PILLAR III

Disclosure Report on capital adequacy and risk management
30 June 2020

The 30 June 2020 Pillar III is a translation of the original Finnish version "Pilari III".
If discrepancies occur, the Finnish version is dominant.

Contents

1. Introduction

EU Capital Requirements Regulation (575/2013), Part 8, sets requirements for the disclosure obligation of institutions and the disclosure of information concerning banks' risks, their management and capital adequacy. Additionally institutions such as the European Banking Authority (EBA) have provided more detailed guidance on the disclosure obligations.

Oma Savings Bank Group complies with its disclosure obligation by annually publishing comprehensive information on its capital adequacy and risk management (so-called Pillar III information) alongside its Annual Report. The substantial information in accordance with Pillar III will be published as a separate report alongside the Half-Year Financial Report. The information in Pillar III is unaudited. The comparative period is December 31, 2019 unless otherwise stated.

2. Summary

Risk management key figures

(1,000 euros)	30 Jun 2020	31 Dec 2019
Own funds		
Common Equity Tier 1 (CET1) capital	307,137	299,369
Total capital (TC)	314,908	308,635
Pillar I minimum capital requirement (8.0%)	149,603	142,692
Pillar I total capital requirement	224,463	205,260
Risk weighted assets		
Credit and counterparty risk, standardised approach	1,705,943	1,620,817
Credit valuation adjustment (CVA)	9,945	8,913
Market risk (foreign exchange risk)	6,830	6,598
Operational risk, basic indicator approach	147,320	147,320
Risk weighted assets, total	**1,870,038**	**1,783,648**
Ratios		
Common Equity Tier 1 (CET1) capital ratio, %	16.42%	16.78%
Total capital (TC) ratio, %	16.84%	17.30%
Leverage ratio, %	7.87%	8.60%
Liquidity coverage ratio (LCR), %	132.60%	140.12%

Oma Savings Bank's strong growth continued in the first half of the year. The company's risk strategy supports the company's strategy in terms of business growth. Risk management is part of all of the company's operations, including prudent decision making, systematic monitoring, decisive measures, avoiding risk concentrations, complying with the company's own regulations and official regulations. One of the main tasks of risk management is to create prerequisites for achieving growth without an increase in risk levels or disturbances in daily operations. The company has defined risk management processes, risk taking limits and guidelines to stay within the set limits. The business profile is stable with the bank focusing on the retail banking business.

The Common Equity Tier 1 (CET1) of the Oma Savings Bank Group remained strong and was 16.4% (16.8%) at the end of the period. Oma Savings Bank's Board of Directors has approved a minimum Common Equity Tier 1 (CET1) financial target of at least 16 per cent. The new target level confirmed by the Board of Directors, a Common Equity Tier 1 (CET1) of at least 14 per cent, will enter into force on 1 October 2020.

3. Own funds and capital adequacy

3.1 Own funds

At the end of the review period, the capital structure of the Oma Savings Bank Group was strong. Total own funds (TC) came to EUR 314.9 (308.6) million, of which Tier 1 capital (T1) accounted for EUR 307.1 (299.4) million. Tier 1 capital consisted of Common Equity Tier 1 capital (CET1). Tier 2 capital (T2) was EUR 7.8 (9.3) million. Tier 2 capital consisted of debenture loans. The increase in own funds was most significantly the result of the profit for the accounting period.

The retained earnings for the 2020 accounting period are included in the Common Equity Tier 1 capital on the basis of permission granted by the Finnish Financial Supervisory Authority. The review period share of foreseeable dividends for 2020 has been deducted from the retained earnings based on the company's dividend policy, in accordance with the European Commission Delegated Regulation (EU) No 241/2014, as have any yet-to-be-paid dividends for 2019. The assets from the personnel offerings in 2017–2018 are not included in Tier 1 capital. Adjustments required by the EU's capital requirements regulation have been applied to the Common Equity Tier 1 capital, including prudent valuation.

Own funds (1, 000 euros)	30 Jun 2020	31 Dec 2019
Common Equity Tier 1 capital before regulatory adjustments	**317,767**	**309,553**
Share capital	24,000	24,000
Reserve for invested unrestricted equity*	133,304	133,304
Retained earnings	153,383	143,711
Fair value reserve	7,081	8,538
Regulatory adjustments on Common Equity Tier 1 capital	**-10,630**	**-10,184**
Intangible assets	-9,593	-9,259
Deferred tax assets	-605	-594
Value adjustments due to the requirements for prudent valuation	-433	-331
Common Equity Tier 1 (CET1) capital	**307,137**	**299,369**
Additional Tier 1 capital before regulatory adjustments	-	-
Regulatory adjustments on Additional Tier 1 capital	-	-
Additional Tier 1 (AT1) capital	-	-
Tier 2 capital before regulatory adjustments	**7,771**	**9,266**
Debentures	7,771	9,266
Regulatory adjustments on Tier 2 capital	-	-
Tier 2 (T2) capital	**7,771**	**9,266**
Total capital (TC)	**314,908**	**308,635**

* The assets raised in the 2017–2018 personnel offerings, EUR 3.9 million, are not included in Common Equity Tier 1 capital.

In December 2019, the Finnish Financial Supervisory Authority (FIN-FSA) imposed on Oma Savings Bank Plc a supervisory review and evaluation process (SREP) requirement of 1.5% based on the supervisory authority's assessment. The requirement entered into force on 30 June 2020 and is valid until further notice, however not later than 30 June 2023. As the corona pandemic significantly weakens global economic cyclical outlook and operating conditions of the financial sector, FIN-FSA decided on 6 April 2020 on the removal of the systemic risk buffer requirement for all credit institutions. The Group's total own funds clearly exceeded the total capital requirement: excess own funds came to EUR 90.4 million in the reporting period.

Group`s total capital requirement, 30 June 2020 (1,000 euros)

		Buffer requirements						
Capital	**Pillar I minimum capital requirement***	**Pillar II (SREP) capital requirement**	**Capital conservation buffer**	**Countercyclical buffer****	**O-SII**	**Systemic risk buffer**	**Total capital requirement**	
CET1	4.50%	1.50%	2.50%	0.00%	0.00%	0.00%	8.50%	159,012
AT1	1.50%						1.50%	28,051
T2	2.00%						2.00%	37,401
Total	**8.00%**	**1.50%**	**2.50%**	**0.00%**	**0.00%**	**0.00%**	**12.00%**	**224,463**

* AT1 and T2 capital requirements are possible to fill with CET1 capital

** Taking into account the geographical distribution of the Group's exposures

3.2 Capital adequacy position

The total capital (TC) ratio of the Oma Savings Bank Group remained strong and was 16.8% (17.3%) at the end of the period. The Common Equity Tier 1 capital (CET1) ratio was 16.4% (16.8%), exceeding the minimum level for the financial goals approved by the Board of Directors, 16%. The new target level confirmed by the Board of Directors, a Common Equity Tier 1 ratio (CET1) of at least 14 per cent, will enter into force on 1 October 2020.

Risk-weighted assets grew 4.8% to EUR 1,870.0 (1,783.6) million. Risk-weighted assets grew most significantly due to the growth in the loan portfolio for private customers and investments in the unsecured bonds of credit institutions. However, the sale of reserve investments during Q1 diminished risk-weighted assets.

EU OV1 – Overview of RWAs

(1,000 euros)			RWAs		Mimimum capital requirements
			30 Jun 2020	31 Dec 2019	30 Jun 2020
	1	Credit risk (excluding CCR)	1,702,359	1,617,688	136,189
Article 438(c)(d)	2	Of which the standardised approach	1,702,359	1,617,688	136,189
Article 107, Article 438(c)(d)	6	CCR	13,529	12,042	1,082
Article 438(c)(d)	7	Of which mark to market	3,584	3,130	287
Article 438(c)(d)	12	Of which CVA	9,945	8,913	796
Article 438(e)	19	Market risk	6,830	6,598	546
	20	Of which the standardised approach	6,830	6,598	546
Article 438(e)	22	Large exposures	314,908	308,635	25,193
Article 438(f)	23	Operational risk	147,320	147,320	11,786
	24	Of which basic indicator approach	147,320	147,320	11,786
Article 437 (2), Article 48 and Article 60	27	Amounts below the thresholds for deduction (subject to 250% risk weight)	13,881	13,881	1,110
Article 500	28	Floor adjustment	-	-	-
	29	Total	1,870,038	1,783,648	149,603

3.3 Leverage ratio

The Oma Savings Bank Group's leverage ratio is presented in accordance with the European Commission Delegated Regulation and the figure describes the ratio of the Group's Tier 1 capital to the total exposures. The Oma Savings Bank Group's leverage ratio on 30 June 2020 was strong at 7.9% (8.6%).

The company monitors excessive leverage as part of capital adequacy management process. An internal minimum target level has been set for the Group's leverage ratio as part of risk budgeting included in the overall risk strategy. The CRR2 regulation obligates the maintenance of a leverage ratio of a minimum of 3%.

4. Credit risk

Credit risk refers to the possibility that a counterparty fails to meet its obligations in accordance with agreed terms and conditions. Credit risk largely originates in loans granted to private customers, SMEs and agriculture and forestry operators. Credit risk and counterparty risk also result from other receivables, such as bonds in the company's investment portfolio, debt securities and derivative contracts and off-balance sheet commitments, such as undrawn credit facilities and limits, guarantees and letters of credit. The credit risk included in the investments in the company's investment portfolio are handled in the company's market risk strategy. Oma Savings Bank Group calculates the credit and counterparty risk capital requirement using the standardised approach.

4.1 Structure of credit risk

Oma Savings Bank Group's credit risk primarily consists of exposures secured by immovable property, retail exposures and exposures to corporates. Liabilities of private customers and housing corporations are mainly covered by housing used as collateral. Private customers make up 59.5% of the total loan portfolio. The share of corporate customers has fallen slightly and the share of housing corporations has risen. Otherwise, the relative proportions of customer groups have not changed significantly. The total loan portfolio has grown by 6.8% during 2020. The loan portfolio is well-diversified geographically and sector-wise, which reduces the Group's concentration risk. The Group does not have any customer entities whose liabilities exceed the limit set by the Credit Institution Act, namely 10 per cent of the company's own funds (high customer risks). The Group does not have material exposures outside Finland. The risks associated with the loan portfolio are low in terms of the annual income level and risk-bearing capacity of the Group.

Group's loan portfolio by customer group

Credit balance (1,000 euros)	30 Jun 2020	31 Mar 2020	31 Dec 2019	30 Sep 2019	30 Jun 2019
Private customers	1,890,953	1,830,930	1,780,900	1,716,409	1,645,896
-Expected credit losses	-8,699	-8,286	-7,866	-7,109	-6,618
Corporate customers	649,014	648,938	641,470	604,241	584,016
-Expected credit losses	-12,278	-15,643	-9,276	-8,055	-6,495
Housing association	315,574	290,652	264,829	264,167	257,392
-Expected credit losses	-220	-209	-361	-164	-151
Agriculture, forestry, fishing industry	267,103	264,206	255,906	257,138	243,675
-Expected credit losses	-843	-1,227	-524	-478	-472
Other	57,525	40,765	35,457	40,977	40,670
-Expected credit losses	-833	-475	-178	-174	-167
Credit balance total	**3,180,169**	**3,075,490**	**2,978,562**	**2,882,931**	**2,771,648**
Expected credit losses total	**-22,873**	**-25,840**	**-18,206**	**-15,980**	**-13,904**

The volume of expected credit losses grew due to new loans granted, a change in credit risk and stage transfers and adjustments made to calculation principles. In addition, in March, the company made a EUR 1.4 million credit loss allowance based on the management's judgement, which predicted growth in credit risk in specific sectors.

Non-performing receivables remained on a par with the comparable period 31 December 2019 and accounted for 2.3% (1.7%) of the loan portfolio. At the end of the year, past-due receivables (30–90 days) totalled EUR 7.5 (16.6) million. The increase in non-performing receivables results mostly from the weakening of the situations of relatively large individual customers. Under certain circumstances, when a debtor faces financial difficulties, the customer can be granted concession from the original loan terms in the form of deferred amortisation or loan rearrangement to ensure the customer's ability to pay and avoid potential credit losses. Special arrangements were applied to changes to payment plans and other arrangements made due to the coronavirus pandemic. The impacts of the pandemic are described in more detail in note G1 half-year report. Granting forbearance requires that the customer's financial difficulties are short-term and temporary. The Group has forbearance receivables of a total of EUR 90.3 (84.1) million.

Matured and non-performing receivables

(1,000 euros)	30 Jun 2020	Share %	31 Dec 2019	Share %
Matured receivables, 30–90 days	7,548	0.2%	16,610	0.6%
Non-matured or matured less than 90 days, non-repayment likely	34,931	1.1%	14,392	0.5%
Non-performing receivables, 90–180 days	11,022	0.3%	10,725	0.4%
Non-performing receivables, 181 days – 1 year	9,652	0.3%	9,075	0.3%
Non-performing receivables, > 1 year	17,796	0.6%	17,431	0.6%
Matured and non-performing receivables total	**80,950**	**2.5%**	**68,233**	**2.3%**
Performing receivables and matured receivables with forbearances	77,071	2.4%	72,030	2.4%
Defaulted receivables with forbearances	13,229	0.4%	12,118	0.4%
Forbearances total	**90,300**	**2.8%**	**84,148**	**2.8%**

Figures include past due interest on items.

Mortgage bank's LTV distribution

LTV	30 Jun 2020	31 Dec 2019	30 Jun 2019
0–50%	29.1%	25.7%	26.8%
50–60%	12.9%	14.9%	15.0%
60–70%	20.7%	19.9%	19.6%
70–80%	13.5%	15.9%	15.2%
80–90%	9.6%	14.0%	13.2%
90–100%	14.1%	9.7%	10.2%
>100%	0.0%	0.0%	0.0%
Total	**100.0%**	**100.0%**	**100.0%**

The table shows the LTV ratio of the loans used as collateral for bonds covered at the reporting date, based on mortgage bank regulations. In the categories of the table, the total amount of the loan is displayed in the LTV category to which its maximum LTV value belongs. For example, a loan of EUR 55,000 with a property secured by EUR 100,000 is calculated in full to the LTV category by 50-60%.

4.2 Management of credit risk

4.2.1 Credit risk management systems

The development of credit risks is monitored regularly using different methods. Credit risk monitoring takes into account, for example, the quality, structure, credit shortfall development and non-performing loans of the loan portfolios. Non-performing loans are considered ECL stage 3 loans and stage 2 loans in which the collateral risk is significant. In addition, the development of credit risks is monitored in relation to the set control limits.

The structure of the loan portfolio is monitored per customer group and based on the sector allocation of corporate customers. Of the business customer base sectors, the four largest are real estate, agriculture and forestry, wholesale and retail and construction. The development of the sectors in question is regularly monitored and reported on to the company's management and Board of Directors.

Credit risks are continuously monitored by keeping an eye on past-due exposures, non-performing loans and the development of credit rating units and the credit ratings of individual customers.

The Group's loan portfolio contains a small amount of wrong-way risk. As a rule, customers with a poor credit rating are not financed. An exception can occur if the financing is critical in terms of the asset used as collateral.

4.2.2 Collateral management

Credit decisions are primarily based on the debtor's ability to service their loan but the collateral used to reduce credit risk also plays a role. The collateral secures the repayment of loans. The company issues guidelines on the assessment of collateral and use of covenants in its credit risk management guidelines. Each type of collateral has a different valuation percentage approved by the Board of Directors and the collateral is conservatively valued at fair value. The collateral is assessed independently when the credit decision is made. The development of the collaterals' value is monitored regularly as part of credit monitoring. The price development of housing used as collateral is monitored quarterly and the prices of commercial properties annually. Collateral assessment is carried out by a party independent of the loan decision and largely carried out by persons with an applicable degree.

4.2.3 Credit risk adjustments

The Group has specific credit risk adjustments which are calculated using the IFRS 9 Financial Instruments standard's expected credit loss (ECL) model. The ECL model estimates the final credit loss resulting for the company after the collateral used for the loan has been realised. The calculation of the expected credit losses is based on portfolio-specific calculation rules. The Group's loan portfolio is divided on the basis of product-specific risk characteristics into seven clusters: The calculations take into account the customer's ability to service their debt, their rating level, any forbearance and the number of collaterals linked to the loan.

In addition, receivables that cannot be allocated to any individual receivable are recognized as general credit risk adjustment.

4.3 Counterparty risk

Counterparty risk results in connection with the investment of liquid assets and asset management, from large individual customer entities and sector concentrations.

Investment operations are steered by the liquidity and market risk strategies approved by the Group's Board of Directors.

Derivatives are used very moderately and only for hedging purposes. Derivatives do not have daily collateral settlements.

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

		a	b	c	d	e	f	g
		Gross carrying values of						Net value
30 Jun 2020 (1,000 euros)		Defaulted exposures	Non-defaulted exposures	Specific credit risk adjustment	General credit risk adjustment	Accumulated write-offs	Credit risk adjustment charges of the period	(a+b-c-d)
16	Central governments or central banks	-	228,673	-	-	-	-	228,673
17	Regional governments or local authorities	-	5,323	6	-	-	6	5,317
21	Instituitions	-	157,181	-	-	-	-	157,181
22	Corporates	-	512,330	1,248	1,400	5	-184	509,682
23	*Of which: SMEs*	-	375,893	1,013	1,400	5	-344	373,480
24	Retail	-	749,495	6,581	230	665	-72	742,684
25	*Of which: SMEs*	-	191,892	2,378	-	228	-82	189,513
26	Secured by mortgages on immovable property	-	2,134,568	-	-	-	-	2,134,568
27	*Of which: SMEs*	-	496,663	-	-	-	-	496,663
28	Exposures in default	67,655		14,261	-	5,032	8,492	53,395
29	Items associated with particularly high risk	-	5,933	-	-	-	-	5,933
30	Covered bonds	-	151,828	-	-	-	-	151,828
32	Collective investments undertaking	-	8,507	-	-	-	-	8,507
33	Equity exposures	-	32,292	-	-	-	-	32,292
34	Other exposures	-	40,250	-	-	-	-	40,250
35	**Total standardised approach**	**67,655**	**4,026,382**	**22,096**	**1,630**	**5,703**	**8,243**	**4,070,311**
36	**Total**	**67,655**	**4,026,382**	**22,096**	**1,630**	**5,703**	**8,243**	**4,070,311**
37	Of which: Loans	67,562	3,138,444	21,243	1,630	5,703	4,668	3,183,132
38	Of which: Debt securities	-	401,139	-	-	-	-	401,139
39	Of which: Off-balance-sheet exposures	94	236,137	853	-	-	239	235,378

EU CR2-A – Changes in the stock of general and specific risk adjustments

30 Jun 2020 (1,000 euros)		a Accumulated specific credit risk adjustment	b Accumulated general credit risk adjustment
1	**Opening balance**	**18,610**	**210**
2	Increases due to amounts set aside for estimated loan losses during the period	1,967	-
3	Decreases due to amounts reversed for estimated loan losses during the period	-1,116	-
4	Decreases due to amounts taken against accumulated credit risk adjustments	-6,504	-
5	Transfers between credit risk adjustments	10,284	-
8	Other adjustments	-1,144	1,420
9	**Closing balance**	**22,096**	**1,630**
10	Recoveries on credit risk adjustments recorded directly to the statement of profit or loss	-63	-
11	Specific credit risk adjustments directly recorded to the statement of profit or loss	7,642	-

EU CR2-B – Changes in the stock of defaulted and impaired loans and debt securities

30 Jun 2020 (1,000 euros)		a Gross carrying value defaulted exposures
1	**Opening balance**	**38,437**
2	Loans and debt securities that have defaulted or impaired since last reporting period	37,865
3	Returned to non-defaulted status	-6,134
4	Amounts written off	-1,789
5	Other changes	-724
6	**Closing balance**	**67,655**

EU CR3 – CRM techniques – Overview

30 Jun 2020 (1,000 euros)		a Exposures unsecured - Carrying amount	b Exporusers secured - Carrying amount	c Exposures secured by collateral	d Exposures secured by financial guarantees
1	Total loans	256,674	3,161,836	3,072,555	89,281
2	Total debt securities	315,886	85,253	70,510	14,743
3	**Total exposures**	**572,560**	**3,247,089**	**3,143,065**	**104,024**
4	Of which defaulted	9,125	44,270	42,792	1,478

5. Market risk

Oma Savings Bank Group does not have market risk pursuant to Pillar I, but market risk results from fluctuations in the market prices of investment portfolio securities and the interest rate risk in the banking book. Market risk is managed through the strategy approved by the Board of Directors and conservative risk appetite. As a general rule, the company does not practice trading on its own account, but bonds are purchased for managing liquidity and derivatives are used for hedging purposes. The company's market risk includes a small amount of foreign exchange risk.

The interest rate risk in the banking book forms the majority of the bank's interest rate risk. The interest rate risk results from differences in the interest rate levels and maturities of assets and liabilities. In addition, the market rates impact the market prices of the investment portfolio's securities. The amount of interest rate risk is reported regularly to the Board of Directors, which has set an upper limit for the interest rate risk.

Company's interest rate risk sensitivity

Net interest income (NII) EUR million	30 Jun 2020	30 Jun 2019
+100bps	2.1	0.8
-100bps	-0.02	-0.04

Economic value (EV) EUR million	30 Jun 2020	30 Jun 2019
+100bps	-4.1	-6.3
-100bps	7.3	6.9

Oma Savings Bank's investment portfolio consists mainly of low-risk fixed income investments, because High Yield bonds form less than two per cent of the portfolio and the other bonds are Investment Grade obligations to EU states. The bank's Board of Directors is provided with regular reports on the content of the investment portfolio and its largest counterparties.

6. Operational risk

Operational risk means a consequence or risk of loss resulting from inadequate or deficient internal processes, systems or people or external factors. Also reputational risk, legal risks, compliance risk, information security risks and risks related to money laundering and the funding of terrorism are included in operational risk. Outsourced functions also generate operational risk. Realised operational risks can lead to financial losses or a loss of reputation for the company. The Oma Savings Bank Group calculates the operational risk in accordance with Pilar I using the basic indicator approach for the capital adequacy approach.

Operational risk forms a significant risk area for Oma Savings Bank. It is typical for operational risk that any losses resulting from the risk are not always easy to measure. Oma Savings Bank's main source of operational risk is the ongoing renewal of the banking platform. When risks materialise, the costs of the project could rise and other development projects would be delayed. Other key operational risk sources include disturbances in the functioning of IT systems, damage and errors caused by the launching of new products and services and the personnel's actions, damage to property and non-compliance with regulations.

In the management of operational risk, the company's main objective is to manage reputation risk and to ensure the continuity of business activities and compliance with regulations in the short and long term. Operational risk management ensures that the values and strategy of Oma Savings Bank are achieved throughout the business activities. Operational risk management is applied in all of the company's business units by identifying, measuring, monitoring and assessing the operational risks linked to the units. The company-wide process allows the management to assess the extent of any losses stemming from operational risk if the risk were to materialise. The risk assessment process is updated at least once a year and always when the business's operational environment changes. New products, services and suppliers of outsourced services are separately approved through the company's separate approval process before their adoption.

The company's risk management function monitors, controls and reports on operational risks.

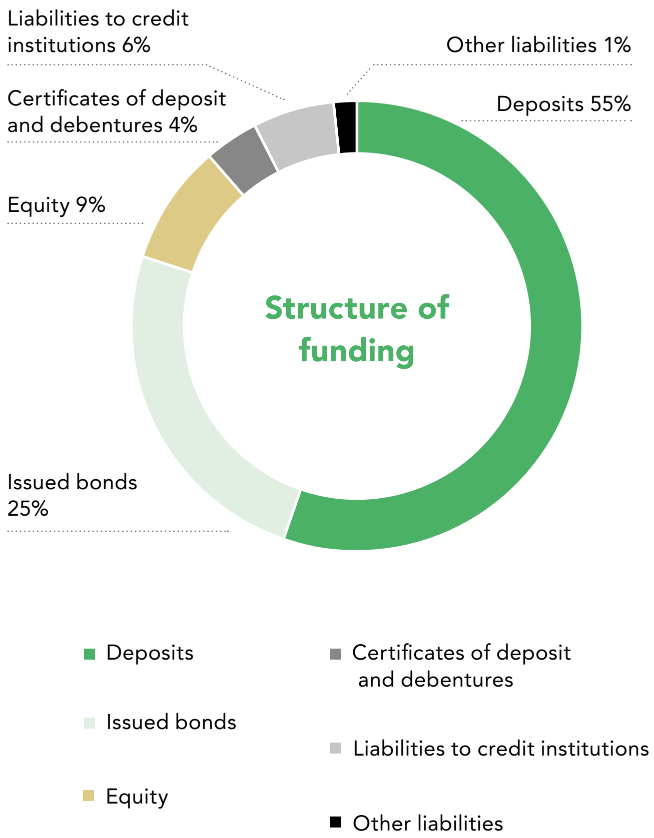
7. Liquidity risk

Liquidity risk can be defined as the difference in the balance between incoming and outgoing cash flows. The risk may materialise if the company cannot meet its maturing payment obligations or an acceptable balance is not achieved within the limits of tolerable costs. The company's greatest liquidity risks arise from the maturity difference in borrowing and lending.

Liquidity risk is measured in the short and long term by monitoring the structure of the liquidity reserve and long-term liabilities. The Group's liquidity coverage ratio (LCR) remained good, standing at 132.6% (30 Jun 2019 154.2%) at the end of June 2020, when the minimum LCR is 100%. Standard & Poor's credit rating for short-term borrowing was A-2 and for long-term borrowing BBB+. In May 2020, Standard & Poor's changed Oma Savings Bank's long-term credit rating outlook from stable to negative in its Banking Industry Country Risk Assessment (BICRA) when the trend changed from stable to negative.

Another significant key figure in terms of liquidity management is the Net Stable Funding Ratio (NSFR), which was 172.5% (30 Jun 2019 160.2%) at the moment of review. The EU has yet to decide on the content and the extent to which the net stable funding ratio (NSFR) will be binding.

The Treasury unit is responsible for reporting. Key liquidity figures are reported to the Board of Directors and the management regularly. Additionally, the internal calculation models for liquidity risk are assessed at least once a year by risk management.



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