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# Debt Investor Presentation

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Timo Ruotsalainen, Head of Treasury

Interim Report 1Q 2018

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Aktia

# Aktia Bank Plc

## Executive Summary

### **Retail bank with focus on growth areas in Finland**

Provides banking services to private customers, small and middle sized companies and institutional investors.

### **Business supported by own branch network and digital services**

Households accounts for 85 % of the loan portfolio and 75 % of the deposit stock.

### **Prudent lending policy and low loan losses**

Expected Credit Loss EUR 0.6 million (0.1 %) in Q1 2018, non performing loans 0.73 %.

### **Solid profitability over time and strong Capital Ratio**

Return on Equity (ROE) 10.2 % and Tier 1 Capital Ratio 16.2 % in 1Q 2018.

### **Credit ratings**

Moody's:	A3 / P-2, positive	Covered Bonds: Aaa
S&P:	A- / A-2, stable	

### **Planned transaction**

EUR Benchmark Covered Bond with intermediate tenor

# Aktia overview and recent result

- Implementation of new strategy.
- New core banking system enables improved digital operations and customer service.
- Good financial performance in January – March 2018.

# Background and strategy

**Aktia is the oldest deposit bank in Finland.**



**1826** Helsinki Savings Bank started its business operations.

**1991** Today's Aktia was born when Helsinki Savings Bank merged with seven other savings banks. More mergers followed until the new millennium.

**2009** Aktia's shares were listed on Nasdaq OMX Helsinki.

**October 2017** Aktia's introduced a new strategy:

- **Increase and safeguard the customers' wealth** in a sustainable and easy way.
- Give our customers the best possible customer experience in **asset management and financing** through **individual service and user-friendly digital platforms**.
- New customer segments: Personal & Corporate Banking and Wealth management.



# Aktia in numbers

Aktia is a local Finnish bank serving private customers, small and middle sized corporates and institutional investors. Aktia's share (AKTIA) is listed on the list of Nasdaq Helsinki Ltd.

## Aktia Bank, 2017:

<b>Operating income:</b> EUR 210.3 million	<b>C/I:</b> 0,7	<b>CET1:</b> 18.0%
<b>Operating profit*:</b> EUR 59.9 million	<b>ROE:</b> 6.5%	<b>AUM:</b> EUR 9,680 million

## New segment reporting as of 1.1.2018 (reported restated numbers for 2017) :

### Personal and Corporate Banking

Private customers  
Premium customers  
Corporate customers

#### Operating income:

EUR 117.3 million

#### Operating profit\*:

EUR 25.3 million

#### Market shares:

- Mortgages (households): 4.2%
- Deposits: 3.5%

### Wealth Management

Private Banking customers  
Asset Management customers  
Life Insurance customers

#### Operating income:

EUR 64.9 million

#### Operating profit\*:

EUR 25.4 million

#### Assets under management:

EUR 9,680 million

#### Market share:

- Mutual funds: 4.2%

### Group functions

Support and staff  
functions incl. Treasury  
and risk- and financial  
control.

#### Operating income:

EUR 28.6 million

#### Operating profit\*:

EUR 8.3 million

## Financial targets for 2018-2022:

Comparable  
operating profit  
to **EUR 80 million**

Return on equity  
to **9.7%**

Comparable  
cost-to-income  
ratio to **0.61**

Common Equity Tier 1  
capital ratio, CET1  
to **1.5-3 over regulatory  
requirements**

**350,000**

private customers

**30,000**

corporate and  
institutional customers

**32**

branches

**40%**

of Aktia customers have a  
personal financial advisor

**796**

full-time employees  
on 31.3.2018

\*Comparable operating profit.

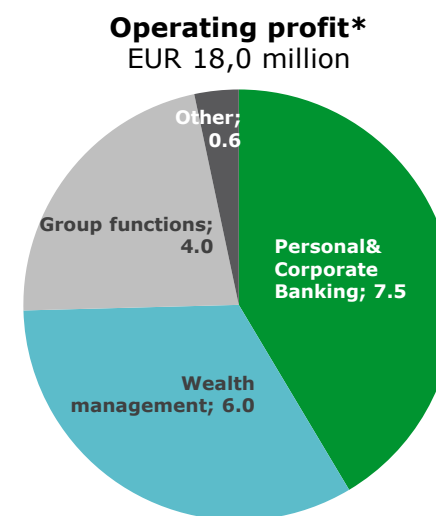
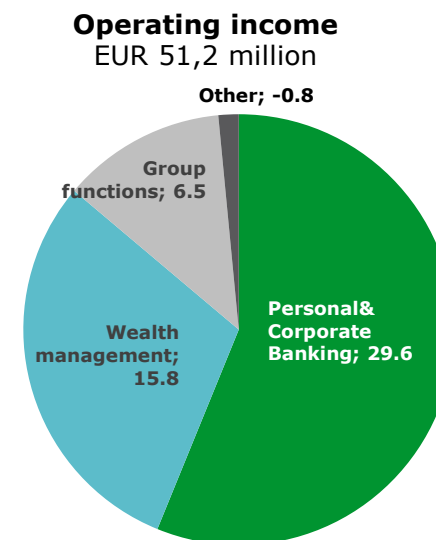
**Aktia**

# Comparable operating profit +13% in Q1/2018

EUR million	1-3/2018	1-3/2017	CHANGE	2017
Net Interest Income	<b>20.7</b>	23.4	-11%	<b>89.6</b>
Net Commission Income	<b>23.8</b>	21.1	+13%	<b>91.4</b>
Total Operating Income	<b>51.2</b>	53.1	-4%	<b>210.3</b>
Total Operating Expenses	<b>-33.5</b>	-37.3	-10%	<b>-160.7</b>
<b>Operating profit</b>	<b>17.7</b>	16.4	+8%	<b>49.1</b>
<b>Comparable operating profit*</b>	<b>18.0</b>	15.9	+13%	<b>59.9</b>
<b>Profit for the period</b>	<b>15.1</b>	<b>13.5</b>	<b>+12%</b>	<b>39.3</b>

Cost-to-income ratio	<b>0.65</b>	0.70	-7%	<b>0.76</b>
Return on Equity (ROE), %	<b>10.2</b>	8.7	+16%	<b>6.5</b>
Borrowing from the public	<b>3,933</b>	4,113	-4%	<b>4,119</b>
Lending to the public	<b>5,893</b>	5,703	+3%	<b>5,839</b>
Mortgage loans	<b>3,751</b>	4,400	-15%	<b>3,714</b>
Capital Adequacy Ratio, %	<b>20.8</b>	24.8	-16%	<b>23.4</b>
Tier 1 Capital Ratio, %	<b>16.4</b>	18.2	-10%	<b>18.0</b>
Risk-weighted commitments	<b>2,272</b>	2,100	+8%	<b>2,080</b>



# January–March 2018 in short

Cost savings produce results. Strong net commission income. New services and better economic governance and reporting with the new core banking system.

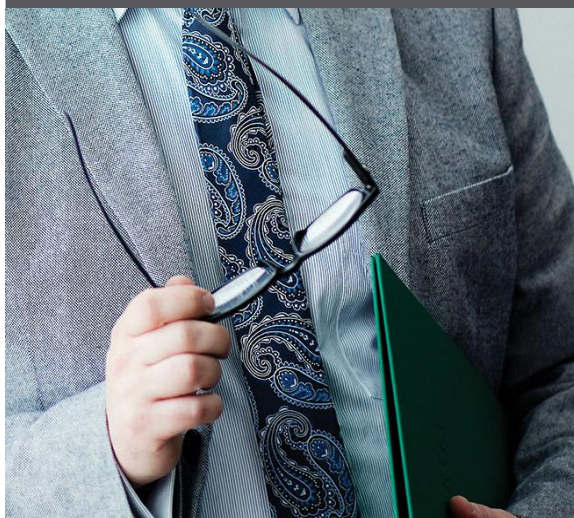


## Governance

- Combination of R and A shares.
- Recruiting of a new CEO is ongoing.

## Implementation of our strategy

- New segment reporting
- Share savings plan for employees



## Business operations

### Wealth Management:

- Good sales and exceptionally high level of mutual fund capital
- Morningstar: The best interest fund manager.
- Cooperation with Universal Investment proceeds

### Personal and Corporate Banking:

- New customer concepts

## New digital solutions

- Automated balance certificates and robotised customer enquiries.
- Electronic signatures.
- Loan application through new channels, such as Nettivene.fi



# Core banking system in place and in use

## Digital banking

- The new core banking system introduced in summer 2017
- The core banking system enables combined automated processes and robotics in our service solution eg. automated loan decisions.
- Versatile Mobile Bank allows eg. fund subscription.



New Core Bank



Cloud as a platform



Data and analytics

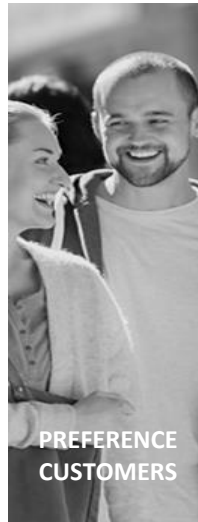


Automation everywhere

**Aktia**



# Aktia's customer groups according to new strategy



**70 %**

of Finnish citizens would prefer Financial Advisory

**40%**

of Aktia's customers have a personal financial advisor – the highest proportion in Finland

Service offering:  
**Digital Services**  
and Sales

Service offering:  
**Personal Advisory**  
**Digital Services**  
Call Center personal services

**Aktia**

# Growing Asset Management

## Awarded Wealth Management

ASSETS UNDER  
MANAGEMENT (Group)

**10,131**  
EUR million

AUM,  
annual growth

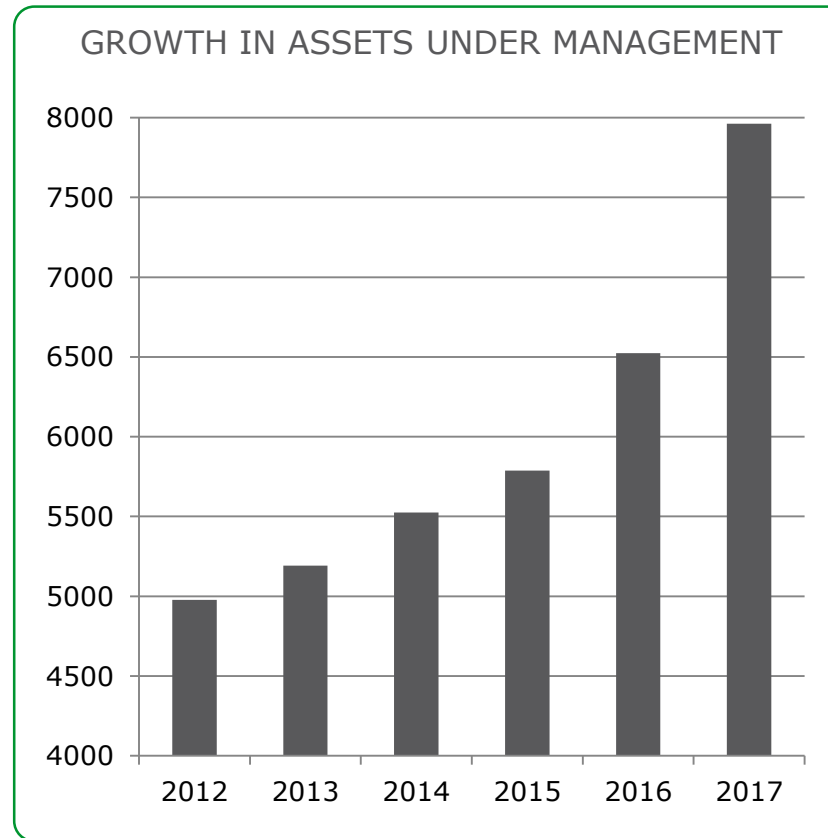
**20 %**

INSTITUTIONAL  
CLIENTS AUM

**5,157**  
EUR million

EMERGING MARKETS  
SHARE

**2,000**  
EUR million



**MORNINGSTAR**

**SFR**  
SCANDINAVIAN  
FINANCIAL  
RESEARCH LTD.

 2017  
**THOMSON REUTERS**  
LIPPER FUND AWARD

**TNS**

**TNS Sifo** Prospera

*All figures per 31.3.2018 unless otherwise indicated.*

# Aktia – the debt investment case

## **Moody's**

Senior loan: A3 / P-2, positive outlook

Covered bonds: Aaa

## **Standard & Poor's**

Senior loan: A- / A-2, stable outlook

*Complete rating reports on [www.aktia.com/en/velkasijoittajat/luottoluokitus](http://www.aktia.com/en/velkasijoittajat/luottoluokitus)*

**Aktia**

# Assets and liabilities of Aktia Group

(EUR million)	31 March 2018	31 Dec 2017
Assets		
Interest-bearing securities	7,5	-
Shares and participations 1)	135,4	-
Investments for unit-linked investments	793,0	802,6
Financial assets valued through income statement	935,9	802,6
Interest-bearing securities 2)	1 731,7	1 797,2
Shares and participations 1)	-	128,2
Financial assets measured at fair value through other comprehensive income	1 731,7	1 925,4
Interest-bearing securities measured at amortised cost 3)	338,1	367,8
Lending to Bank of Finland and other credit institutions	31,8	49,9
Lending to the public and public sector entities	5 893,1	5 838,8
Cash and balances with central banks	154,5	282,5
Financial assets valued at amortised cost	6 417,6	6 538,9
Derivative instruments	78,1	84,0
Investments in associated companies	0,0	0,0
Intangible assets	71,0	71,1
Investment properties	55,7	55,2
Tangible assets excl. investment properties	4,3	4,8
Tangible and intangible assets	130,9	131,1
Accrued income and advance payments	41,4	38,9
Other assets	24,0	24,4
Total other assets	65,4	63,3
Income tax receivables	0,5	0,5
Deferred tax receivables	4,4	4,2
Tax receivables	4,8	4,6
Total assets	9 364,4	9 550,0

(EUR million)	31 March 2018	31 Dec 2017
Liabilities		
Liabilities to central banks	400,0	400,0
Liabilities to credit institutions	326,6	294,4
Liabilities to the public and public sector entities	3 932,7	4 118,5
Deposits	4 659,3	4 813,0
Derivative instruments	31,7	33,6
Debt securities issued	2 442,3	2 450,7
Subordinated liabilities	228,8	235,2
Other liabilities to credit institutions	58,7	60,0
Other financial liabilities	2 729,8	2 746,0
Technical provisions for risk insurances and interest-related insurances	413,1	415,0
Technical provisions for unit-linked insurances	792,3	802,3
Technical provisions	1 205,4	1 217,3
Accrued expenses and income received in advance	50,7	53,7
Other liabilities	41,9	29,6
Total other liabilities	92,6	83,3
Provisions	-	-
Income tax liabilities	1,0	1,8
Deferred tax liabilities	52,4	57,1
Tax liabilities	53,3	58,9
Total liabilities	8 772,1	8 952,0
Equity		
Restricted equity	187,5	214,5
Unrestricted equity	404,7	383,5
Total equity	592,3	598,0
Total liabilities and equity	9 364,4	9 550,0



# Capital adequacy:

## Capital levels meet requirements and exceeds target

- Aktia's Common Equity Tier 1 Capital (CET1 %) remains at a good level 16,4% (18%)
- Aktia's CET1 capital decreased slightly in 1Q 2018:
  - Finnish FSA set new risk weight floor of 15 % for Mortgage Loans which increased risk weighted assets with EUR 137 million.
  - Increased lending to Corporates and Banks Treasury investments to corporate issued commercial paper decreased the ratio with 0,5%.

### Change in CET1:

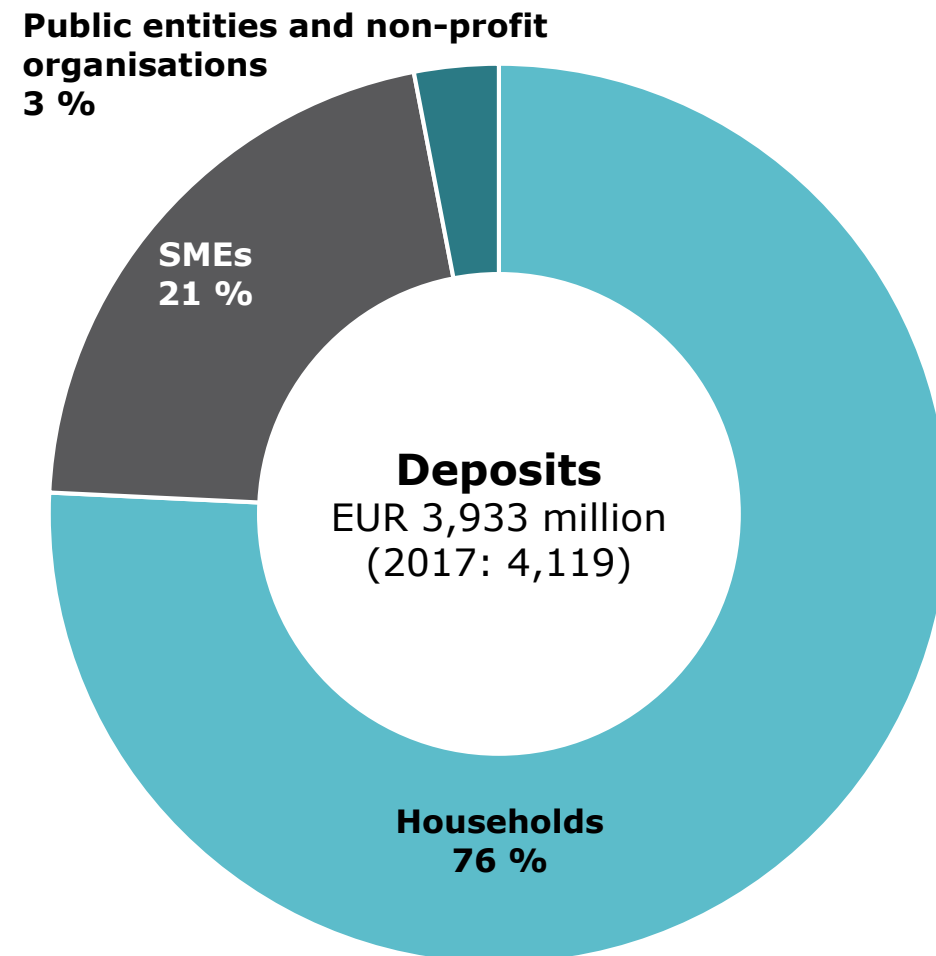
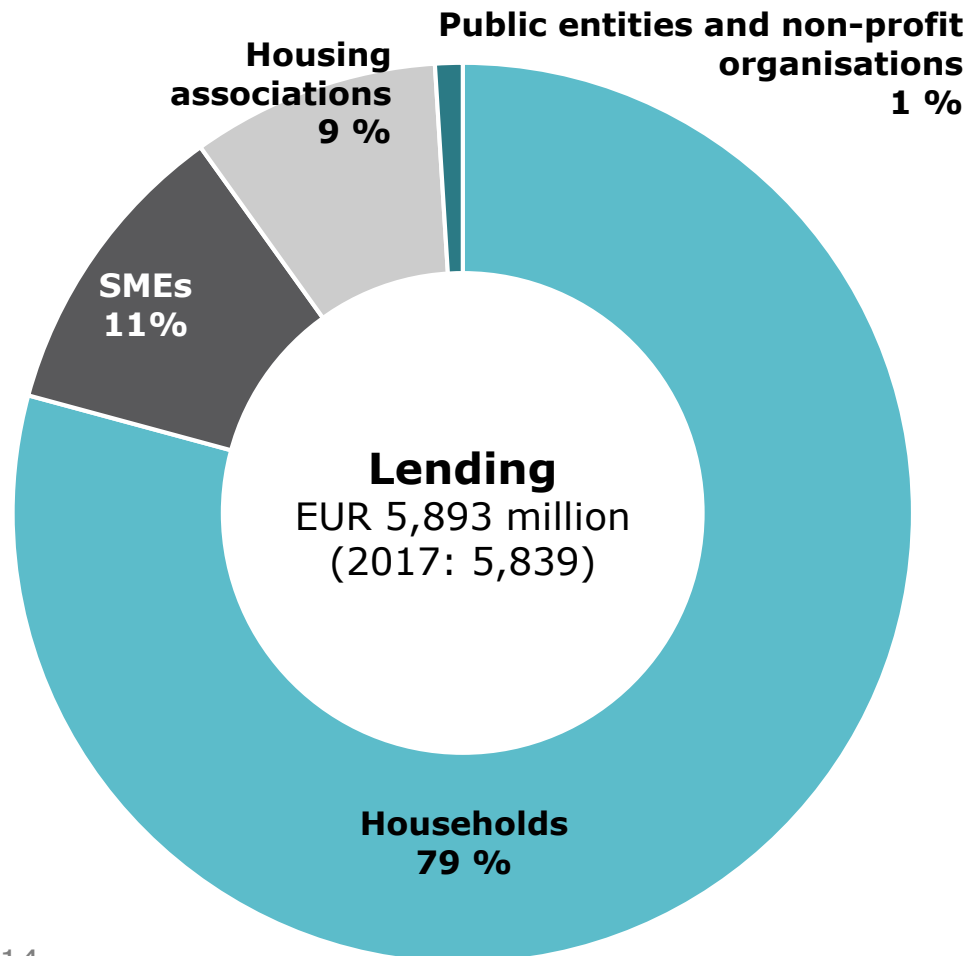
<b>CET1 % 31.12.2017</b>	<b>18.0 %</b>
Mortgage risk weight floor (15%)	-1.0 %
General increase of risk weighted assets	-0.5 %
Change in CET1	-0.2 %
<b>CET1 % 31.3.2018</b>	<b>16.4 %</b>

### Combined Capital requirement %:

	Pillar 1	Pillar 2	Capital conservation	Counter cyclical	Total requirement
CET1 capital	4.50	1.75	2.50	0.05	<b>8.80</b>
AT1 capital	1.50	0.00			<b>1.50</b>
Tier 2 capital	2.00	0.00			<b>2.0</b>
<b>Total</b>	<b>8.00</b>				<b>12.30</b>

# Structure of lending and deposits

Households are key driver of business

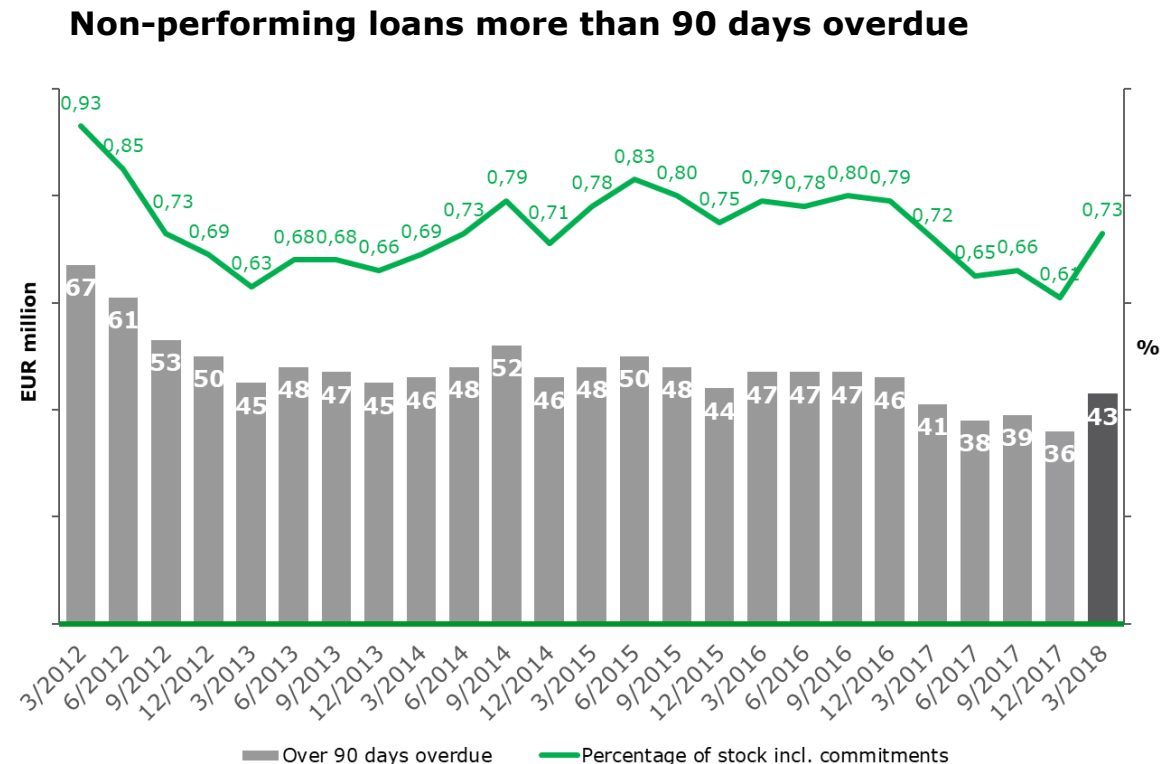


# Prudent and low-risk lending policy

## Stable long-term trend in non-performing loans

Aktia Bank operates under strict origination criteria:

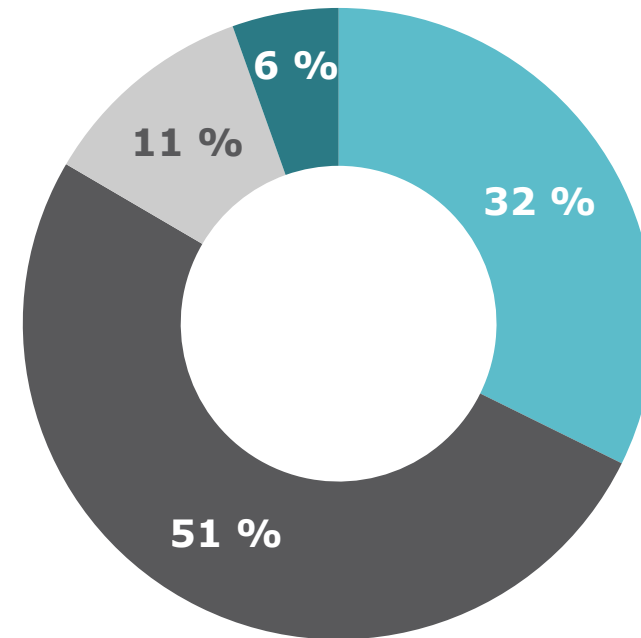
- Identification of the customer mandatory
- Responsible lending: customer ability to pay stress tested
- Credit personnel internally educated and examined
- Rating and behavior based credit risk valuation
- Collateral only in Finland



# High-quality liquidity portfolio

At the end of March 2018 the Bank Group's liquidity buffer was approximately equivalent to the estimated outgoing cash flow of finance from the wholesale market for 27 months. The Liquidity Coverage ratio (LCR) was 143%.

	31.3.2018	31.3.2017
<b>EUR million</b>	<b>1,816</b>	<b>1,816</b>
AAA	51.7 %	53.1 %
Aa1–Aa3	24.5 %	27.4 %
A1–A3	3.2 %	5.0 %
Baa1–Baa3	3.0 %	2.3 %
Ba1–Ba3	1.2 %	0.0 %
Finnish municip. (no rating)	12.8 %	11.6 %
No rating	3.6 %	0.6 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>

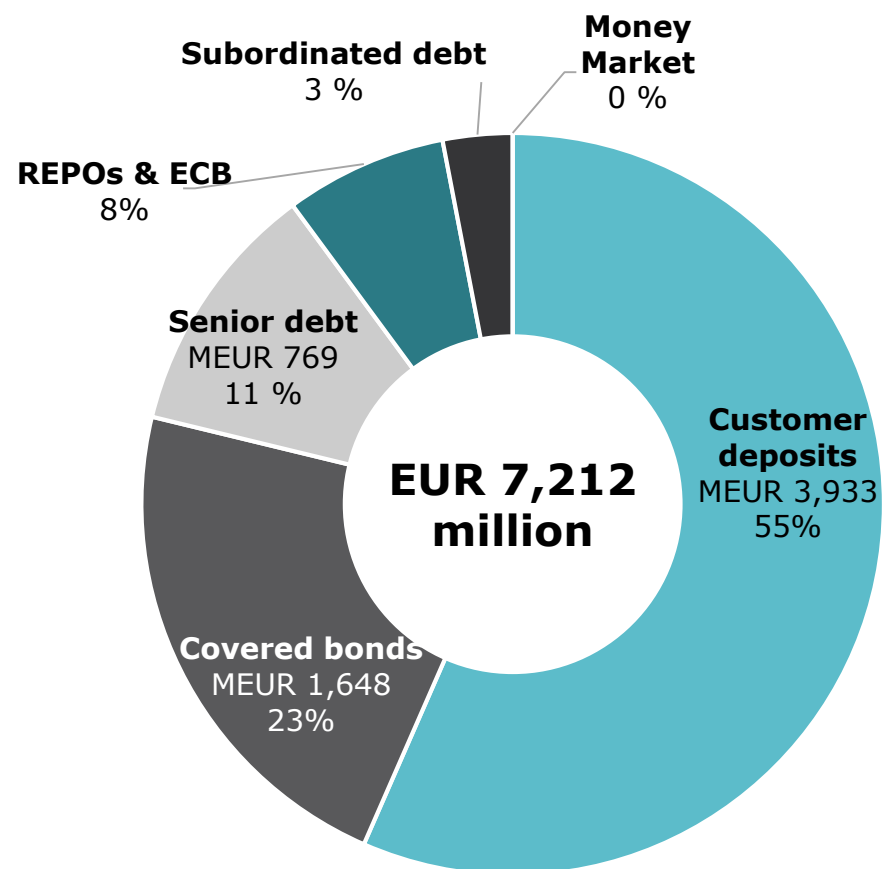


- Government and gov guaranteed bonds
- Covered bonds
- Financial sector excl. CB
- Corporate bonds and CP

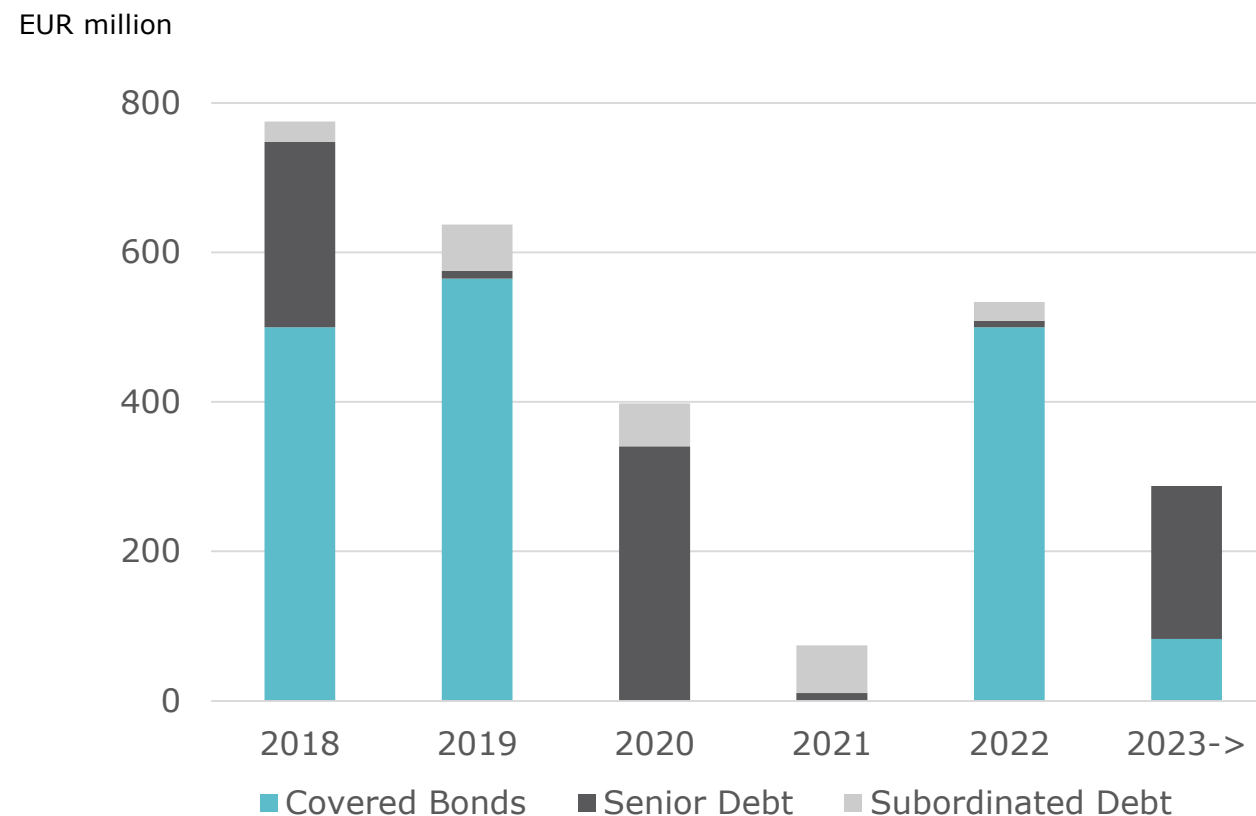


# Sound funding profile

## Customers deposits and covered bonds dominate



## Debt maturity profile



# Aktia Bank as covered bond issuer

- The Aktia Bank mortgage loan portfolio is of very high quality:
  - ✓ Only prime residential mortgage loans
  - ✓ Collateral located in Finland
  - ✓ Low average LTV
- Aktia Bank covered bonds are CRR & UCITS, ECB repo and CBPP eligible
- Bank aims to comply with the ECBC covered bond label transparency initiative
- Stable access to the covered bond market is in high priority
- Aktia Bank will focus on EUR 500m public benchmark Covered Bond issues with selective private placement offerings

Aktia Bank operates under the legislation as mortgage bank (Act on Mortgage Credit Bank Operations, MCBA 688/2010) and issues the covered bonds directly from the bank's balance sheet.

# Cover pools

May 2018

	Cover Pool 2 (Active pool)	Cover Pool 1
<b>Total asset pool</b> No substitute assets	<b>EUR 2,379 million</b>	EUR 216 million
<b>No. of loans / average loan balance</b>	<b>39,365 / EUR 60,424</b>	2,751/ EUR 78,630
<b>Types of loans</b>	<b>First ranking residential mortgages and pledges of shares in house companies</b>	First ranking residential mortgages and pledges of shares in house companies
<b>Geography</b>	<b>Finland, well diversified with concentration on growth areas</b>	Finland, well diversified with concentration on growth areas
<b>Non-performing loans</b> >90 days in arrears	<b>0.0</b>	0.0
<b>WA index LTV</b>	<b>48.13%</b>	38.77%
<b>Maximum LTV</b>	<b>LTV limit: 70%</b>	LTV limit: 70%
<b>Interest base</b>	<b>Floating 97% / Fixed 3%</b>	Floating 98% / Fixed 2%
<b>WA seasoning</b>	<b>57 months</b>	70 months
<b>% of top-10 borrowers</b>	<b>0.28%</b>	3.04%
<b>Overcollateralisation, %</b>	<b>54.45% (committed OC 10%)</b>	100.75% (committed OC 12%)
<b>Moody's Collateral Score</b>	<b>4.7%</b>	5.0%

# The Finnish Economy

Strong Economy (with the happiest people of the world)



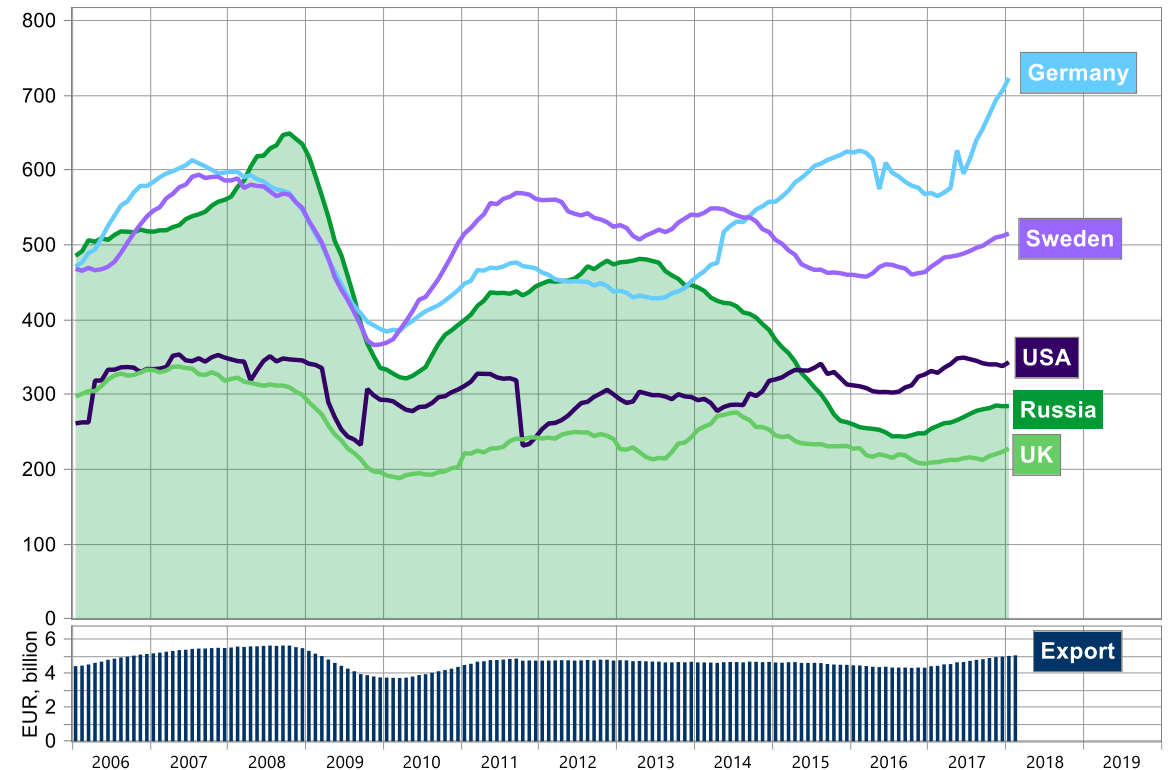
# The Finnish Economy

## Export driven growth

### Key facts about Finland

- Member of EU and Euro area
- Population: 5.5 million
- Area: 338 430 sq. km
- GDP per capita EUR 38 959 (2016)
- Credit ratings:  
Aa1 (stable) / AA+ (stable) / AA+ (stable)

Finland: Export value, mil. euro

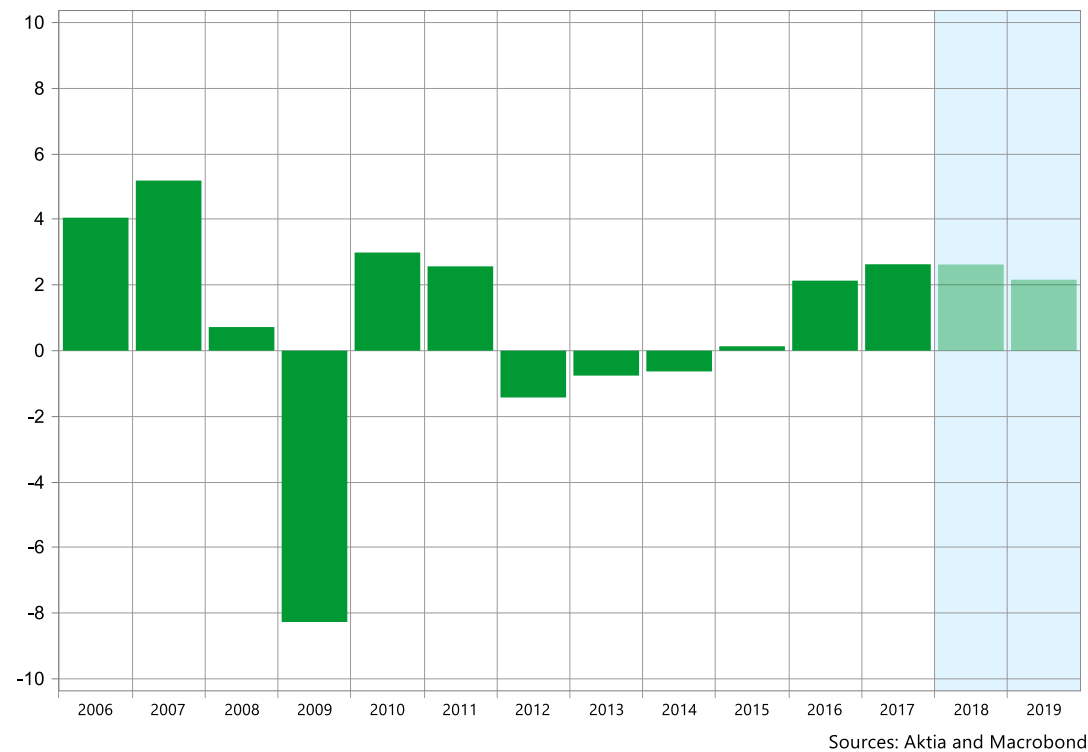


Sources: Aktia and Macrobond

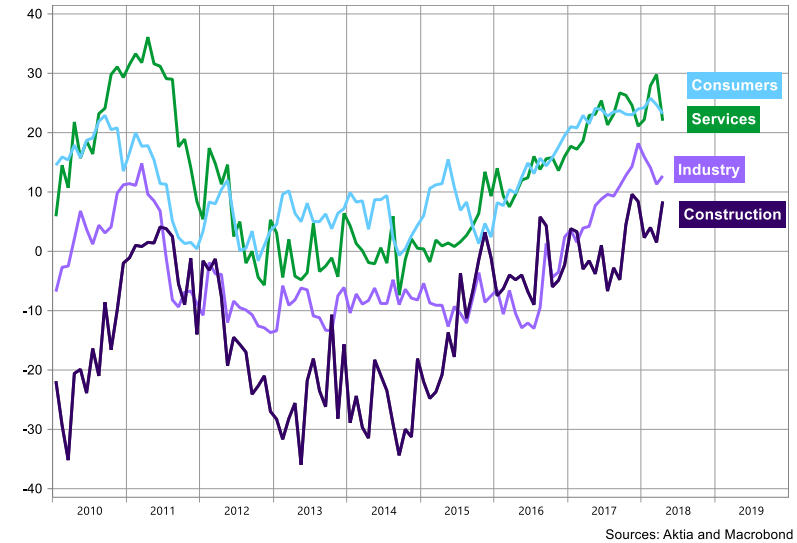
# The Finnish Economy

## Growth continues

GDP growth, %

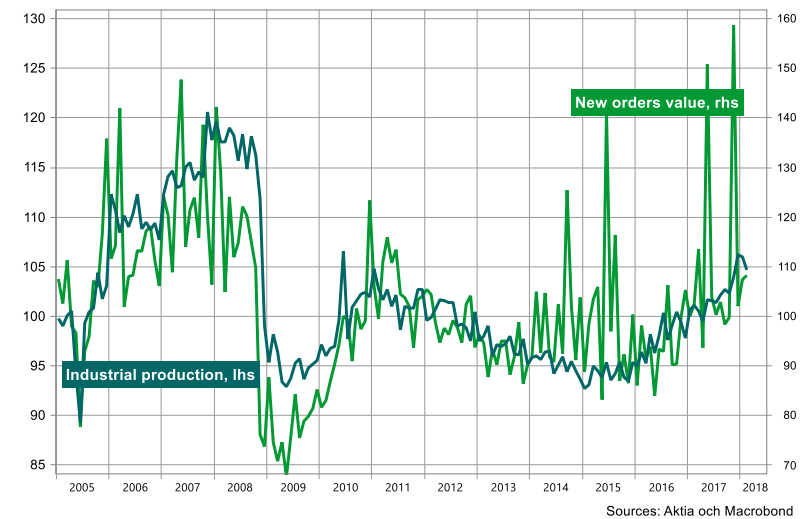


Confidence



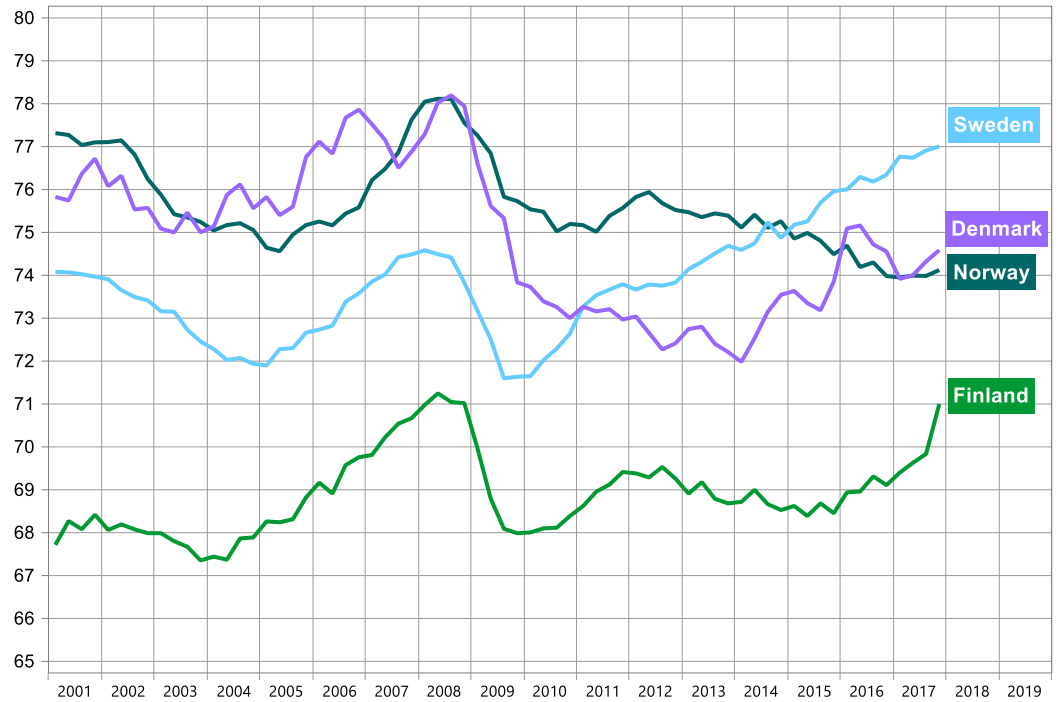
Industrial production and new orders

Seasonally adjusted indices, 2010=100



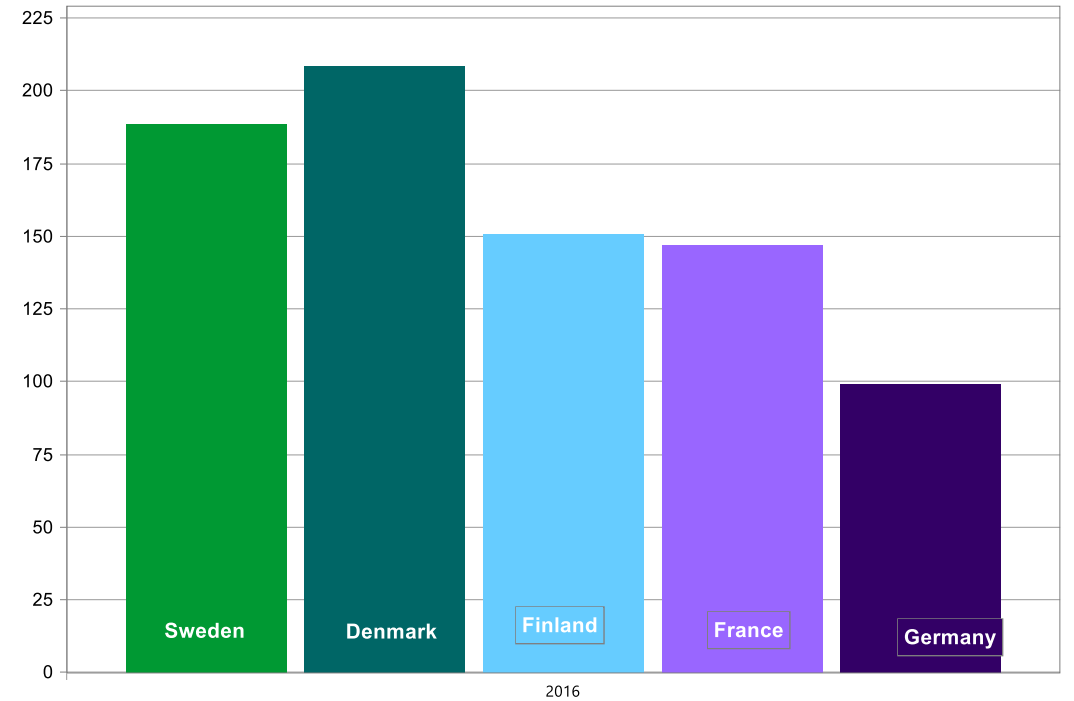
# The Finnish Economy

Employment rate, 15-64 year olds



Sources: Aktia and Macrobond

Private debt, % of GDP



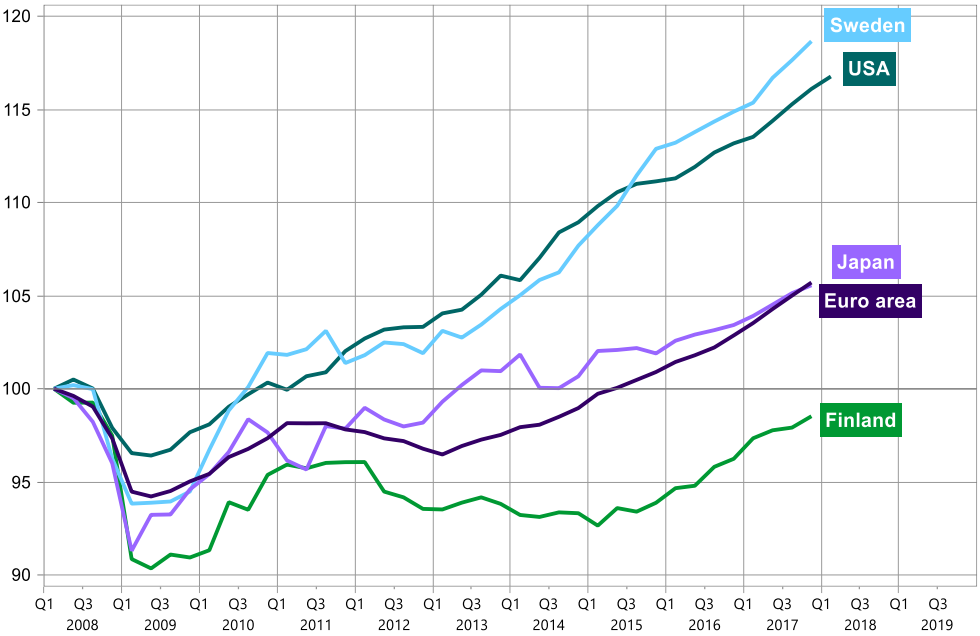
Sources: Aktia and Macrobond

# Macroeconomic environment

All is well, for now.

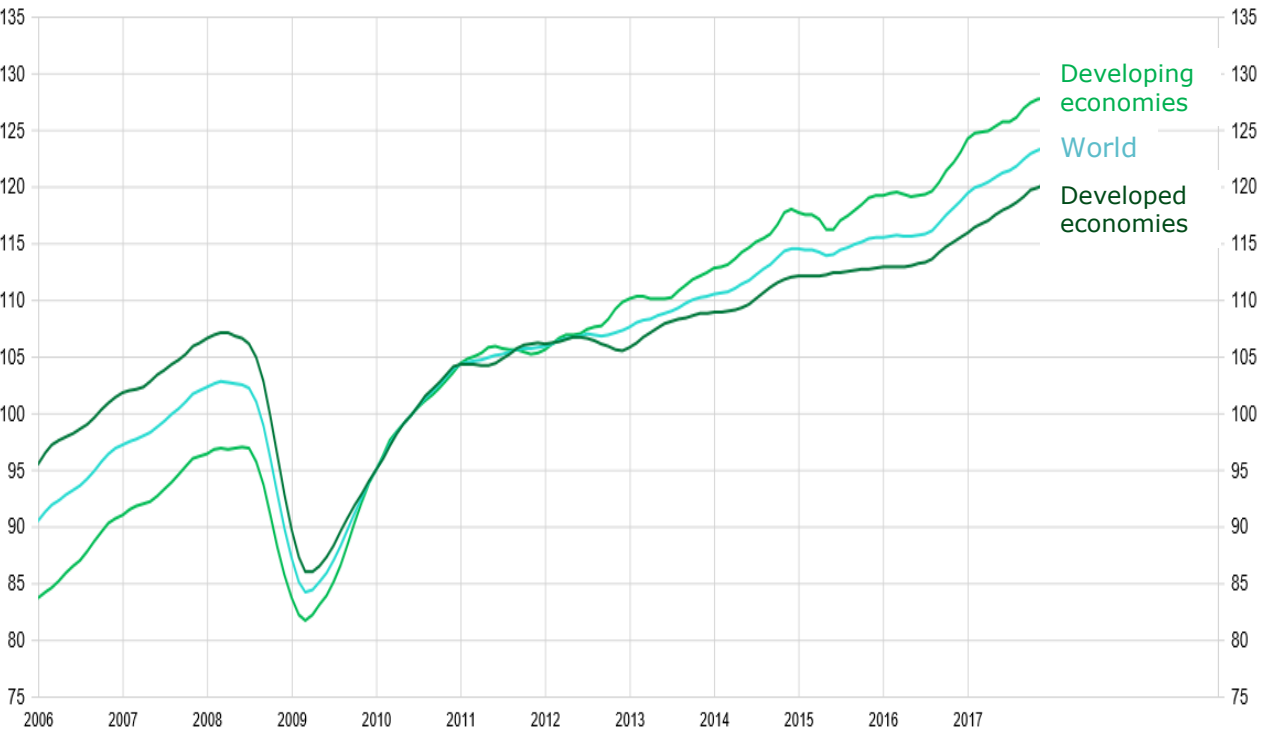
GDP in some countries

Index, Q12008=100



Sources: Aktia and Macrobond

World exports



Sources: Aktia and Macrobond

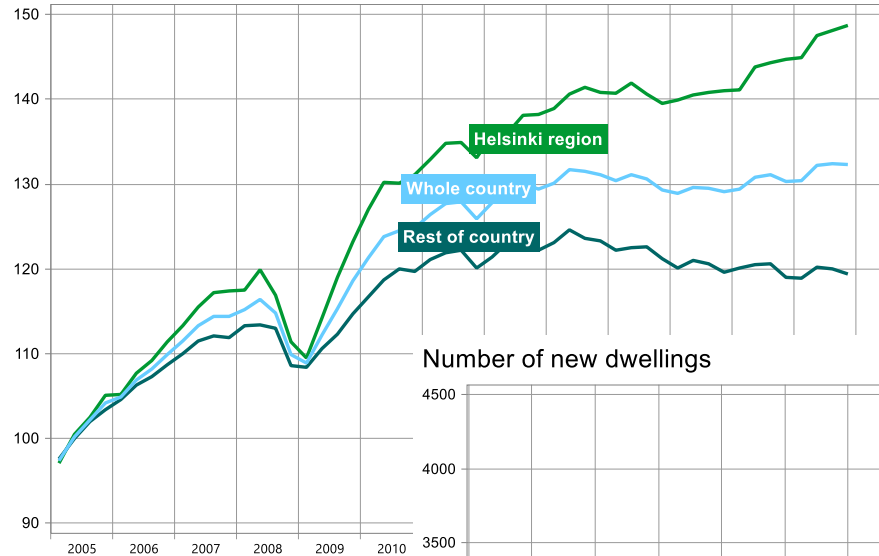


# Finnish housing market

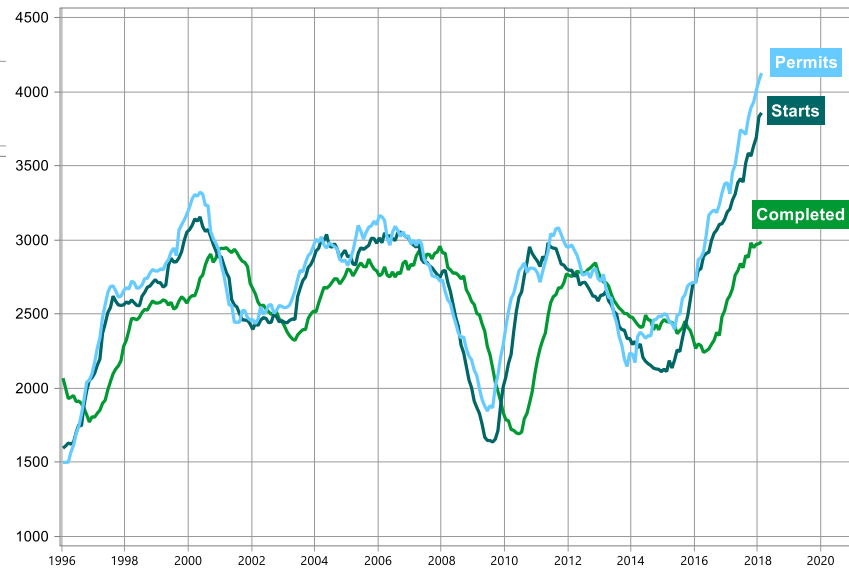
## Solid and stable market

Finland: Prices, old apartments

Index 2005=100

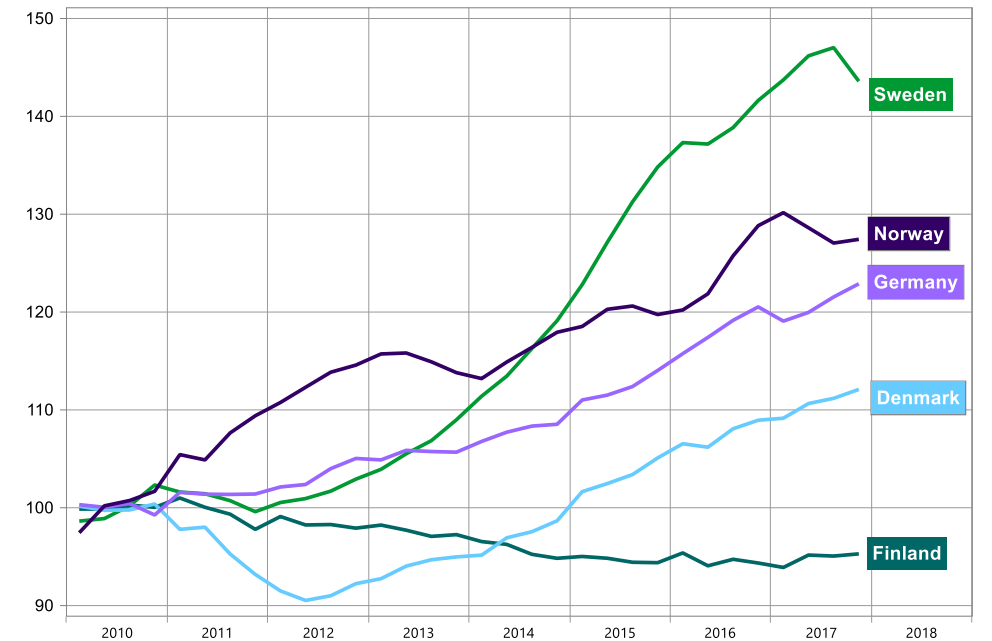


Number of new dwellings



Sources: Aktia and Macrobond

Real House Prices, index 2010=100



Sources: Aktia and Macrobond

**Courageously.  
Skilfully.  
Together.**



**Aktia**

# Contacts and additional information



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## Debt investor information:

<http://www.aktia.com/en/velkasijoittajat> (website)

<http://www.aktia.com/en/julkaisut> (interim reports and presentations)

# APPENDIX

# "Happiest People of the world" 😊

## Finland Wins Double Gold in World Happiness Report 2018

14 Mar 2018

*ROME, March 14 – This year Finland takes the top spot as the happiest country as measured by surveys undertaken by Gallup from 2015-2017. Rounding out the rest of the top ten in order of overall happiness are Norway, Denmark, Iceland, Switzerland, Netherlands, Canada, New Zealand, Sweden, and Australia. In addition, Finland's immigrants are also the happiest immigrant population in the world, based on the available data from 117 countries.*



Kyu Lee, [klee@ei.columbia.edu](mailto:klee@ei.columbia.edu)