 2 capital, incl. minority interests not included in CET1 or AT1	1.4	1.4	-1.4	0.0
Grandfathered Tier 2 instruments	24.9	24.9	-19.1	5.8
CRR compliant Tier 2 instruments	78.9	78.9	43.7	122.6
Own funds	**621.8**	**621.8**	**-80.1**	**541.7**

After the IRB approval, the shortfall of expected losses is deducted from CET1 capital, which is a new deduction item compared to the previous year. The intangible assets to be deducted also increased during the year due to the ongoing implementation of the new core banking system. The negative effects of CET1 are offset by the inclusion of unrealised gains from the available-for-sale financial assets after the transition period. During 2014, the gains were reported in the Tier 2 capital. Deduction of significant holdings of financial entities relates to holdings in Aktia Life insurance Ltd. The amount above the 10% threshold is deducted from CET1 capital, and the remaining part is risk weighted at 250%.

Aktia Bank Group issued a gross amount of EUR 66.7 million of new Tier 2 subordinated debt during 2015. The amount of grandfathered instruments recognised as Tier 2 capital decreased by EUR 19.1 million during 2015. The amount recognised in the Bank Group's own funds of CRR-compliant Tier 2 instruments decreased due to the maturity haircut by EUR 22.1 million, resulting in a total net increase in Tier 2 capital instruments by EUR 24.5 million during 2015.

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

4.1.3 Buffer requirements

The Basel III framework introduced a series of buffer requirements that increase the 8% minimum capital requirement set by the CRR. In the European Union, the buffers are included in the CRD, which means that implementation of buffers can vary between member states. In Finland, the capital conservation buffer, countercyclical capital buffer and buffer requirement for systemically important institutions have been implemented so far. Table 4.4 illustrates the current buffer requirements. All buffer requirements should be covered with CET1 capital. The countercyclical capital buffer requirement is an institution-specific requirement calculated based on the weighted average of the relevant credit exposures and individual buffer requirements set in different jurisdictions. In Finland, the board of the Financial Supervisory Authority has currently set the requirement to 0% for Finnish exposures. However, in Sweden and Norway, a 1% requirement has been set. This requirement also applies to certain exposures, mainly in the Bank Group's liquidity portfolio. Table 4.5 summarises the calculation of institution-specific countercyclical capital buffer requirement.

Table 4.5 Calculation of institution-specific countercyclical capital buffer as of 31 Dec 2015

Aktia Bank Group (EUR million)	Capital requirement of relevant credit exposures	% of total	Counter-cyclical capital rate
Norway	2.3	1.9%	1.00%
Sweden	0.6	0.5%	1.00%
Finland and other	114.7	97.5%	0.00%
Total	**117.6**	**100.0%**	**0.02%**

4.1.4 Capital ratios and leverage ratio

Table 4.6 shows the development of capital ratios. The retail IRB approval significantly improved the capital ratios. The drop of approximately two percentage points in the consolidated CET1 ratio during the third quarter represents the capital adequacy impact of the agreement relating to Aktia Real Estate Mortgage Bank. The development of the leverage ratio, as defined in the CRR, is presented in Table 4.7. The total exposure amount reduced during the period, mainly as a result of the diminishing loan book of Aktia Real Estate Mortgage Bank.

4.1.5 Aktia Life Insurance and the financial conglomerate

The life insurance company's Solvency I margin amounted to EUR 130.4 (133.4) million, whereas the minimum requirement is EUR 34.8 (34.2) million. The solvency ratio was 22.3% (23.3%). The Solvency II framework entered into force for insurance companies on 1 January 2016. One of the consequences is a new method for calculating the solvency ratio. The Financial Supervisory Authority granted Aktia Life Insurance Ltd permission to apply transitional measures for calculating the technical provision within the Solvency II framework. Without the transitional measures, the available solvency capital amounts to 118% of the solvency capital requirement (SCR). Taking the transitional measures into consideration, the available solvency capital amounts to 182% of the solvency capital requirement (SCR).

The financial conglomerate's capital adequacy ratio was 226.7% (216.5%). The statutory minimum stipulated in the Act on the Supervision of Financial and Insurance Conglomerates is 100%. When the requirements for capital buffers in the banking business enter into force, the capital requirements for the financial conglomerate will also be increased, thus reducing

Table 4.4 Combined capital requirement as of 31 Dec 2015

		Buffer requirements				
	Minimum requirement	Capital Conservation	Counter-cyclical	O-SII	Systemic risk	Total capital requirement
CET1 capital	4.50	2.50	0.02	0.00	N/A	7.02
AT1 capital	1.50					1.50
Tier 2 capital	2.00					2.00
Total	**8.00**					**10.52**

Table 4.6 Development of capital ratios

Capital adequacy, %	31 Dec 2015 IRB	30 Sep 2015 IRB	30 Jun 2015 IRB	31 Mar 2015 IRB	31 Dec 2014 STD
Aktia Bank Group					
CET1 Capital ratio	20.7	20.5	22.4	22.6	14.6
Tier 1 Capital ratio	20.7	20.5	22.5	22.7	14.6
Total capital ratio	27.1	25.8	27.7	27.1	19.1
Aktia Bank					
CET1 Capital ratio	18.6	18.7	18.8	19.2	15.0
Tier 1 Capital ratio	18.6	18.7	18.8	19.2	15.0
Total capital ratio	24.6	23.7	23.8	23.6	20.3
Aktia Real Estate Mortgage Bank					
CET1 Capital ratio	79.5	67.8	63.0	51.1	19.6
Tier 1 Capital ratio	79.5	67.8	63.0	51.1	19.6
Total capital ratio	79.5	67.8	63.0	51.1	19.6
Aktia Asset Management					
CET1 Capital ratio	11.2	22.4	21.5	26.5	19.9
Tier 1 Capital ratio	11.2	22.4	21.5	26.5	19.9
Total capital ratio	11.2	22.4	21.5	26.5	19.9

Table 4.7 Development of Leverage Ratio*

Aktia Bank Group

EUR million	31 Dec 2015	30 Sep 2015	30 Jun 2015	31 Mar 2015	31 Dec 2014
Tier 1 capital	413	435	486	506	476
Total exposure	8,814	8,892	9,067	9,532	9,694
Leverage Ratio, %	**4.7**	**4.9**	**5.4**	**5.3**	**4.9**

* The leverage ratio is calculated based on end of quarter figures

the financial conglomerate's capital adequacy accordingly. The simultaneous introduction of the IRB did, however, reduce the total requirement for the financial conglomerate.

4.2 Capital management and internal capital requirements

4.2.1 Capital management and recovery planning

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

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

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

Capital management also assesses different alternative actions that the Executive Committee can take in situations where capital adequacy is at risk. Aktia Group has structured a recovery plan. The recovery plan consists of plans and actions for the Group to recover from serious financial difficulties. The Board and its risk committee quarterly monitor changes in capital adequacy and, within the framework of the capital management process, also

the effects of various stress tests. The recovery plan sets different indicators that monitor the Group's capital adequacy, liquidity, asset quality and profitability as well as the status of the economy and financial markets. Various alarm zones have been set for the indicators to ensure prompt implementation of recovery actions. The recovery actions include means by which capital requirements can be reduced, the Group's own funds increased, the liquidity situation improved and profitability improved.

4.2.2 Capital policy

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

Aktia updated its financial targets in the first quarter of 2015. The Bank Group's and Aktia Bank Plc's targets for the CET 1 are 15% at a minimum. The Group's capital policy states that the subsidiaries will generally operate above the minimum capital requirements and that the capital buffer is maintained at the parent company. The capital adequacy target for the financial conglomerate is to exceed 150%.

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

4.2.3 Internal capital requirements

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

The Bank Group's internal capital requirement is based on the "Pillar 1 plus Pillar 2" method. Pillar 1 sets the minimum regulatory capital requirements for credit risks and operational risks. In Pillar 2, the capital requirement is supplemented with capital requirements for other risks as well as areas that are covered insufficiently under Pillar 1.

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

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

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

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

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

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

Figure 4.8 Internal capital requirement by risk type

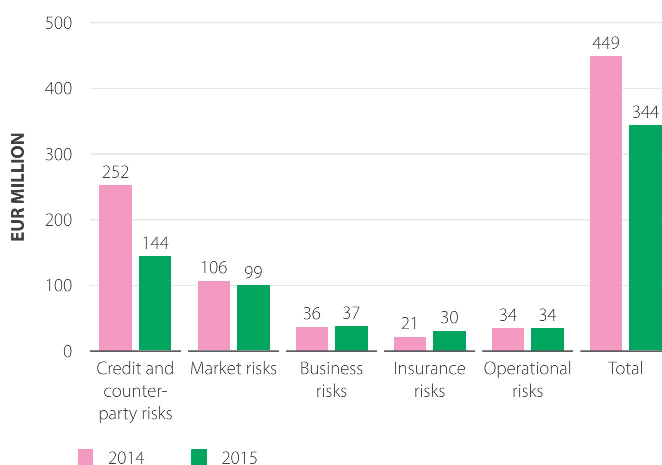
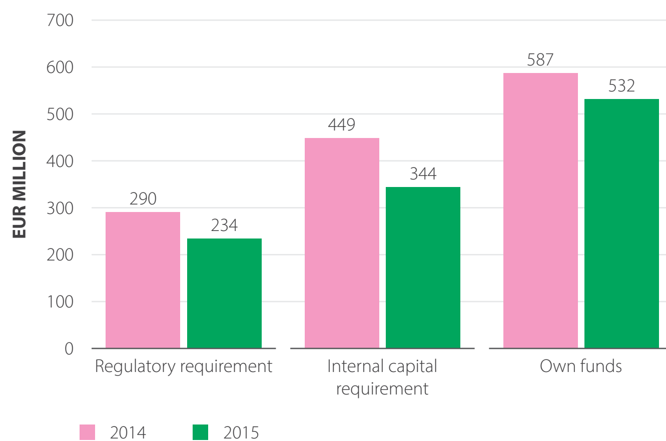


Figure 4.9 Group's own funds compared to internal capital requirement



4.2.4 Stress testing

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

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

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

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

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

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

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

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

Based on the selected scenario, a stressed balance sheet and P&L estimates are calculated. Combined with the scenario assumptions on the capital policy, i.e. dividend pay-out and new issues of various capital instruments, capital ratios for Aktia Bank and Life Insurance and the financial conglomerate are derived. The results are then compared to the target and the alarm zones set by the Board of Directors.

The stress scenario methodology is also used to calculate the regulatory stress test exercises on an ad-hoc basis. The stress factors are adjusted according to the given scenarios. The tool can also be used to carry out reverse stress tests. In particular, this method is used to design the stress scenarios that are required to test the recovery options.

5. Credit risk

Aktia's loan portfolio consists mainly of retail loans with real estate collateral. Strong Loan-to-Value (LTV) ratios and a low risk levels contribute to the high credit quality of Aktia's credit portfolio.

Credit risk is defined as the risk of losses brought about by debtors failing to fulfil their obligations towards Aktia, while counterparty risk is defined as the risk of losses or negative valuation differences due to deterioration of the counterparty's credit worthiness. Credit and counterparty risks are measured by assessing the probability of default and any losses incurred by such. The probability of default is measured using scoring or rating models, and the loss given default is measured by taking into account the realisation value of the collateral and the anticipated recovery, with deductions for recovery costs. Each year, the Group's Board of Directors determines the credit policy and revises both the credit risk strategy and delegation of decision-making. The regulation of counterparty risks is managed in a similar manner.

Table 5.1 shows the Group's exposure by area of operations. The figures include accrued interest. Internal Group receivables and liabilities are eliminated, and deductions for eligible collateral have not been made.

Table 5.1 The Bank Group's total exposures before the effect of risk mitigation techniques, broken down by region

31 Dec 2015					**1,000 EUR**
Exposure class	**Finland**	**Other Nordic countries**	**Other European countries**	**Other**	**Total**
Credit risk, IRB approach*					
Retail - Secured by immovable property non-SME	5,000,153	2,929	2,911	774	5,006,767
Retail - Secured by immovable property SME	161,176	0	100	0	161,277
Retail - Other non-SME	83,248	184	54	56	83,542
Retail - Other SME	22,043	0	0	0	22,043
Equity exposures	49,105	0	223	0	49,328
Total exposures, IRB approach	**5,315,725**	**3,113**	**3,288**	**830**	**5,322,956**
Credit risk, standardised approach					
Central governments and central banks	284,730	0	105,300	0	390,030
Regional governments and local authorities	175,286	0	29,785	0	205,071
Multilateral development banks	0	0	0	64,992	64,992
International organisations	0	0	0	159,525	159,525
Credit institutions	258,999	128,985	465,451	11,370	864,805
Corporates	157,316	0	35,929	6,004	199,249
Retail exposures	237,095	103	193	31	237,422
Secured by immovable property	501,880	0	0	0	501,880
Exposures in default	11,455	2	1	0	11,458
Covered bonds	58,306	440,676	684,795	0	1,183,777
Other items	38,768	2,644	2,471	5,326	49,208
Total exposures, standardised approach	**1,723,835**	**572,410**	**1,323,924**	**247,249**	**3,867,418**
Total exposures	**7,039,560**	**575,523**	**1,327,212**	**248,079**	**9,190,374**
Individually impaired loans	8,222	0	0	0	8,222
Individual write-downs on loans and receivables	44,651	0	0	0	44,651
Write-downs by group on loans and receivables	9,721	0	0	0	9,721

The amounts include on- and off-balance sheet items and derivatives by credit conversion value
Individually impaired loans include loan capital and accrued interest less individual write-downs
All exposures including matured payments, are domestic.
* Revolving retail exposures are under Retail – Other SME and Retail – Other non-SME

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

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

5.1 Management, governance and measurement of credit risk

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

Credit risks are reported to the Group's Board of Directors and its risk committee every quarter. Both position and aggregate level credit risk reporting is available daily both to the branch network and the Executive Committee. Every year, Risk Control carries out a comprehensive validation of all credit risk models, and the results are reported both to the Board of Directors and the Executive Committee of the Group. In addition, Risk Control continuously monitors that the models function normally, and these results are reported quarterly both the Board of Directors and the management of the group.

5.1.1 Credit risks in the banking business

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

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

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

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

Table 5.2 The Bank Group's lending book by exposure class and industry before the effect of risk mitigation techniques **31 Dec 2015**
1,000 EUR

			Exposure class			
Counterparty	**Industry**	**Corporate exposures**	**Retail exposures**	**Real estate collateral-ised**	**Past due items**	**Total**
Corporate						
	Property	18,832	4,268	135,147	400	158,647
	Trade	4,789	11,672	33,526	1,192	51,179
	Financing	32,605	431	20,493	203	53,733
	Industry, energy	18,911	6,556	19,971	1,760	47,197
	Construction	13,686	9,076	24,404	722	47,887
	Research, consulting, services	2,514	9,594	25,928	1,619	39,655
	Transport	4,121	9,145	11,713	396	25,374
	Hotels and restaurants	378	2,263	10,849	645	14,135
	Agriculture, fisheries, mining	954	2,857	11,947	11	15,768
	Other	48,422	10,427	16,259	4,220	79,328
Total		**145,212**	**66,289**	**310,236**	**11,166**	**532,903**
Households		9,814	267,870	5,071,225	39,274	5,388,183
Housing corporations		30,923	8,482	222,182	759	262,346
Other non-profit corporations		13,551	1,182	28,473	6	43,211
Total		**199,500**	**343,823**	**5,632,116**	**51,206**	**6,226,644**

5.2 Credit risk approach

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

Table 5.3 The Bank Group's total risk exposure **1,000 EUR**
31 Dec 2015

Exposure class	Contractual exposure	Impairment	Net exposure	Financial guarantees and other substitutions	Exposure after substitution	Financial collaterals	Exposure after collaterals	Risk-weighted amount	Capital requirement 8 %
Credit risk, IRB approach									
Retail - Secured by immovable property non-SME	5,012,230	-5,463	5,006,767		5,006,767		5,006,767	732,121	58,570
Retail - Secured by immovable property SME	162,212	-935	161,277		161,277		161,277	84,485	6,759
Retail - Other non-SME	89,374	-5,832	83,542		83,542		83,542	32,227	2,578
Retail - Other SME	24,113	-2,069	22,043		22,043		22,043	18,459	1,477
Equity exposures	49,328	0	49,328		49,328		49,328	132,137	10,571
Total exposures, IRB approach	**5,337,256**	**-14,300**	**5,322,956**	**0**	**5,322,956**	**0**	**5,322,956**	**999,429**	**79,954**
Credit risk, standardised approach									
Central governments and central banks	390,030		390,030	109,783	499,814		499,814	0	0
Regional governments and local authorities	205,071		205,071	23,130	228,201		228,201	164	13
Multilateral development banks	64,992		64,992	0	64,992		64,992	0	0
International organisations	159,525		159,525	0	159,525		159,525	0	0
Credit institutions	864,805		864,805	-36,572	828,233	-357,840	470,392	144,106	11,528
Corporates	199,249		199,249	-81,608	117,642	-40,921	76,720	63,846	5,108
Retail exposures	237,422		237,422	-14,725	222,697	-4,962	217,735	69,715	5,577
Secured by immovable property	501,880		501,880	0	501,880	0	501,880	184,447	14,756
Exposures in default	44,815	-33,357	11,458	-8	11,450	-256	11,193	12,218	977
Covered bonds	1,183,777		1,183,777		1,183,777		1,183,777	118,378	9,470
Other items	55,923	-6,715	49,208		49,208		49,208	22,526	1,802
Total exposures, standardised approach	**3,907,490**	**-40,072**	**3,867,418**	**0**	**3,867,418**	**-403,980**	**3,463,438**	**615,400**	**49,232**
Total exposures	**9,244,746**	**-54,372**	**9,190,374**	**0**	**9,190,374**	**-403,980**	**8,786,394**	**1,614,829**	**129,186**

Table 5.4 Standardised approach- credit risk exposure and Credit Risk Mitigation (CRM) effects
31 Dec 2015 **1,000 EUR**

	Exposure before CCF and CRM		Exposures post-CCF and CRM		RWA and RWA density	
Asset classes	**On-balance sheet**	**Off-balance sheet**	**On-balance sheet**	**Off-balance sheet**	**RWA**	**RWA density**
Central governments or central banks	390,030	0	495,570	2,388	0	0%
Regional governments or local authorities	200,445	4,626	223,575	2,313	164	0%
Multilateral development banks	64,992	0	64,992	0	0	0%
International organisations	159,525	0	159,525	0	0	0%
Institutions	863,112	1,693	467,630	1,916	144,106	31%
Corporates	158,849	40,401	43,954	22,273	63,846	96%
Retail	111,374	126,048	94,452	5,314	69,715	70%
Secured by residential property	206,154	17,030	206,154	7,437	62,783	29%
Secured by commercial real estate	246,627	32,068	246,627	16,665	121,665	46%
Exposures in default	11,334	124	11,151	25	12,218	109%
Covered Bonds	1,183,777	0	1,183,777	0	118,378	10%
Other items	49,208	0	49,208	0	22,526	46%
Total	**3,645,429**	**221,989**	**3,246,616**	**58,330**	**615,400**	**19%**

Table 5.5 Standardised approach – exposures by asset classes and risk weights
31 Dec 2015 **1,000 EUR**

	Risk weight*									
Asset classes	**0%**	**10%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Others**	**Exposures post-CCF and CRM**
Central governments or central banks	497,957	0	0	0	0	0	0	0	0	497,957
Regional governments or local authorities	225,068	0	820	0	0	0	0	0	0	225,888
Multilateral development banks	64,992	0	0	0	0	0	0	0	0	64,992
International organisations	159,525	0	0	0	0	0	0	0	0	159,525
Institutions	0	0	302,225	0	167,321	0	0	0	0	469,546
Corporates	0	0	0	0	2,389	0	63,838	0	0	66,227
Retail	0	0	0	0	0	99,765	0	0	0	99,765
Secured by residential property	0	0	0	213,591	0	0	0	0	0	213,591
Secured by commercial real estate	0	0	0	0	263,292	0	0	0	0	263,292
Exposures in default	0	0	0	0	0	0	9,094	2,082	0	11,177
Covered Bonds	0	1,183,777	0	0	0	0	0	0	0	1,183,777
Other items	7,414	0	24,084	0	0	0	17,710	0	0	49,208
Total	**954,956**	**1,183,777**	**327,130**	**213,591**	**433,002**	**99,765**	**90,642**	**2,082**	**0**	**3,304,946**

*Banks subject to the simplified standardised approach should indicate risk weights determined by the supervisory authority in the columns.

Table 5.6 IRB - Credit risk exposures by portfolio and PD range

31 Dec 2015 — **1,000 EUR**

Retail - Secured by immovable property SME

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	RWA	RWA density	EL	Provi-sions
0.00 to < 0.15	171	491	100%	662	0.10%	68	30.20%	38	6%	0	
0.15 to < 0.25	482	859	100%	1,342	0.21%	80	28.19%	128	10%	1	
0.25 to < 0.50	6,156	2,003	100%	8,159	0.44%	308	27.30%	1,279	16%	10	
0.50 to < 0.75	6,793	1,659	100%	8,452	0.66%	214	26.24%	1,684	20%	15	
0.75 to < 2.50	64,072	8,399	100%	72,471	1.38%	1454	26.44%	23,192	32%	260	
2.50 to < 10.00	42,720	4,072	100%	46,792	4.79%	851	25.25%	29,676	63%	564	
10.00 to < 100.00	19,848	1,027	100%	20,876	25.82%	376	24.95%	22,736	109%	1,311	
100.00 (Default)	3,414	43	100%	3,458	100.00%	76	30.18%	5,752	166%	889	
Sub-total	**143,657**	**18,554**	**100%**	**162,212**	**7.51%**	**3,427**	**26.05%**	**84,485**	**4.22**	**3,049**	**-935**

Retail - Secured by immovable property non-SME

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	RWA	RWA density	EL	Provi-sions
0.00 to < 0.15	2,549,570	40,938	100%	2,590,508	0.06%	29,320	16.30%	71,173	3%	261	
0.15 to < 0.25	212,166	2,962	100%	215,128	0.20%	4,539	17.13%	15,588	7%	73	
0.25 to < 0.50	1,053,950	5,191	100%	1,059,141	0.38%	15,179	16.36%	117,050	11%	657	
0.50 to < 0.75	170,347	4,584	100%	174,931	0.65%	2,986	16.92%	29,273	17%	192	
0.75 to < 2.50	509,772	13,649	100%	523,420	1.39%	6,645	17.12%	145,274	28%	1,245	
2.50 to < 10.00	247,822	1,879	100%	249,701	4.97%	3,336	17.79%	149,905	60%	2,203	
10.00 to < 100.00	158,489	294	100%	158,783	29.30%	1,992	17.71%	150,304	95%	8,226	
100.00 (Default)	40,618	0	100%	40,618	100.00%	407	24.81%	53,554	132%	8,379	
Sub-total	**4,942,734**	**69,496**	**100%**	**5,012,230**	**2.27%**	**64,404**	**16.65%**	**732,121**	**3.52**	**21,236**	**-5,463**

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Retail - Other SME

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	RWA	RWA density	EL	Provi-sions
0.00 to < 0.15	8	441	100%	450	0.10%	18	75.56%	82	18%	0	
0.15 to < 0.25	155	517	100%	672	0.20%	28	57.25%	166	25%	1	
0.25 to < 0.50	228	1,283	100%	1,511	0.44%	60	70.61%	605	40%	5	
0.50 to < 0.75	552	426	100%	978	0.66%	42	49.22%	434	44%	3	
0.75 to < 2.50	4,818	2,823	100%	7,641	1.49%	345	52.16%	5,016	66%	60	
2.50 to < 10.00	6,174	1,209	100%	7,383	4.84%	265	44.59%	6,207	84%	159	
10.00 to < 100.00	2,613	241	100%	2,854	26.32%	130	51.46%	4,141	145%	380	
100.00 (Default)	2,574	51	100%	2,625	100.00%	125	74.03%	1,808	69%	2,112	
Sub-total	**17,122**	**6,990**	**100%**	**24,113**	**16.02%**	**1,013**	**53.76%**	**18,459**	**4.91**	**2,720**	**-2,069**

Retail - Other non-SME

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	RWA	RWA density	EL	Provi-sions
0.00 to < 0.15	10,110	1,983	100%	12,093	0.07 %	1,942	43.56%	1,083	9%	4	
0.15 to < 0.25	3,208	157	100%	3,366	0.20 %	512	56.88%	822	24%	4	
0.25 to < 0.50	6,971	532	100%	7,503	0.42 %	1,280	35.85%	1,978	26%	10	
0.50 to < 0.75	8,666	430	100%	9,096	0.65 %	1,312	18.75%	1,954	21%	11	
0.75 to < 2.50	29,520	4,056	100%	33,576	1.39 %	5,334	18.78%	9,848	29%	89	
2.50 to < 10.00	9,266	226	100%	9,491	4.98 %	1,565	30.92%	5,683	60%	154	
10.00 to < 100.00	9,751	355	100%	10,106	45.89 %	1,323	48.90%	5,557	55%	2,946	
100.00 (Default)	4,142	0	100%	4,142	100.00 %	445	77.37%	5,301	128%	2,983	
Sub-total	**81,634**	**7,739**	**100%**	**89,374**	**10.99 %**	**13,713**	**32.41%**	**32,227**	**3.53**	**6,202**	**-5,832**

Equity

PD scale	Original on-balance sheet gross exposure	Off-balance sheet exposures pre CCF	Average CCF	EAD post CRM and post-CCF	Average PD	Number of obligors	Average LGD	RWA	RWA density	EL	Provi-sions
	49,328	0		49,328				132,137	268%	179	
Total (all portfolios)	**5,234,476**	**102,780**	**100%**	**5,337,256**	**2.64%**	**82,557**	**17.37%**	**999,429**	**18.86**	**33,386**	**-14,300**

Table 5.7 Backtesting of Retail IRB parameters by subportfolio

Retail portfolio	Estimated PD*	Average DR	Estimated LGD**	Realized LGD**
Household	1.73%	0.70%	32.48%	9.83%
Retail SME	4.94%	2.05%	39.27%	7.59%
Other Retail	2.43%	0.59%	12.40%	3.03%

* PD and LGD estimates reflect those used in the capital adequacy calculations and include cyclical adjustments and conservatism buffers
** Estimated and realized LGD calculated only for defaulted exposures

Table 5.8 Equities under the simple risk-weight method

31 Dec 2015 **1,000 EUR**

Categories	On-balance sheet amount	Off-balance sheet amount	RW	Exposure amount	RWA
Exchange-traded equity exposures	134	0	190%	134	255
Private equity exposures	0	0	290%	0	0
Other equity exposures	46,191	0	250%	41,779	104,448
Other equity exposures	7,415	0	370%	7,415	27,434
Total	**53,740**	**0**		**49,328**	**132,137**

Aktia does not have exposures classified as specialized lending.

Table 5.9 Credit valuation adjustment (CVA) capital charge

31 Dec 2015 **1,000 EUR**

	EAD post-CRM	RWA
Total portfolios subject to the Advanced CVA capital charge	0	0
(i) VaR component (including the 3 x multiplier)		
(ii) Stressed VaR component (including the 3 x multiplier)		
All portfolios subject to the Standardised CVA capital charge	56,334	27,816
Total subject to the CVA capital charge	**56,334**	**27,816**

5.3 Development of exposure and RWA

Lending to households

The Group's loan book decreased in 2015 by a total of EUR 560 million (8.7%), totalling EUR 5,856 (6,416) million at year-end. Households' share of the total loan book amounted to EUR 5,177 (5,697) million or 88.4% (88.8%) at year-end. The decrease was largely due to the continued unwinding of Aktia Real Estate Mortgage Bank Plc, in which mortgages issued by local banks decreased by EUR 599 million from EUR 1,372 million to EUR 774 million during 2015.

Corporate lending

New lending to companies was aimed at small companies, and total corporate loans fell by 1.4% from the beginning of the year, totalling EUR 414 (420) million.

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

Concentration risks in lending

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

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

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

Table 5.10 The Bank Group's total exposures before the effect of credit risk mitigation techniques, broken down by maturity

31 Dec 2015
1,000 EUR

Exposure class	Under 3 months	3–12 months	1–5 years	5–10 years	Over 10 years	Total
Credit risk, IRB approach						
Retail - Secured by immovable property non-SME	51,806	45,800	308,487	728,130	3,872,544	5,006,767
Retail - Secured by immovable property SME	27,577	5,048	49,938	45,077	33,635	161,277
Retail - Other non-SME	6,061	1,674	17,045	15,671	43,090	83,542
Retail - Other SME	1,102	1,431	8,401	2,703	8,407	22,043
Equity exposures	0	47	0	0	49,280	49,328
Total exposures, IRB approach	**86,546**	**54,000**	**383,872**	**791,581**	**4,006,957**	**5,322,956**
Credit risk, standardised approach						
Central governments and central banks	0	0	68,813	49,506	271,711	390,030
Regional governments and local authorities	57,134	80	146,672	552	634	205,071
Multilateral development banks	12,898	0	52,094	0	0	64,992
International organisations	0	0	159,525	0	0	159,525
Credit institutions	248,461	58,484	463,171	27,253	67,436	864,805
Corporates	32,210	28,724	76,509	14,062	47,744	199,249
Retail exposures	7,525	4,435	26,175	9,548	189,739	237,422
Secured by immovable property	33,919	26,665	93,456	89,049	258,791	501,880
Exposures in default	4,834	107	4,384	445	1,688	11,458
Covered bonds	88,133	199,797	895,847	0	0	1,183,777
Other items	4,368	0	0	0	44,840	49,208
Total exposures, standardised approach	**489,481**	**318,292**	**1,986,647**	**190,415**	**882,584**	**3,867,418**
Total exposures	**576,027**	**372,291**	**2,370,519**	**981,996**	**4,889,541**	**9,190,374**

The amounts include on- and off-balance sheet items and derivatives by credit conversion value.
The remaining liability for receivables is included in respective group according to maturity.

Table 5.11 The Bank Group's average total exposures before the effect of credit risk mitigation techniques

31 Dec 2015
1,000 EUR

Exposure class	31 Mar	30 Jun	30 Sep	31 Dec	Average
Credit risk, IRB approach					
Retail - Secured by immovable property non-SME	5,058,090	5,111,048	5,067,634	5,006,767	5,060,885
Retail - Secured by immovable property SME	160,497	165,301	163,457	161,277	162,633
Retail - Other non-SME	353,399	77,716	81,572	83,542	149,057
Retail - Other SME	13,018	23,223	22,731	22,043	20,254
Equity exposures	52,728	54,103	51,781	49,328	51,985
Total exposures, IRB approach	**5,637,732**	**5,431,392**	**5,387,175**	**5,322,956**	**5,444,814**
Credit risk, standardised approach					
Central governments and central banks	590,972	323,442	242,593	390,030	386,759
Regional governments and local authorities	176,505	183,791	185,146	205,071	187,628
Multilateral development banks	65,508	65,552	65,117	64,992	65,292
International organisations	159,802	159,142	159,643	159,525	159,528
Credit institutions	1,147,115	888,655	849,100	864,805	937,419
Corporates	242,196	311,771	279,542	199,249	258,190
Retail exposures	239,753	245,149	245,961	237,422	242,071
Secured by immovable property	457,810	506,646	497,013	501,880	490,837
Exposures in default	10,759	15,495	13,345	11,458	12,764
Covered bonds	1,254,735	1,188,224	1,211,818	1,183,777	1,209,638
Other items	40,865	111,515	117,890	49,208	79,870
Total exposures, standardised approach	**4,386,019**	**3,999,383**	**3,867,168**	**3,867,418**	**4,029,997**
Total exposures	**10,023,751**	**9,430,775**	**9,254,343**	**9,190,374**	**9,474,811**

5.4 Rating and scoring

Loans are granted on the basis of an assessment of the customer's credit worthiness and the collateral provided. A risk-based pricing policy is also adopted. The debtor's ability to repay is an absolute requirement for a loan to be granted. To ensure that the customer has an adequate buffer in case of higher market interest rates, the ability to repay is assessed assuming an interest rate of 6% over a repayment period of 25 years for all of the customer's loans, irrespective of the current low interest rate environment.

The customer credit rating is set and followed up on with the help of scoring models developed for households. All new loan applications are assessed using application scoring models. For the existing loan book, behavioural scoring models are applied that also take into account changes in the customer's payment behaviour. The loan-to-value ratio is defined as the relationship between the market value of the pledged collateral and the customer's loans. Higher loan-to-value ratios imply a sufficient credit rating, while at the same time decisions on such loans are escalated.

5.5 Collateral

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

Table 5.12 The Bank Group's total risk exposure and risk mitigation 1,000 EUR

31 Dec 2015

Exposure class	Contractual exposure	Impairment	Net exposure	of which secured by financial guarantees	of which secured by collateral	Average weighted LGD
Credit risk, IRB approach						
Retail - Secured by immovable property non-SME	5,012,230	-5,463	5,006,767	211,120	4,753,091	16.6%
Retail - Secured by immovable property SME	162,212	-935	161,277	2,490	151,044	26.0%
Retail - Other non-SME	89,374	-5,832	83,542	49,895	186	32.4%
Retail - Other SME	24,113	-2,069	22,043	5,339	242	53.8%
Equity exposures	49,328	0	49,328			
Total exposures, IRB approach	**5,337,256**	**-14,300**	**5,322,956**	**268,844**	**4,904,563**	
Credit risk, standardised approach						
Central governments and central banks	390,030	0	390,030	0	0	
Regional governments and local authorities	205,071	0	205,071	0	0	
Multilateral development banks	64,992	0	64,992	0	0	
International organisations	159,525	0	159,525	0	0	
Credit institutions	864,805	0	864,805	40,937	357,840	
Corporates	199,249	0	199,249	81,608	40,921	
Retail exposures	237,422	0	237,422	14,668	5,019	
Secured by immovable property	501,880	0	501,880	0	501,880	
Exposures in default	44,815	-33,357	11,458	8	256	
Covered bonds	1,183,777	0	1,183,777	0	0	
Other items	55,923	-6,715	49,208	0	0	
Total exposures, standardised approach	**3,907,490**	**-40,072**	**3,867,418**	**137,221**	**905,917**	
Total exposures	**9,244,746**	**-54,372**	**9,190,374**	**406,064**	**5,810,480**	

Loans to households are mainly granted against secure collateral, which means that any reduction in market values (residential real estate prices) does not directly increase exposure.

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

5.5.1 Loan-to-value ratio of collateral

The loan-to-value ratio is defined as the relationship between the market value of the pledged collateral at the time of the latest credit decision against the loans outstanding on the collateral.

The majority of the bank's collateral stock is made up of dwellings. Trends in housing prices are thus important factors in the bank's risk profile. During 2015, developments in housing prices within Aktia's main business areas have remained at a stable level.

Table 5.13 LTV distribution of mortgage loan book

LTV Band	31 Dec 2015	31 Dec 2014
0–50 %	82.3%	82.3%
50–60 %	8.3%	8.4%
60–70 %	4.9%	4.9%
70–80 %	2.6%	2.5%
80–90 %	1.1%	1.0%
90–100 %	0.3%	0.3%
>100 %	0.5%	0.5%
Total	**100%**	**100%**

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

5.5.2 Risk-based pricing

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

5.6 Estimation and validation of credit risk parameters

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

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

5.7 Loan portfolio, impaired loans and loan losses

Problem loans are regularly monitored both in the branch network through delinquency lists and at portfolio level at the group's risk control. Internal policies and tools have been put in place in order to identify at an early stage customers whose credit standing no longer corresponds to

Table 5.14 Credit quality of assets

31 Dec 2015 **1,000 EUR**

	Cross carrying values of Defaulted exposures	Cross carrying values of Non-defaulted exposures	Allowances/ impairments	Net values
Loans	95,533	5,822,513	54,372	5,863,675
Debt securities	0	2,189,882	0	2,189,882
Off-balance sheet exposures	124	325,637	0	325,761
Total	**95,657**	**8,338,032**	**54,372**	**8,379,318**

their level of debt. Quickly reacting to such situations is in the interests of both the customer and the Bank. Problem loans are categorized as defaulted, non-performing and/or impaired. Loans which are 90 days past due are considered as non-performing. Defaulted loans are defined as loans which are 90 days past due and exceed a minimum materiality threshold or whose obligors are considered unlikely to pay. Loans which have been provisioned are considered impaired, and can either be performing or non-performing.

Table 5.15 Changes in stock of defaulted loans and debt securities

31 Dec 2015	1,000 EUR
Defaulted loans and debt securites at 31 Dec 2014	**99,414**
Loans and debt securities that have defaulted since the last reporting period	19,638
Returned to non-defaulted status	17,086
Amounts written off	5,854
Other changes	-456
Defaulted loans and debt securites at end of the reporting period	**95,657**

Table 5.16 Loans individually impaired EUR 1,000

31 Dec 2015

					Change during the period	
Sector	**Contract value**	**Individual impairment**	**Book value**	**Fair value of collateral**	**Change in impairment**	**Losses on credits and other commitments**
Corporate	39,294	34,524	4,770	4,803	-2,066	4,469
Housing associations	1,099	393	706	1,290	150	0
Public sector entities	0	0	0	0	0	0
Non-profit organisations	0	0	0	0	0	0
Households	12,340	9,594	2,746	6,444	1,935	1,350
Total	**52,733**	**44,510**	**8,222**	**12,537**	**19**	**5,819**

Write-downs on corporate loans by industry			
Research, consulting and other services	15,888	15,149	740
Trade	2,383	2,353	30
Construction	3,275	3,060	215
Industry	4,963	4,744	219
Human health and other service activities for households	6,008	3,304	2,704
Other	6,777	5,914	863
Total	**39,294**	**34,524**	**4,770**

31 Dec 2014

					Change during the period	
Sector	**Contract value**	**Individual impairment**	**Book value**	**Fair value of collateral**	**Change in impairment**	**Losses on credits and other commitments**
Corporate	47,452	41,071	6,381	7,185	-872	6,890
Housing associations	243	243	0	67	196	0
Public sector entities	0	0	0	0	0	0
Non-profit organisations	0	0	0	0	0	0
Households	11,359	8,997	2,362	5,792	2,935	470
Total	**59,053**	**50,311**	**8,742**	**13,044**	**2,258**	**7,360**

Write-downs on corporate loans by industry			
Research, consulting and other services	19,456	18,717	740
Trade	2,420	2,379	42
Construction	3,054	2,849	205
Industry	8,295	6,862	1,433
Human health and other service activities for households	6,346	3,285	3,061
Other	7,880	6,980	900
Total	**47,452**	**41,071**	**6,381**

Loan forbearance and modification in the form of repayment deferral also takes place due to other circumstances than a persistent deterioration in the borrower's credit standing.

According to the Group's accounting principles, a receivable will be tested for individual write-down when there is objective evidence that the customer's credit standing has deteriorated since the receivable was originally booked into the balance sheet. Objective evidence includes the borrower having significant financial difficulties, breach of contract (such as late payments of interest or capital), the granting of concessions for financial or legal reasons that the lender would otherwise not have considered, or the bankruptcy or other financial reconstruction of the borrower. An adjustment of the terms of the loan as a result of the borrower's deteriorated credit standing as above thus results in an individual write-down where the receivable exceeds the anticipated cash flow.

5.8 Counterparty risk in derivative contracts

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

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

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

Table 5.17 Derivative contracts

Credit risk mitigation effects, EUR million	31 Dec 2015
Gross positive fair value of contracts	172.5
Close out netting benefits	-15.3
Value after close out netting benefits	**157.2**
Received collaterals	-158.0
Value after close out netting and received collaterals	**-0.9**

6. Market risk

The Bank Group aims to have low market risks and low volatility in its earnings. Market risks in the Bank Group mainly arise from the interest rate risk in the banking book.

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

No trading activities are carried out by the Aktia Group.

6.1 Management, governance and measurement of market risk

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

The Group's Risk Control unit, which continuously monitors the market risks and the associated limits, is responsible for the reporting on these risk factors to the board and the executive committee.

6.2 Interest rate risk in the banking book (IRRBB)

The main market risk in the Aktia Group is the interest rate risk in the banking book, the structural interest rate risk. Structural interest rate risk arises from the mismatch between interest fixing periods and the repricing of assets and liabilities. As well as matching interest fixing periods in lending and borrowing through business management, derivative instruments and fixed-rate investments in the liquidity portfolio are also utilised, with the aim of maintaining net interest income at a stable level and protecting financial performance against sustained low interest rates.

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

Net interest income (NII) sensitivity is the result of any mismatch between the interest rate fixing periods for assets and liabilities. The repricing risk in the Bank's demand deposits is normally an important part of the NII sensitivity analysis.

Table 6.1 Structural interest rate risk

Interest sensitivity analysis with a parallel shift in the interest rate curve with of 100bps		Change in net interest income (EUR million)			
		31 Dec 2015		31 Dec 2014	
Period	**Interest rate change**	**Down**	**Up**	**Down**	**Up**
Changes during the next 12 months		-1.1	8.3	-6.1	-0.4
Changes during 12-24 months		-3.7	20.1	-9.7	+6.2

6.3 Foreign exchange rate risk

FX risk refers to a negative change in the value of the Bank Group's FX positions caused by fluctuations in exchange rates, particularly against the euro.

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

The FX exposure is very insignificant. At year-end, total net FX exposure for the Bank Group amounted to EUR 0.6 (0.7) million.

6.4 Equity and real estate risk

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

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

Table 6.2 Repricing gap analysis in the Bank Group

	Interest rate fixing period							
EUR million	**Within 3 months**	**3–6 months**	**6–12 months**	**1–2 years**	**2–5 years**	**> 5 years**	**Non-repricing**	**Total**
Interest-bearing assets	3,605	1,379	1,844	736	709	90		8,364
Non-interest-bearing asset							323	323
Total assets	**3,605**	**1,379**	**1,844**	**736**	**709**	**90**	**323**	**8,686**
Interest-bearing liabilities	2,167	1,822	183	410	1,448	1,790		7,821
Non-interest-bearing liabilities							865	865
Total liabilities and equity	**2,167**	**1,822**	**183**	**410**	**1,448**	**1,790**	**865**	**8,686**
Off-balance sheet items, net	**-1,164**	**-940**	**-13**	**270**	**1,161**	**686**		**0**
Exposure	**274**	**-1,383**	**1,647**	**595**	**422**	**-1,014**	**-542**	
Cumulative exposure		**-1,109**	**539**	**1,134**	**1,556**	**542**	**0**	

The exposures for both equity and real estate are insignificant. At the end of the year, real estate holdings amounted to EUR 0.1 (0.1) million, and investments in shares necessary for the business amounted to EUR 7.5 (0.9) million. The increase of investments in shares is attributable to the divestment of shares in the erstwhile associated company Folksam Non-Life Insurance. The remaining holding (10%) in Folksam Non-Life Insurance is reported as shares available for sale.

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

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

The size of the credit spread risk depends on the prospects for the counterparty, the instrument's seniority, and whether or not the investment has collateral. With regard to contracts traded on an active market, the market is constantly valuing the risk, making credit spread a component of the instrument's market price, and this credit spread is thus usually regarded as a part of the market risk.

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

6.5.1 Sensitivity analysis for interest rate risk and credit spread risk

Interest rate risk: In the sensitivity analysis, interest rate risk is stressed through percentage change factors calculated from the Euribor-Euroswaps curve for each rate maturity. The factors are determined from historical data and recalibrated annually. The downward stress represents the 0.5th percentile of all observed percentage changes, and the upward stress the 99.5th percentile. However, due to the current low level of interest rates, this method gives an insignificant change, which is why a minimum of 100 bps upwards and 50 bps downwards is applied for each maturity. The minimum interest rate level is still limited to -50 bps at all maturities.

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

Table 6.3 Sensitivity analysis for market risks, fixed income securities

	Assets available for sale			
	31 Dec 2015		31 Dec 2014	
Banking Group	**EUR million**	**%**	**EUR million**	**%**
Market value 31.12.	1,828.2	100.0%	1,999.0	100.0%
IR risk up (99.5th precentile)	-21.3	-1.2%	-3.9	-0.2%
IR risk up (100 bp)	-21.3	-1.2%	-27.6	-1.4%
IR risk down (0.5th precentile)	10.5	0.6%	3.2	0.2%
Spread risk	-42.4	-2.3%	-49.1	-2.5%

7. Operational risk

An increased emphasis was placed on the management of operational risks

Operational risks refer to the risk of losses arising from unclear or incomplete internal processes or instructions, deficient or unreliable systems, and inadequate or unreliable information, as well as those caused by the staff – including human error – or by external events. Operational risks include legal risks but exclude strategic risks.

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

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

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

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

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

In 2015, the main focus in assessing and managing operational risks has been on Aktia's ongoing core banking system replacement project.

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

In 2015, an increased emphasis was placed on the overall management of operational risks, amongst others through the strengthening of the Operational Risk Management team within Risk Control. The same applied to the gathering of KYC (know your customer) documentation from customers as well as on other aspects of prevention of money laundering and the financing of terrorism.

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

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

Before launching new products, services or work processes or introducing material changes in previously existing products, services or work processes, a process (the NPA process) is applied to identify the risks associated with the new product, service or changed process. The purpose is to prevent the introduction of products, services or processes that have not been carefully thought through.

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

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

In December, the Board of Directors adopted enhanced frameworks for internal controls and risk management as well as for the management of operational risks in the Group.

8. Liquidity risk and funding

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

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

8.1 Management, governance and measurement of liquidity risk

In the Bank Group, liquidity risks arise because the maturity structures on the asset and liability sides of the balance sheet do not coincide, since lending is generally longer-term than deposits. To ensure market-related refinancing, the bank strives to maintain a diverse range of funding sources and adequate diversification across different markets and investors. This ensures that the Bank can keep its core business intact for a very long period of time, even if there is extensive disruption in the financial markets.

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

8.1.1 Management of liquidity risk

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

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

During the year, Aktia Bank issued the Bank's third long-term covered bond of EUR 500 million. The stock of covered bonds secured by residential real estate totalled EUR 2,253 (2,658) million, of which Aktia Bank's share amounted to EUR 1,500 (1,000) million. At year-end, Aktia Bank's cover pool of eligible assets, mortgage loans, amounted to EUR 3,989 (3,451) million.

The financing is supplemented by other well-diversified borrowing, such as bonds and certificates of deposit issued on the domestic market, as well as deposits by Finnish institutional investors. The issue of bonds under the domestic programme amounted to EUR 243 (262) million of which the main part refers to subordinated debts. The Bank will also receive financing from the European Investment Bank within the framework of their programmes for financing small businesses and environmental projects.

In order to achieve a sound funding balance, Aktia is actively working to broaden its refinancing base. Over the financial period, Aktia Bank issued long-term unsecured senior bonds amounting to EUR 265 million. Other long-term bonds (Aktia Bank's EMTN programme and Schuldscheindarlehen) amounted to EUR 789 (724) million.

During the year, the long-term senior financing received from savings banks and POP Banks for Aktia Real Estate Mortgage Bank, amounting to EUR 198 million, was repaid early.

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

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

Diagram 8.1 Funding sources

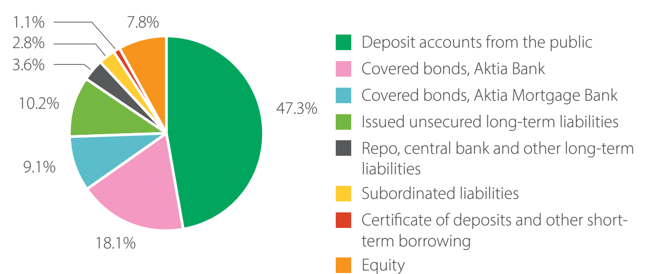
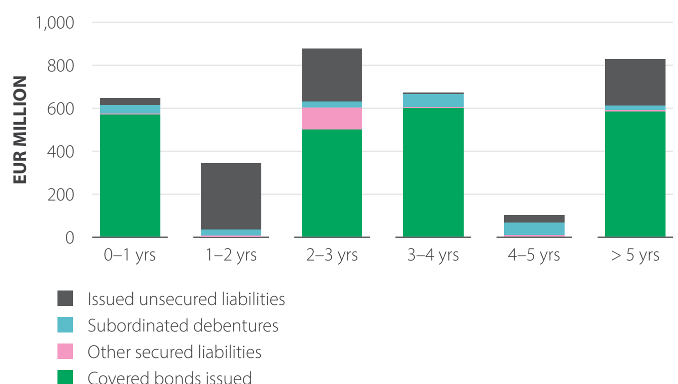


Figure 8.2 Maturity structure for the long-term funding



8.1.2 Governance of liquidity risk

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

8.1.3 Measurement of liquidity risk

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

Liquidity reserve and stress tests

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

The liquidity portfolio consists of highly liquid assets to meet liquidity needs in stressful situations. The unencumbered financial assets in the liquidity portfolio, which as described above can be used as a liquidity reserve, including cash and holdings in the central bank, amounted to a market value of about EUR 2,090 million, equivalent to just over 39 months of outgoing cash flows from the wholesale market. Table 8.3 shows the holdings in the liquidity reserve.

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

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

- Client withdrawals of deposits
- Severe utilisation of retail customer credit lines
- Higher collateral requirements due to increased margin calls
- Market disruption which will result in a general fall in the prices of the assets in the liquidity portfolio

Table 8.3 Liquidity reserve, 31 December 2015, market value

EUR million	Total
Cash and holdings in central banks	228
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	415
Securities issued or guaranteed by municipalities or public sector entities	188
Covered bonds	969
Own covered bonds	90
Securities issued by credit institutions	199
Securities issued by financial corporates	0
Total	**2,090**

Liquidity ratios

Furthermore, liquidity risks are measured and monitored with the help of the liquidity coverage ratio (LCR) and net stable funding ratio (NSFR). The LCR measures the short-term liquidity risk and aims to ensure that Aktia Bank's liquidity reserve consisting of unencumbered high-quality assets is large enough to meet short-term net outflows in stressed situations in the next 30 days. The internal LCR limit for the Aktia Group is that the ratio must be more than 100%.

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

The level of the LCR will fluctuate over time, depending, among other things, on what the maturity structure of the Bank's issued securities looks like. Table 8.4 presents the development of the LCR and NSFR in 2015 for Aktia Bank Group.

Table 8.4 LCR and NFSR

	31 Dec 2015	30 Sep 2015	30 Jun 2015	31 Mar 2015	31 Dec 2014
LCR %	275%	221%	189%	232%	186%
NFSR %	120%	118%	122%	124%	111%

EUR million

Liquidity coverage ratio (LCR)	31 Dec 2015	31 Dec 2014
Liquid assets, level 1	1 554	1 685
Liquid assets, level 2	24	10
Total liquid assets	**1 577**	**1 695**
Total cash outflows	708	999
Total cash inflows	135	90
Net cash outflows	**574**	**909**
Liquidity coverage ratio (LCR), %	**275%**	**186%**

8.2 Asset encumbrance

Another important part of Aktia's liquidity management consists of retaining significant volumes of unutilised collateral that can be used in the event of disruptions in the financial markets. One prerequisite for being able to pledge additional collateral is for the Bank to have collateral at its disposal from the outset. The Bank therefore retains substantial volumes of unencumbered assets that could be used as collateral in the issue of covered bonds and highly liquid securities with high credit ratings.

Table 8.5 Disclosure on asset encumbrance, EUR Million, as of 31 December 2015

Assets

	Carrying amount of encumbered assets	Fair value of encumbered assets	Carrying amount of unencumbered assets	Fair value of unencumbered assets
Assets of the reporting institution	**3,372**		**5,314**	
Loans on demand	0		272	
Equity instruments	0	0	8	8
Debt securities	433	441	1,757	1,764
Loans and advances other than loans on demand	2,911		2,953	
of which: mortgage loans	2,911		2,646	
Other assets	29		324	

Collateral received

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	**0**	**321**
Equity instruments	0	0
Debt securities	0	0
Loans and advances other than loans on demand		163
Other collateral received	0	158
Own debt securities issued other than own covered bonds or ABSs	0	0

Sources of encumbrance

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds and ABSs encumbered
Carrying amount of selected financial liabilities	**2,551**	**3,372**

Information on importance of encumbrance

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

9. Risk and capital in the life insurance business

Solvency II changes how capital adequacy is measured for the Life Insurance Company from the beginning of the year. Despite of little change in actual risk levels of the relevant risks - market and underwriting risk - the solvency coverage ratio undergoes a major shift to a "new normal" –level.

9.1 Risk management system and governance

The board of Aktia Life Insurance is the body with ultimate responsibility for the governance and operation of the company. However, as Aktia as a financial group is governed as a whole, much of the decision-making is done in cooperation with the Board of the Group and its relevant committees. In particular regarding matters which typically have impact on other subsidiaries as well – such as strategy, risk appetite, and asset and liability management (ALM) – decisions are made at Group level. Also, many of the written policies are common to all subsidiaries within the group. Matters concerning the daily operations of the insurance company – such as insurance production and development, insurance techniques (actuarial), sales, etc. – are decided within the insurance company.

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

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

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

9.2 Key risks in the life insurance company

In the ORSA of Aktia Life Insurance, the main risk categories are business risk, contact risk, insurance (underwriting) risk, operational risk and market risk. In the ORSA of 2015, market risk and insurance risk were the dominant risks with 74.2% (73.3%) and 23.7% (23.9%) of the total correlated risk sum, respectively. The correlated risk sum is referred to as the ORSA capital requirement and is calculated alongside the official Solvency II (and Solvency I, still in place on 31 December 2015) capital requirements. The available capital calculated for the Solvency II framework is compared with these requirements.

The sub-risks for the ORSA capital requirement are calculated using internal methods. For underwriting risk, the method coincides with the Solvency II framework regarding the life and health risk modules, but the correlation differs. The calculation of market risk, which is the largest risk, coincides with the method used for the daily internal market risk limit, and is the method used in the sensitivity analysis in chapter 6.5.1. The macroeconomic stress parameters used, which are the same for Aktia Bank and the life insurance company, are also described later in chapter 9.2.1.

9.2.1 Market risk

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

Table 9.1 Allocation of holdings in the interest linked portfolio

EUR million	31 Dec 2015		31 Dec 2014	
Equities	**0.0**	**0.0%**	**0.0**	**0.0%**
Fixed-income	**484.6**	**79.5%**	**500.1**	**79.4%**
Government bonds	125.7	20.6%	149.0	23.7%
Financial sector bonds in total	228.6	37.5%	248.9	39.5%
Covered bonds	185.9	30.5%	198.1	31.5%
Senior bonds	39.9	6.5%	44.9	7.1%
Subsenior bonds	2.8	0.5%	6.0	0.9%
Other corporate in total	81.1	13.3%	69.2	11.0%
Senior bonds	80.6	13.2%	68.6	10.9%
Subsenior bonds	0.6	0.1%	0.6	0.1%
Asset Backed Securities	0.0	0.0%	0.0	0.0%
Inflation-linked bonds	0.0	0.0%	0.0	0.0%
Emerging markets bonds	29.4	4.8%	32.9	5.2%
High yield bonds	19.7	3.2%	0.0	0.0%
Structured products with equity risk	0.0	0.0%	0.0	0.0%
Other structured products	0.0	0.0%	0.0	0.0%
Derivatives	0.0	0.0%	0.0	0.0%
Interest rate swaps	0.0	0.0%	0.0	0.0%
Forward contracts on currencies	0.0	0.0%	0.0	0.0%
Alternative investments	**3.3**	**0.5%**	**16.2**	**2.6%**
Private Equity & Venture capital	3.1	0.5%	15.9	2.5%
Hedge funds	0.2	0.0%	0.3	0.0%
Real estate	**81.6**	**13.4%**	**85.7**	**13.6%**
Directly owned	53.9	8.9%	57.1	9.1%
Real estate funds	27.7	4.5%	28.6	4.5%
Money market	**0.0**	**0.0%**	**0.0**	**0.0%**
Cash at bank	**39.8**	**6.5%**	**27.9**	**4.4%**
	609.3	**1.0**	**629.8**	**1.0**

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

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

In the sensitivity analysis, interest rate risk is stressed through percentage change factors calculated from the Euribor-Euroswaps curve for each rate maturity. The factors are determined from historical data, and recalibrated annually. The downward stress represents the 0.5th percentile of all observed percentage changes, and the upward stress the 99.5th percentile. However, due to the current low interest level, a minimum of 100 bps upwards and 50 bps downwards is applied for each maturity. The minimum level of any rate maturity is still limited to -50 bps.

Credit spread risk or simply spread risk is the risk connected to a change (increase) of default risk for a specific counterparty. The spread risks of the life insurance company are mostly implicitly priced by the market by observation of such factors as the security's seniority, collateralisation and credit rating. Spread risk has grown in proportion due to the low interest rate level, and at year's end it is the second largest market risk after interest rate risk. On the asset side, roughly the same instruments (fixed-income securities) are subject to both spread and interest rate risk, but as the interest-linked technical provisions are not subject to spread risk, this risk is one-sided, unlike the interest rate risk. This fact makes hedging by matching impossible, and the only way to hedge against spread risk is through credit derivatives, which are currently not used. However, as the investment policy currently excludes equities, a higher spread risk is the natural price to pay for a higher return. Fixed-income still dominates the portfolio, and totalled EUR 524.4 (527.9) million or 86% (84%) at year's end.

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

Table 9.2 Sensitivity analysis for market risk

	Portfolio		Technical provisions*		Total			
	2015	2014	2015	2014	2015		2014	
	EUR million	EUR million	EUR million	EUR million	EUR million	%	EUR million	%
Interest linked								
Market value 31 Dec	609.3	629.8	-504.6	-529.7	104.7	100.0%	111.4	100.0%
IR risk up	-23.2	-7.4	52.4	16.7	29.2	27.9%	9.3	8.3%
IR risk down	18.4	12.0	-60.8	-34.3	-42.4	-40.5%	-22.3	-20.0%
Spread risk	-24.3	-29.2	0.0	0.0	-24.3	-23.2%	-29.2	-26.2%
Currency risk	-8.2	-8.1	0.0	0.0	-8.2	-7.8%	-8.1	-7.3%
Equity risk	-2.1	-8.9	-0.2	0.0	-2.3	-2.2%	-8.9	-8.0%
Real estate risk	-21.5	-17.1	0.0	0.0	-21.5	-20.5%	-17.1	-15.4%
Unit- and index linked								
Market value 31 Dec	667.7	-	-635.7	-	32.0	100.0%		
IR risk up	-12.3	-	13.6	-	1.3	4.1%		
IR risk down	13.8	-	-14.6	-	-0.8	-2.5%		
Spread risk	-17.0	-	16.4	-	-0.6	-1.9%		
Currency risk	-42.6	-	44.0	-	1.4	4.4%		
Equity risk	-184.9	-	167.1	-	-17.8	-55.6%		
Real estate risk	0.0	-	0.0	-	0.0	0.0%		

*) The market value of the technical provisions is a risk-neutral value that is obtained by discounting simulated cash flows by the internal model rate curve. Therefore it differs from the book value, as well as from the Solvency II Best Estimate.

Table 9.3 Technical provisions by policy type and guaranteed rate

EUR million	Technical provisions 31 Dec 2015	%	Premiums	Claims paid	Expense charges	Gua-ranteed interest	Bonuses	Technical provisions 31 Dec 2014
Group pension	**51.7**	**4.6%**	**2.8**	**2.7**	**0.3**	**1.6**	**0.0**	**50.0**
3.5%	51.2	4.5%	2.8	2.6	0.3	1.6	0.0	49.6
2.5%	0.2	0.0%	0.0	0.1	0.0	0.0	0.0	0.2
1.0%	0.3	0.0%	0.0	0.1	0.0	0.0	0.0	0.2
Individual pension insurance	**296.1**	**26.2%**	**6.3**	**27.3**	**0.9**	**12.1**	**0.0**	**302.8**
4.5%	197.0	17.4%	3.0	19.5	0.6	8.9	0.0	205.1
3.5%	70.4	6.2%	1.9	5.7	0.2	2.4	0.0	70.1
2.5%	28.7	2.5%	1.4	2.1	0.1	0.7	0.0	27.6
Savings insurance	**69.7**	**6.2%**	**1.6**	**9.1**	**0.4**	**2.2**	**0.0**	**76.2**
4.5%	13.9	1.2%	0.7	4.5	0.2	0.7	0.0	17.2
3.5%	22.0	2.0%	0.7	1.5	0.1	0.8	0.0	22.5
2.5%	33.7	3.0%	0.3	3.1	0.1	0.8	0.0	36.5
Risk insurance	**31.2**	**2.8%**	**19.9**	**12.1**	**6.8**	**1.0**	**0.0**	**33.3**
Unit linked insurance	**662.2**	**58.6%**	**143.7**	**39.1**	**7.8**	**0.0**	**0.0**	**543.1**
Savings insurance	526.8	46.6%	134.6	35.9	6.1	0.0	0.0	418.5
Individual pension insurance	124.9	11.0%	7.2	3.1	1.5	0.0	0.0	116.2
Group pension	10.5	0.9%	1.9	0.0	0.2	0.0	0.0	8.5
Reservation for increased life expectancy	**3.7**	**0.3%**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**3.9**
Reservation for lowered discount rate	**16.0**	**1.4%**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**16.0**
	1,130.5	**100.0%**	**174.4**	**90.3**	**16.2**	**16.9**	**0.0**	**1,025.4**

FX risk arises from changes in the exchange rate against the base currency (the euro). The FX risk of the company arises from positions in mutual fixed-income funds investing in emerging markets and high-yield bonds emitted in USD and local currencies. Also, some positions in private equity and hedge funds are in foreign currencies. The actual positions in foreign currency securities at year's end were EUR 20.6 (23.7) million. However, mutual funds officially denoted in euro might contain instruments in other currencies as well, which is taken into account in the risk calculation. FX risk is noteworthy on both the interest-linked and the unit-linked sides.

In the sensitivity analysis, each currency is shocked both downwards and upwards, and the worst case for each currency is chosen, after which the effect is summed over all currencies (without correlation). The stress factors are determined from historical data and recalibrated annually, representing the 0.5th percentile and the 99.5th percentile, respectively, of the percentage changes in exchange rates.

Equity risk reflects possible decreases in the value of equities. In the portfolio covering interest-linked policies, the equity risk has arisen only from private equity funds and similar assets, the immediate disposal of which is not possible. During 2015, the positions in these assets decreased significantly, and are now only EUR 3.3 (15.9) million. In addition, there is a EUR 0.2 (0.3) million hedge fund portfolio. On the unit-linked side, equity risk is the most substantial risk. This is mostly due to volume; as the majority of unit linked securities are equity or mixed mutual funds, the company's share of risk remains substantial even after netting assets and technical provisions. The market value for the unit-linked portfolio was EUR 667.7 (545.3) million at year's end, of which EUR 368.1 (296.9) million was subject to equity risk.

Real estate risk reflects possible decreases in the value of owned real estate. The real estate risk of the company arises from positions in real estate funds and physical real estate. At year's end, the total real estate position was EUR 81.6 (85.7) million. Real estate risk is the third largest of the market risks. On the unit-linked side, it is of negligible importance.

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

9.2.2 Underwriting risk

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

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

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

At year's end, the total life risk was EUR 48.7 million correlated, and EUR 71.0 million uncorrelated. Health risk was EUR 17.6 million correlated and EUR 17.9 million uncorrelated.

Mortality risk is stressed through a 15% increase in mortality, and mostly arises from life insurance policies. At year's end the risk for life insurance was EUR 9.9 million, and for health insurance it was below EUR 0.1 million.

Longevity risk is stressed through a 20% decrease in mortality, and mostly arises from pensions and savings policies. At year's end, the risk for life insurance was 7.3 million, and for health insurance it was below EUR 0.1 million.

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

31 Dec 2015	Duration	2016–2017	2018–2019	2020–2024	2025–2029	2030–2036	2037–2046	2047–2056	2057–
Savings insurance	**5.4**	**17.5**	**15.1**	**21.8**	**11.8**	**9.5**	**8.1**	**3.6**	**3.7**
4.5%	3.4	8.6	3.9	1.7	1.2	0.4	0.2	0.1	0.0
3.5%	10.6	2.5	5.6	9.9	4.2	3.7	3.1	1.6	1.7
2.5%	10.7	6.4	5.5	10.3	6.4	5.4	4.8	2.0	2.0
Pensions	**10.3**	**51.1**	**58.4**	**116.0**	**99.4**	**88.4**	**68.2**	**35.3**	**13.7**
4.5%	7.7	42.9	41.9	80.7	58.7	33.8	8.9	1.7	0.5
3.5%	12.7	11.5	16.2	33.9	35.9	42.9	37.2	16.1	9.7
2.5%	19.7	-1.8	0.6	2.9	4.3	11.7	19.9	14.5	2.7
1.0%	15.6	-1.5	-0.3	-1.4	0.3	0.0	2.2	3.0	0.8
Other insurance	**8.7**	**7.5**	**-1.1**	**-5.1**	**-5.7**	**-5.9**	**-6.4**	**-2.9**	**-0.7**
Total	**10.9**	**76.1**	**72.3**	**132.7**	**105.4**	**92.0**	**69.9**	**36.1**	**16.7**

Disability risk is stressed as a combination of an increase of 35% in the assumed disability rates during the next year and 25% during the following years, as well as a decrease of 20% in the recovery rates.

For health insurance policies, a 5% increase in healthcare expenses combined with a 1 percentage point increase in the assumed inflation rate is used. The risk mainly arises from policies covering disability and health expenses. At year's end the risk for life insurance was EUR 0.7 million and for health insurance EUR 15.1 million.

Lapse risk is calculated as the worst of three stress scenarios; an increase in lapse frequency, a decrease in lapse frequency, and a mass lapse event. This is estimated to be the largest underwriting risk, and at years end the risk for life insurance was EUR 30.1 million and for health insurance EUR 3.6 million.

Expense risk is stressed through an increase in 10% of the assumed future expense combined with a 1 percentage point increase in the assumed inflation rate. Expense risk is the second largest of the underwriting risks. At year-end the risk for life insurance was EUR 18.8 million and for health insurance EUR 2.9 million.

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

9.3 Capital management and solvency position

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

The Group's goal is to allocate the capital within the parent company and the subsidiaries, so that an efficient and, at the same time, reassuring capitalisation rate can be achieved for all companies. The Group's policy has, in recent years, been that the life insurance company maintains capital to cover the necessary regulatory requirements, but that any surplus capital is transferred to the parent company. The official capital requirements considered in this report are the Solvency I capital requirement, which was in force until 31 December 2015, and the company's internal risk-based requirement. Here we will also consider the requirement of the Solvency II framework, which is effective from the beginning of 2016.

Solvency II will – due to the nature of the calculations of available capital and requirement – result in significantly lower coverage ratios than those of Solvency I. The life insurance company has therefore set out to strengthen its capital position over time.

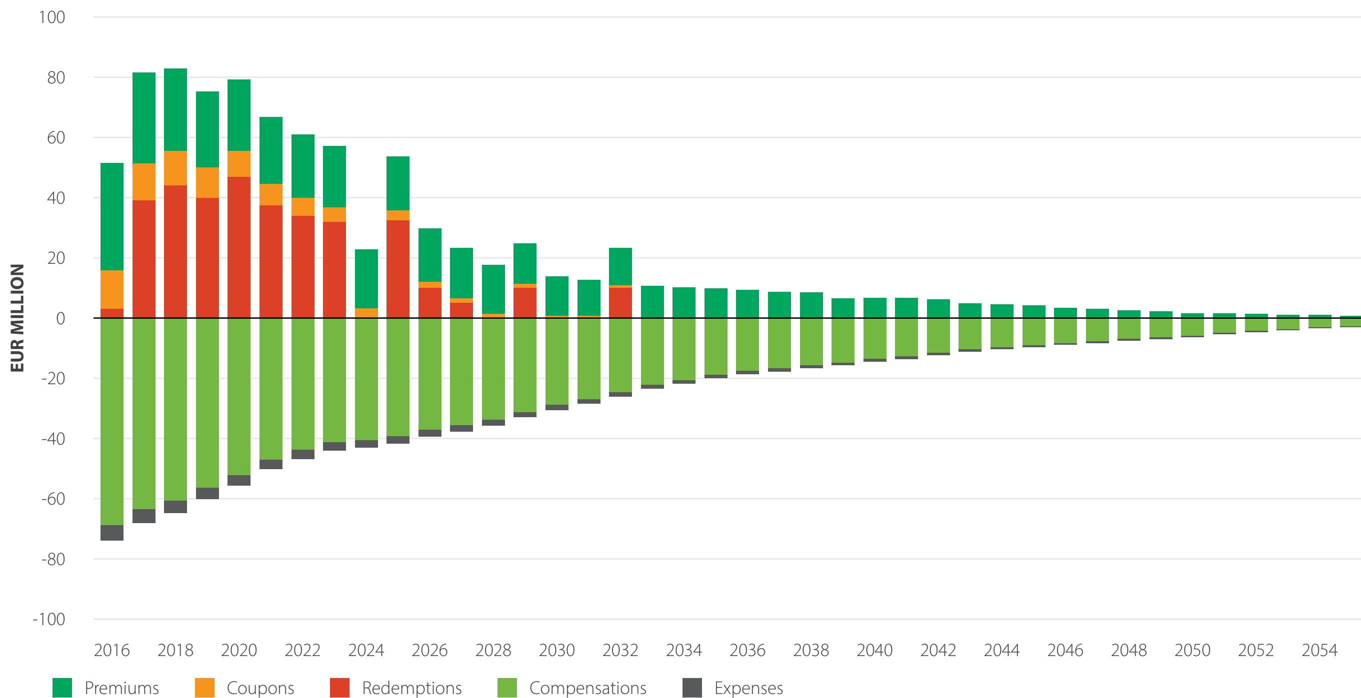
9.3.1 Solvency I

The solvency ratio on the current regulatory basis (Solvency I) at year's end was 374.7% (390.1%), with an available solvency capital of EUR 130.4 (133.4) million and a solvency requirement of EUR 34.8 (34.2) million.

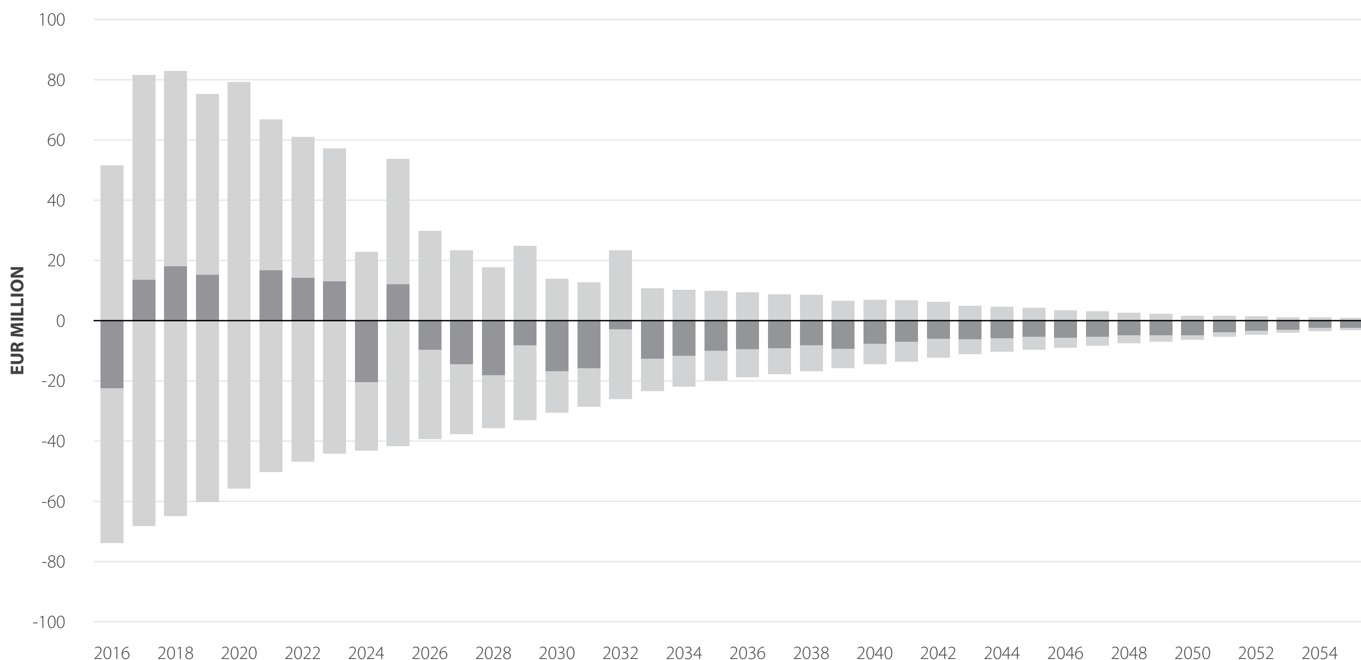
9.3.2 Solvency II

Aktia Life Insurance has been granted permission to use the transition rule for technical provisions in its calculation of the Solvency II available capital. The capital structure of the company is fairly straightforward, and at year's end all available capital was Tier 1 capital eligible for covering both the SCR (solvency capital requirement) and MCR (minimum capital requirement). The opening balance of Solvency II is to be submitted to the PSA in May 2016. The estimated eligible solvency capital is EUR 143.2 million, and the estimated requirement (SCR) is EUR 81.5 million, resulting in a solvency ratio of 175.8%. The ratio towards the MCR of EUR 24.8 million is 577.7%.

Figure 9.5 Cash flow distribution and mismatch of interest linked policies – technical provisions vs. portfolio



Mismatch of in- and outflows



10. Regulatory development

There seems to be a constant flow of new regulations for banking and insurance businesses. While banks are still in the process of implementing a large amount of existing regulation, there are new legislative initiatives under discussion concerning capital and risk.

Reporting of the leverage ratio was implemented in 2015 and, starting from 2018, financial institutions such as Aktia must comply with this regulation. The Basel Committee earlier indicated that the minimum level of this indicator is 3%. Aktia reported a leverage ratio of 4.9% at year-end 2015. The calibration of the required level of this indicator will be presented to the EU Commission by EBA in 2016.

The Net Stable Funding Requirement is also in the final stages of calibration. The minimum requirement of NSFR is 100%, and according to the Basel Committee, it will be implemented starting in 2018. In the EU, the Commission will submit a legislative proposal on this issue in 2016. Aktia reported an NSFR level of 121% at year-end 2015.

The local supervisor, the Financial Supervisory Authority, decides yearly after a supervisory review the level of required capital buffers for each regulated institution. This requirement will be decided for Aktia during 2016.

The Basel Committee published in December 2014 a consultative document regarding new rules for calculating credit risk according to standard methods. Simultaneously, it also published a document on capital floors. Later in 2015, they published a revised version calculating credit risk according to standard methods. Capital floors are intended to set a floor to risk weights that are calculated according to the IRB methodology. The Basel Committees' document states that the risk weights should be limited in relation to those calculated according to standard methods. This kind of regulation would have a large effect on all banks, and it will also affect Aktia.

The Basel Committee and EBA are also about to publish new rules for IRB methodology during 2016. Aktia's IRB methodology can be described as quite conservative, but the new regulation will probably also have effects on Aktia too.

The Basel Committee has also published a document on methods of calculating operative risk. This will have an effect on Aktia's required levels in the future.

European banking crisis management rules were established from the beginning of 2015. In Finland, local legislation was established and a new authority was established, called the Financial Stability Authority. During 2016, Aktia will start discussions with this authority. The results of these discussions will include drawing up the resolution plan for Aktia and the setting of the MREL requirement. These results may later have an effect on Aktia's capital planning.

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

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

List of abbreviations

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

Appendix contents

Appendix 1

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

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

Appendix 2 Full disclosure of items and deductions in own funds

Appendix 3 Main features of CET1 capital instruments

Appendix 4 Main features of T2 capital instruments

Appendix 1

Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

31 Dec 2015 **1,000 EUR**

	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Carrying values of items:		
			Subject to credit risk framework	Subject to counterparty credit risk framework	Not subject to capital requirements or subject to deduction from capital
Assets					
Cash and balances with central banks	268,361	268,360	268,360	0	0
Financial assets available for sale	2,197,648	1,693,592	1,693,592	0	0
Financial assets held until maturity	481,653	481,653	481,653	0	0
Derivative instruments	172,495	172,495	0	172,495	0
Loans and other receivables	5,900,156	5,896,375	5,896,375	0	0
Investments for unit-linked insurances	667,748	0	0	0	0
Investments in associated companies	0	0	0	0	0
Investments in group companies	0	46,191	41,779	0	4,412
Intangible assets	50,753	49,364	0	0	49,364
Investment properties	53,746	78	78	0	0
Other tangible assets	8,692	8,681	8,681	0	0
Total other assets	69,750	58,921	58,921	0	0
Tax receivables	10,541	10,541	10,541	0	0
Total assets	**9,881,543**	**8,686,252**	**8,459,981**	**172,495**	**53,775**
Liabilities					
Deposits	4,396,818	4,433,518	0	0	0
Derivative instruments	86,176	86,176	0	0	0
Other financial liabilities	3,427,248	3,430,819	0	205,234	0
Technical provisions	1,130,463	0	0	0	0
Total other liabilities	164,624	161,011	0	0	0
Provisions	2,336	2,336	0	0	0
Tax liabilities	58,651	42,401	0	0	0
Total liabilities	**9,266,317**	**8,156,260**	**0**	**205,234**	**0**

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

31 Dec 2015 **1,000 EUR**

		Total	Items subject to:	
			Credit risk framework	Counter-party credit risk frame-work
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)	8,632,476	8,459,981	172,495
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)	205,234	0	205,234
3	Total net amount under regulatory scope of consolidation	8,837,710	8,459,981	377,729
4	Off-balance sheet amounts	324,770	161,110	0
5	Differences in derivative exposure amounts		0	27,895
6	Differences due to consideration of provisions		14,300	0
7	Credit value adjustment (CVA)		0	56,334
8	Credit risk mitigation techniques affecting the exposure amount: financial collateral, comprehensive method		-40,972	-357,840
10	**Exposure amounts considered for regulatory purposes**		**8,594,419**	**104,118**

Appendix 2 Full disclosure of items and deductions in own funds, 31 Dec 2015

1,000 EUR

	Transitional own funds disclosure template	AMOUNT AT DISCLOSURE DATE	REGULATION (EU) No 575/2013 ARTICLE REFERENCE	AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) No 575/2013
Common Equity Tier 1 (CET1) capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	163,000	26 (1), 27, 28, 29, EBA list 26 (3)	
	of which: Share capital	163,000	EBA list 26 (3)	
2	Retained earnings	179,500	26 (1) (c)	
3	Accumulated other comprehencive income (and other reserves, to include unrealised gains and losses under the applicable accounting standards)	141,353	26 (1)	
3a	Funds for general banking risk	0	26 (1) (f)	
4	Amount of qualifying items referred to in Article 484 (3) and the related share premium accounts subject to phase out from CET 1	0	486 (2)	
	Public sector capital injection grandfathered until 1 January 2018	0	483 (2)	
5	Minority interests (amount allowed in consolidated CET1)	0	84, 479, 480	
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	2,477	26 (2)	
6	Common Equity Tier 1 (CET1) capital before regulatory adjustments	486,331		
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	0	34, 105	
8	Intangible assets (net of related tax liability) (negative amount)	-47,776	36 (1) (b), 37, 472 (4)	
9	Empty Set in the EU	0		
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability where conditions in Article 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 472 (5)	
11	Fair value reserves related to gains or losses on cash flow hedges	-54	33 (a)	
12	Negative amounts resulting from the calculation of expected loss amounts	-19,153	36 (1) (d), 40, 159, 472 (6)	
13	Any increase in equity that result from securitised assets (negative amount)	0	32 (1)	
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	0	33 (b)	
15	Defined-benefit pension fund assets (negative amount)	0	36 (1) (e), 41, 472 (7)	
16	Direct and indirect holdings by an institution of own CET1 instruments (negative amount)	-1,555	36 (1) (f), 42, 472 (8)	
17	Holdings of the CET1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to artificially inflate the own funds of the institution (negative amount)	0	36 (1) (g), 44, 472 (9)	
18	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	0	36 (1) (h), 43, 45, 46, 49 (2) (3), 79, 472 (10)	
19	Direct, indirect and synthetic holdings of the CET1 instruments of financial sector entities where th institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	-4,412	36 (1) (i), 43, 45, 47, 48 (1) (b), 49 (1) to (3), 79, 470, 472 (11)	
20	Empty Set in the EU	0		
20a	Exposure amount of the following items which qualify for a RW of 1250%, where the institution opts for the deduction alternative	0	36 (1) (k)	

20b	of which: qualifing holdings outside the financial sector (negative amount)	0	36 (1) (k) (i), 89 to 91
20c	of which: securitisation positions (negative amounts)	0	"36 (1) (k) (ii) 243 (1) (b) 244 (1) (b) 258"
20d	of which: free deliveries (negative amount)	0	36 (1) (k) (iii), 379 (3)
21	Deferred tax assets arising from temporary differences (amount above 10% threshold, net of related tax liability where the conditions in 38 (3) are met) (negative amount)	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
22	Amount exceeding the 15% threshold (negative amount)	0	48 (1)
23	of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities	0	36 (1) (i), 48 (1) (b), 470, 472 (11)
24	Empty Set in the EU	0	
25	of which: deferred tax assets arising from temporary differences	0	36 (1) (c), 38, 48 (1) (a), 470, 472 (5)
25a	Losses for the current financial year (negative amount)	0	36 (1) (a), 472 (3)
25b	Foreseeable tax charges relating to CET1 items (negative amount)	0	36 (1) (l)
26	Regulatory adjustments applied to Common Equity Tier 1 in respect of amounts subject to pre-CRR treatment	0	
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	0	
	Of which: … filter for unrealised loss 1	0	467
	Of which: … filter for unrealised loss 2	0	467
	Of which: … filter for unrealised gain 1	0	468
	Of which: … filter for unrealised gain 2	0	468
26b	Amount to be deducted from or added to Common Equity Tier 1 capital with regard to additional filters and deductions required pre-CRR	0	481
	Of which: …	0	481
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	0	36 (1) (j)
28	Total regulatory adjustments to Common equity Tier 1 (CET1)	-72,950	
29	Common Equity Tier 1 (CET1) capital	413,380	

Additional Tier 1 (AT1) capital: instruments

30	Capital instruments and the related share premium accounts	0	51, 52
31	of which: classifies as equity under applicable accounting standards	0	
32	of which: classified as liabilities under applicable accounting standards	0	
33	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from AT1	0	486 (3)
	Public sector capital injections grandfathered until 1 January 2018	0	486 (3)
34	Qualifying Tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5) issued by subsidiaries and held by third parties	0	85, 86, 480
35	of which: instruments issued by subsidiaries subject to phase out	0	486 (3)
36	Additional Tier 1 (AT1) capital before regulatory adjustments	0	

Additional Tier 1 (AT1) capital: regulatory adjustments

37	Direct and indirect holdings by an institution of own AT1 Instruments (negative amount)	0	52 (1) (b), 56 (a), 57, 475 (2)
38	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	56 (b), 58, 475 (3)
39	Direct, indirect and synthetic holdings of the AT1 instruments of financial sector entities where the institution does not have a significant investment in those entities (amount above the 10% threshold and net of eligible short positions) (negative amount)	0	56 (c), 59, 60, 79, 475 (4)
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	56 (d), 59, 79, 475 (4)

41	Regulatory adjustments applied to additional tier 1 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (ie. CRR residual amounts)	0	
41a	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)
	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	0	
41b	Residual amounts deducted from Additional Tier 1 capital with regard to deduction from Tier 2 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	477,477 (3), 477 (4) (a)
	Of which items to be detailed line by line, e.g. Reciprocal cross holdings in Tier 2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc	0	
41c	Amount to be deducted from or added to Additional Tier 1 capital with regard to additional filters and deductions required pre- CRR	0	467, 468, 481
	Of which: …possible filter for unrealised losses	0	467
	Of which: …possible filter for unrealised gains	0	468
	Of which: …	0	481
42	Qualifying T2 deductions that exceed the T2 capital of the institution (negative amount)	0	56 (e)
43	Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	
44	Additional Tier 1 (AT1) capital	0	
45	Tier 1 capital (T1 = CET1 + AT1)	413,380	

Tier 2 (T2) capital: instruments and provisions

46	Capital instruments and the related share premium accounts	122,592	
47	Amount of qualifying items referred to in Article 484 (5) and the related share premium accounts subject to phase out from T2	5,773	486 (4)
	Public sector capital injections grandfathered until 1 January 2018	0	483 (4)
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties	0	87, 88, 480
49	of which: instruments issued by subsidiaries subject to phase out	0	486 (4)
50	Credit risk adjustments	0	62 (c) & (d)
51	Tier 2 (T2) capital before regulatory adjustments	128,365	

Tier 2 (T2) capital: regulatory adjustments

52	Direct and indirect holdings by an institution of own T2 instruments and subordinated loans (negative amount)	0	63 (b) (i), 66 (a), 67, 477 (2)
53	Holdings of the T2 instruments and subordinated loans of financial sector entities where those entities have reciprocal cross holdings with the institution designed to inflate artificially the own funds of the institution (negative amount)	0	66 (b), 68, 477 (3)
54	Direct and indirect holdings of the T2 instruments and subordinated loans of financial sector entities where the institution does not have a significant investment in those entities (amount above 10% threshold and net of eligible short positions) (negative amount)	0	66 (c), 69, 70, 79, 477 (4)
54a	Of which new holdings not subject to transitional arrangements	0	
54b	Of which holdings existing before 1 January 2013 and subject to transitional arrangements	0	
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions) (negative amount)	0	66 (d), 69, 79, 477 (4)
56	Regulatory adjustments applied to tier 2 in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	0	
56a	Residual amounts deducted from Tier 2 capital with regard to deduction from Common Equity Tier 1 capital during the transitional period pursuant to article 472 of Regulation (EU) No 575/2013	0	472, 472(3)(a), 472 (4), 472 (6), 472 (8), 472 (9), 472 (10) (a), 472 (11) (a)

	Of which items to be detailed line by line, e.g. Material net interim losses, intangibles, shortfall of provisions to expected losses etc	0	
56b	Residual amounts deducted from Tier 2 capital with regard to deduction from Additional Tier 1 capital during the transitional period pursuant to article 475 of Regulation (EU) No 575/2013	0	475, 475 (2) (a), 475 (3), 475 (4) (a)
	Of which items to be detailed line by line, e.g. reciprocal cross holdings in at1 instruments, direct holdings of non significant investments in the capital of other financial sector entities, etc	0	
56c	Amount to be deducted from or added to Tier 2 capital with regard to additional filters and deductions required pre CRR	0	467, 468, 481
	Of which: …possible filter for unrealised losses	0	467
	Of which: …possible filter for unrealised gains	0	468
	Of which: …	0	481
57	Total regulatory adjustments to Tier 2 (T2) capital	0	
58	Tier 2 (T2) capital	128,365	
59	Total capital (TC = T1 + T2)	541,745	
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amounts)	104,448	
	Of which: Residual amounts relating to holdings in significant financial entities not deducted from CET1 capital	104,448	472, 472 (5), 472 (8) (b), 472 (10) (b), 472 (11) (b)
	"Of which: …items not deducted from AT1 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Reciprocal cross holdings in T2 instruments, direct holdings of non-significant investments in the capital of other financial sector entities, etc)"	0	475, 475 (2) (b), 475 (2) (c), 275 (4) (b)
	"Items not deducted from T2 items (Regulation (EU) No 575/2013 residual amounts) (items to be detailed line by line, e.g. Indirect holdings of own t2 instruments, indirect holdings of non significant investments in the capital of other financial sector entities, indirect holdings of significant investments in the capital of other financial sector entities etc)"	0	477, 477 (2) (b), 477 (2) (c), 477 (4) (b)
60	Total risk weighted assets	1,998,768	

Capital ratios and buffers

61	Common Equity Tier 1 (as a percentage of risk exposure amount)	20.68%	92 (2) (a), 465
62	Tier 1 (as a percentage of risk exposure amount)	20.68%	92 (2) (b), 465
63	Total capital (as a percentage of risk exposure amount)	27.10%	92 (2) (c)
64	Institution specific buffer requirement (CET1 requirement in accordance with article 92 (1) (a) plus capital conservation and countercyclical buffer requirements, plus systemic risk buffer, plus the systemically important institution buffer (G-SII or O-SII buffer), expressed as a percentage of risk exposure amount)	2.525%	CRD 128, 129, 130
65	of which: capital conservation buffer requirement	2.50%	
66	of which: countercyclical buffer requirement	0.025%	
67	of which: systemic risk buffer requirement	0.00%	
67a	of which: Global Systemically Important Institution (G-SII) or Other Systemically Important Institution (O-SII) buffer	0.00%	CRD 131
68	Common Equity Tier 1 available to meet buffers (as a percentage of risk exposure amount)	16.18%	CRD 128
69	[non relevant in EU regulation]		
70	[non relevant in EU regulation]		
71	[non relevant in EU regulation]		

Amounts below the thresholds for deduction (before risk weighting)

72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	0	"36 (1) (h), 45, 46, 472 (10) 56 (c), 59, 60, 475 (4) 66 (c), 69, 70, 477 (4)"
73	Direct and indirect holdings by the institution of the CET 1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	41,779	36 (1) (i), 45, 48, 470, 472 (11)

74	Empty Set in the EU	0	
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability where the conditions in Article 38 (3) are met)	0	36 (1) ©, 38, 48, 470, 472 (5)

Applicable caps to the inclusion of provisions in Tier 2

76	Credit risk adjustments included in T2 in respect of exposures subject to standardized approach (prior to the application of the cap)	0	62
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	0	62
78	Credit risk adjustments included in T2 in respect of exposures subject to internal ratings-based approach (prior to the application of the cap)	0	62
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	0	62

Capital instruments subject to phase-out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)

80	- Current cap on CET1 instruments subject to phase out arrangements	0	484 (3), 486 (2) & (5)
81	- Amount excluded from CET1 due to cap (excess over cap after redemptions and maturities)	0	484 (3), 486 (2) & (5)
82	- Current cap on AT1 instruments subject to phase out arrangements	0	484 (4), 486 (3) & (5)
83	- Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	0	484 (4), 486 (3) & (5)
84	- Current cap on T2 instruments subject to phase out arrangements	92,094	484 (5), 486 (4) & (5)
85	- Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	0	484 (5), 486 (4) & (5)

Appendix 3 Main features of CET1 capital instruments, 31 Dec 2015

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

Appendix 4 Main features of T2 capital instruments, 31 Dec 2015

		Tier 2 - Issue 1	Tier 2 - Issue 2	Tier 2 - Issue 3	Tier 2 - Issue 4	Tier 2 - Issue 5
1	Issuer	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000020102	FI4000022058	FI4000024047	FI4000029244	FI4000031539
3	Governing law(s) of the instrument	Finland	Finland	Finland	Finland	Finland
Regulatory treatment						
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	"Post-transitional CRR rules"	Ineligible	Ineligible	Ineligible	Ineligible	Ineligible
6	Eligible at solo/ (sub-)consolidated/ solo &(sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (EUR million)	0.0	0.3	1.2	2.4	1.9
9	Nominal amount of instrument (EUR million)	1.9	2.0	3.6	3.7	2.3
9a	Issue price	100%	99.93% (weighted average)	100%	100%	100.38% (weighted average)
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	1 Jan 2011	28 Feb 2011	2 May 2011	22 Aug 2011	24 Oct 2011
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	3 Jan 2016	28 Feb 2016	2 May 2016	22 Aug 2016	24 Oct 2016
14	Issuer call subject to prior supervisory approval	No	No	No	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
Coupons/dividends						
17	Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	3.25	3.25	3.50	3.50	3.50
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured
36	Non-compliant transitioned features	Yes	Yes	Yes	Yes	Yes
37	If Yes, specify non-compliant features	Effective maturity under 5 years	Effective maturity under 5 years	Effective maturity under 5 years	Effective maturity under 5 years	Effective maturity under 5 years

Appendix 4, cont.

		Tier 2 - Issue 6	Tier 2 - Issue 7	Tier 2 - Issue 8	Tier 2 - Issue 9	Tier 2 - Issue 10
1	Issuer	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000068408	FI4000071550	FI4000076740	FI4000085519	FI4000092614
3	Governing law(s) of the instrument	Finland	Finland	Finland	Finland	Finland
Regulatory treatment						
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	"Post-transitional CRR rules"	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/ (sub-)consolidated/ solo &(sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (EUR million)	8.2	6.5	7.9	6.3	11.7
9	Nominal amount of instrument (EUR million)	15.5	10.8	12.5	9.5	16.1
9a	Issue price	100%	100%	100%	100%	100%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	19 Aug 2013	21 Oct 2013	2 Jan 2014	3 Mar 2014	28 Apr 2014
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	19 Aug 2018	2 Jan 2019	1 Mar 2019	26 Apr 2019	16 Aug 2019
14	Issuer call subject to prior supervisory approval	No	No	No	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
Coupons/dividends						
17	Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	3.00	3.00	3.00	3.00	3.00
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured
36	Non-compliant transitioned features	No	No	No	No	No
37	If Yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

Appendix 4, cont.

		Tier 2 - Issue 11	Tier 2 - Issue 12	Tier 2 - Issue 13	Tier 2 - Issue 14	Tier 2 - Issue 15
1	Issuer	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000104898	FI4000113204	FI4000125315	FI4000148333	FI4000153499
3	Governing law(s) of the instrument	Finland	Finland	Finland	Finland	Finland
Regulatory treatment						
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
5	"Post-transitional CRR rules"	Tier 2	Tier 2	Tier 2	Tier 2	Tier 2
6	Eligible at solo/ (sub-)consolidated/ solo &(sub-)consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (EUR million)	9.8	10.5	5.0	7.4	16.9
9	Nominal amount of instrument (EUR million)	12.9	13.2	6.0	8.6	18.2
9a	Issue price	100%	100%	100%	100%	100%
9b	Redemption price	100%	100%	100%	100%	100%
10	Accounting classification	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	18 Aug 2014	20 Oct 2014	2 Jan 015	2 Mar 2015	27 Apr 2015
12	Perpetual or dated	Dated	Dated	Dated	Dated	Dated
13	Original maturity date	18 Oct 2019	2 Jan 2020	28 Feb 2020	24 Apr 2020	15 Aug 2020
14	Issuer call subject to prior supervisory approval	No	No	No	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A	N/A	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A	N/A	N/A	N/A
Coupons/dividends						
17	Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	3.00	3.00	2.75	2.75	2.50
19	Existence of a dividend stopper	No	No	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative	Noncumulative
23	Convertible or Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A	N/A	N/A	N/A
25	If convertible, fully or partially	N/A	N/A	N/A	N/A	N/A
26	If convertible, conversion rate	N/A	N/A	N/A	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A	N/A	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A	N/A	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A	N/A	N/A	N/A
30	Write-down features	No	No	No	No	No
31	If write-down, write-down trigger(s)	N/A	N/A	N/A	N/A	N/A
32	If write-down, full or partial	N/A	N/A	N/A	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A	N/A	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A	N/A	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured	Senior unsecured
36	Non-compliant transitioned features	No	No	No	No	No
37	If Yes, specify non-compliant features	N/A	N/A	N/A	N/A	N/A

Appendix 4, cont.

		Tier 2 - Issue 16	Tier 2 - Issue 17
1	Issuer	Aktia Bank Plc	Aktia Bank Plc
2	Unique identifier	FI4000167176	FI4000176433
3	Governing law(s) of the instrument	Finland	Finland
Regulatory treatment			
4	Transitional CRR rules	Tier 2	Tier 2
5	"Post-transitional CRR rules"	Tier 2	Tier 2
6	Eligible at solo/ (sub-)consolidated/ solo &(sub-)consolidated	Solo & consolidated	Solo & consolidated
7	Instrument type (types to be specified by each jurisdiction)	Subordinated debt	Subordinated debt
8	Amount recognised in regulatory capital (EUR million)	10.9	21.6
9	Nominal amount of instrument (EUR million)	11.3	21.6
9a	Issue price	100%	100%
9b	Redemption price	100%	100%
10	Accounting classification	Liability-amortised cost	Liability-amortised cost
11	Original date of issuance	17 Aug 2015	19 Oct 2015
12	Perpetual or dated	Dated	Dated
13	Original maturity date	17 Oct 2020	2 Jan2021
14	Issuer call subject to prior supervisory approval	No	No
15	Optional call date, contingent call dates and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
Coupons/dividends			
17	Fixed or floating dividend/coupon	Fixed coupon	Fixed coupon
18	Coupon rate and any related index	2.50	2.50
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Noncumulative or cumulative	Noncumulative	Noncumulative
23	Convertible or Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion trigger(s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specify instrument type convertible into	N/A	N/A
29	If convertible, specify issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger(s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierarchy in liquidation (specify instrument type immediately senior to instrument)	Senior unsecured	Senior unsecured
36	Non-compliant transitioned features	No	No
37	If Yes, specify non-compliant features	N/A	N/A

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Aktia
We see a person in every customer.