

3 MAY 2019

Aktia

# Aktia Q1 2019

## Debt Investor presentation

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# 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 77 % of the loan portfolio and 74 % of the deposit stock.

### Solid profitability over time and strong Capital Ratio

Return on Equity (ROE) 9.4 % and Tier 1 Capital Ratio 16.9 % in 1Q2019.

### Credit ratings

Moody's: A1 / P-1, stable    Covered Bonds: Aaa

S&P: A- / A-2, stable

### Planned transactions for 2019

EUR Senior Preferred Private Placements with short and intermediate tenor and and limited amount subordinated unsecured Tier 2 bonds.

# Aktia's Q1 2019 in brief

Good underlying performance – total operating income +3%, comparable operating profit -5%

- Income from interest rate hedges unwound in 2012 EUR 2.2 million lower compared to the reference period
- EUR 2 million stability fee booked in its entirety to the first quarter

High activity level among both private and corporate customers

Several new product launches

- First completely digital credit card in Finland
- Apple Pay mobile payments

Aktia Asset Management awarded again

- Best fixed-income house in Finland by Morningstar
- Best Nordic fixed-income house by Lipper Fund Awards

# Key Figures Q1'19 vs. Q1'18

Total operating income	<b>+3%</b> EUR 52.7 (51.2) million
Net interest income	<b>-6%</b> EUR 19.4 (20.7) million
Net commission income	<b>-5%</b> EUR 22.7 (23.8) million
Total operating expenses	<b>+8%</b> EUR 36.1 (33.5) million
Comparable operating profit	<b>-5%</b> EUR 17.2 (18.0) million

EPS

**EUR 0.21**

(0.22)

Comparable C/I ratio

**0.69**

(0.65)

ROE

**9.4%**

(10.2)

CETI

**16.9%**

(16.4)

# Demand for housing loans continues

## BANKING BUSINESS

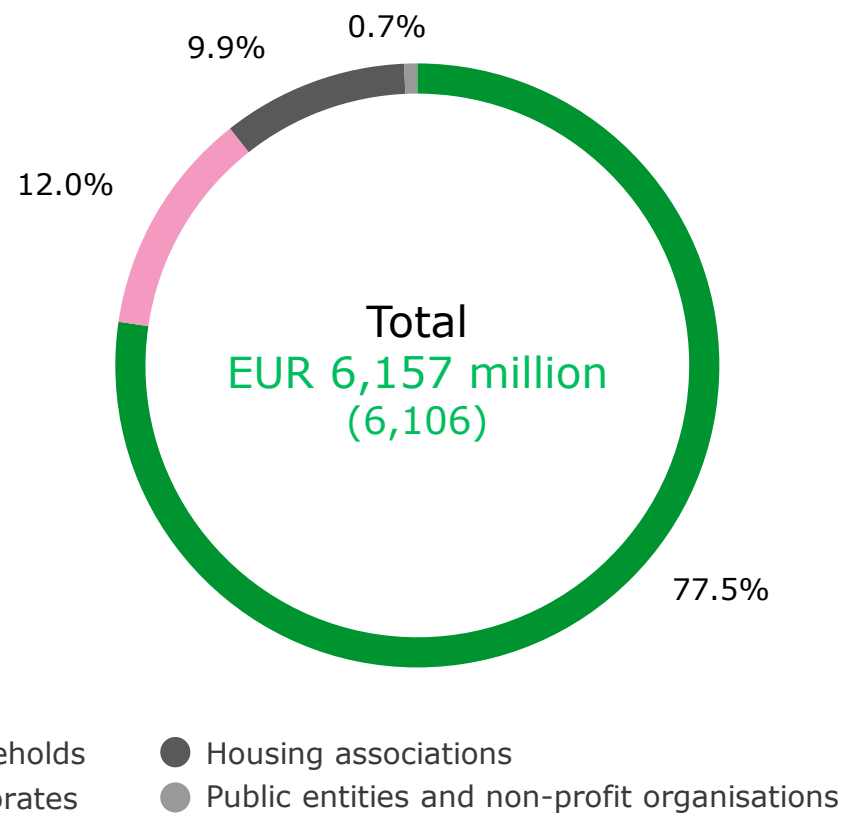
- The demand for housing loans continues but tough competition puts pressure on margins.
- Interest rate collars and Interest rate cap products in high demand with the customers.
- The 4% increase of the corporate loan book reflects out strategic focus on SME corporates as well as the high demand on the market for both corporate investments and property financing.



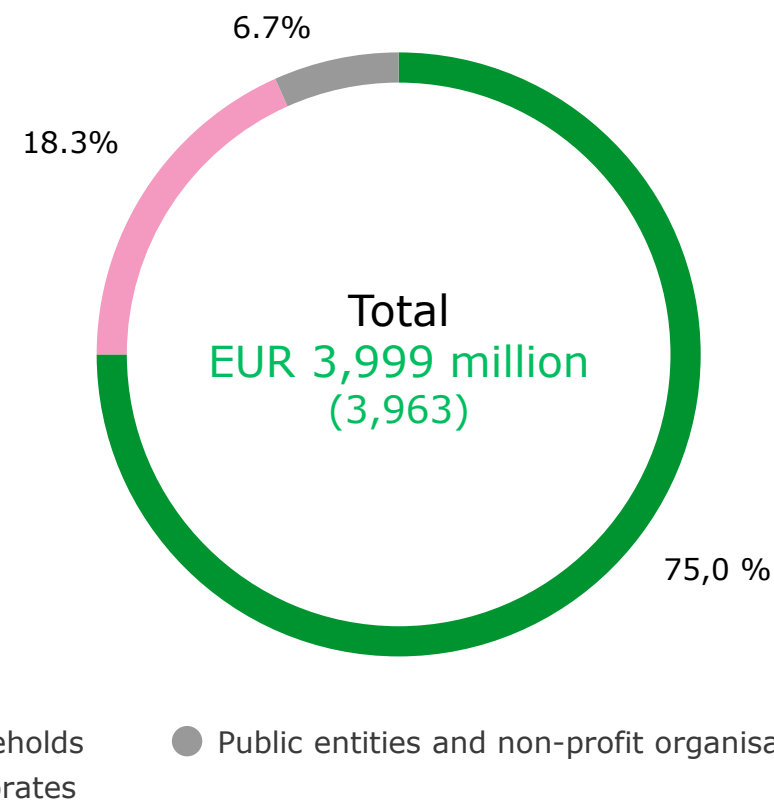
# Finnish households a key business driver

## STRUCTURE OF LENDING AND DEPOSITS

### Lending



### Deposits

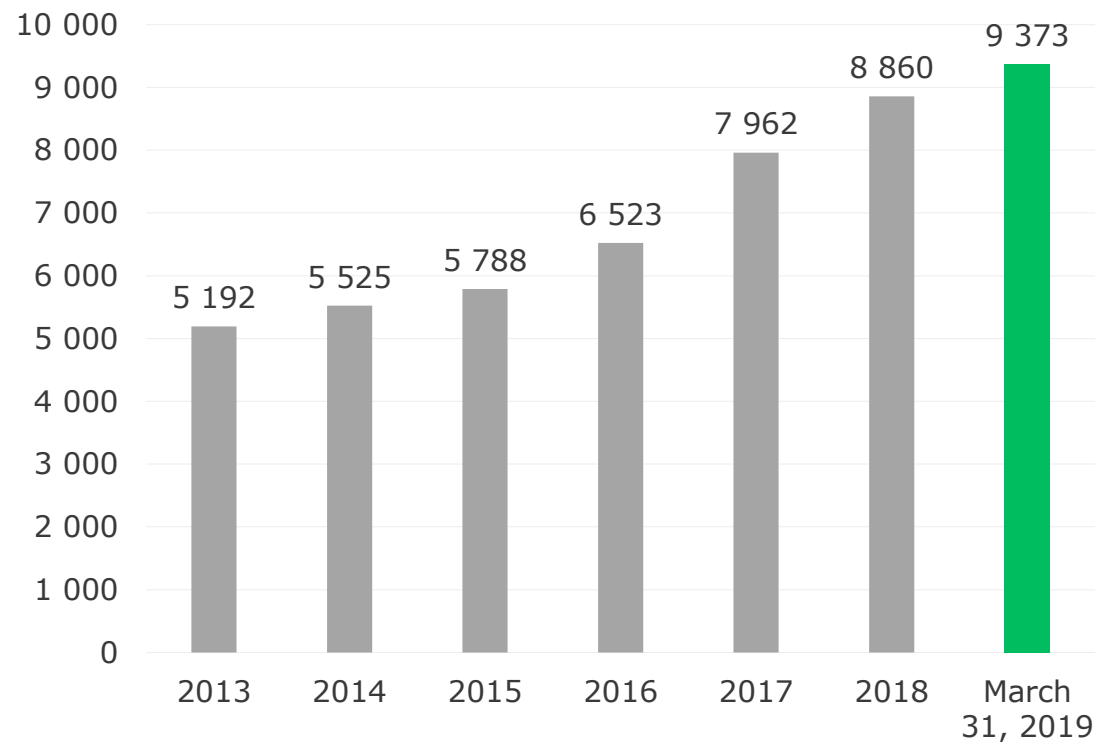


# Good growth in Assets under management continues

## ASSET MANAGEMENT

### Assets under management excluding custody (AuM)

milj. euroa



- Higher income mainly explained by positive value changes of EUR 1.7 (-0.9) million in the life insurance business. Net commission income within the segment increased by 5%.
- Both foreign and domestic institutional sales developed well during the quarter as did sales of funds through Aktia's own branch network.
- The UI-Aktia range will be extended geographically during 2019.

# Financial targets 2022

Comparable  
operating profit  
to approximately  
EUR 80 million

1-3/2019:  
**EUR 17.2 million**

Return on  
Equity ROE  
to 9.7%

1-3/2019:  
**9.4%**

Comparable  
cost-to-income  
ratio  
to 0.61

1-3/2019 (comparable):  
**0.69**

Common Equity  
Tier 1 capital ratio  
CET1 to 1.5–3  
percentage points  
over regulatory  
requirements

1-3/2019:  
**16,9%**



# Four action programs for strategy implementation



Corporate culture



Operational excellence



Reshaping customer  
experience



Sales

# Financial overview

# Operating income increased by 3% during the first quarter

Table Info	1Q2019	1Q2018	Δ, %
<b>Total operating income</b>	52.7	51.2	+3%
Net interest income	19.4	20.7	-6%
Net commission income	22.7	23.8	-5%
Net income from life insurance	8.3	5.8	+43%
Other income	2.3	0.8	+169%
<b>Total operating expenses</b>	-36.1	-33.5	+8%
<b>Operating profit</b>	17.2	17.7	-3%
<b>Comparable operating profit*</b>	17.2	18.0	-5%
Earnings Per Share (EPS), EUR	0.21	0.22	-7%
Return on Equity (ROE) %	9.4	10.2	-7%
Cost-to-income ratio (comparable)	0.69	0.65	6%
Common Equity Tier 1 capital ratio	16.9	16.4	+3%

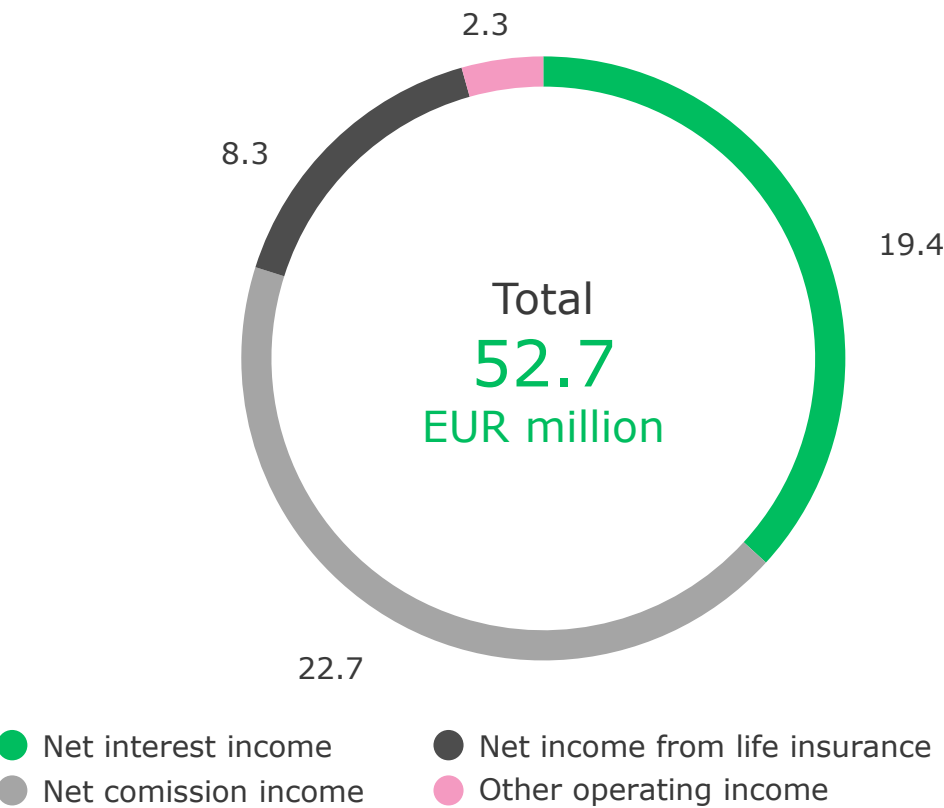
\*) Excl. items affecting comparability, mainly costs for restructuring



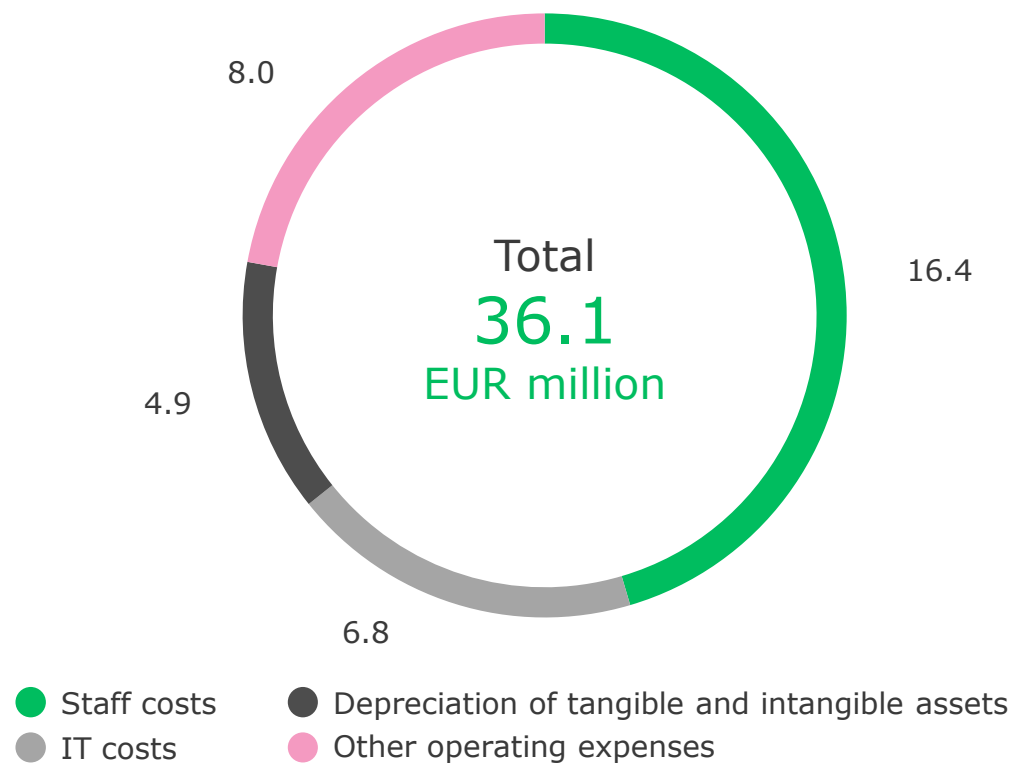
**Aktia**

# Distribution of operating income and expenses

Operating income



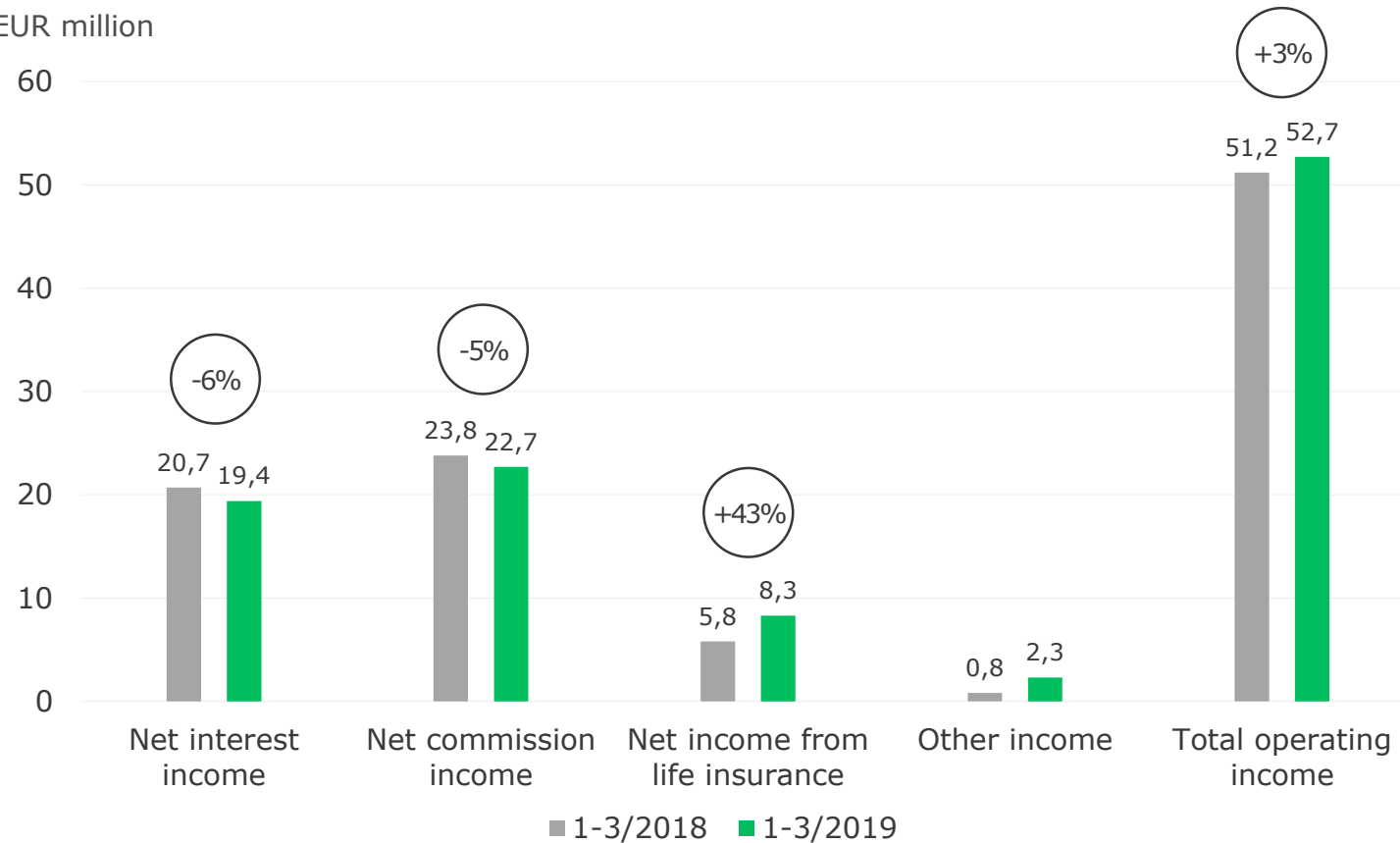
Operating expenses



# Stable underlying development in income

## INCOME MIX

EUR million



### Net interest income:

Despite margin pressure the average margin for the total loan book remained on a stable level. Income from interest rate hedges unwound in 2012 was EUR 2.2 million lower compared to the reference period.

### Net commission income:

Net commission income, excluding the income from the real estate agency sold in July 2018, increased by 1%. Commission income from funds, asset management and securities brokerage was on the same level as last year, whereas card and other payment service commissions increased by 6%.

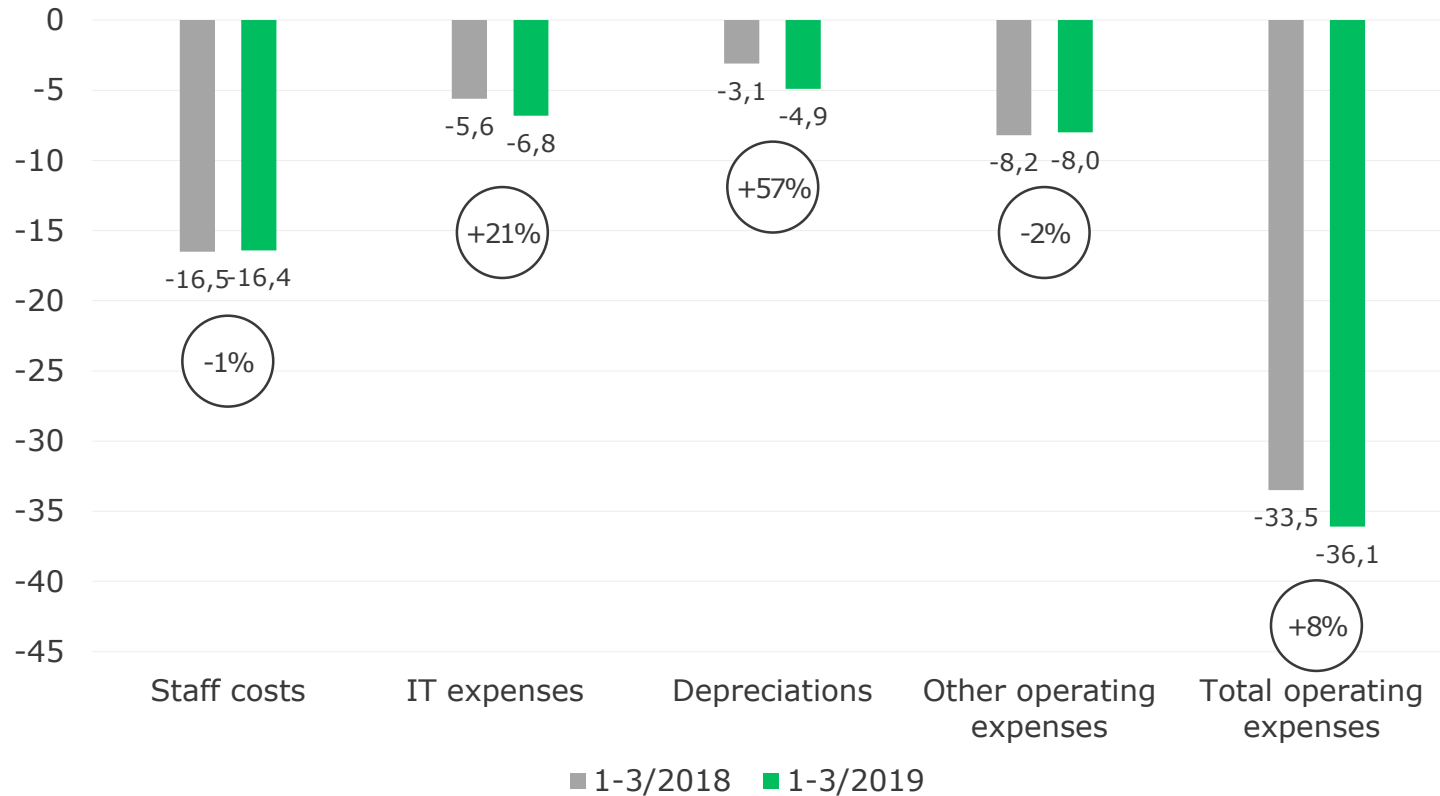
### Net income from life insurance:

The net income from investments includes value changes of EUR 1.7 (-0.9) million. The actuarially calculated result was on the same level as last year.

# Increased expenses due to larger IT costs

## OPERATING EXPENSES

EUR million



### Staff costs:

The staff costs were approximately at the same level as during the reference period. The number of full-time employees at the end of March amounted to 774 (31 March 2018; 796).

### IT expenses:

IT expenses increased due to partly regulation related investments at the beginning of the year.

### Depreciations:

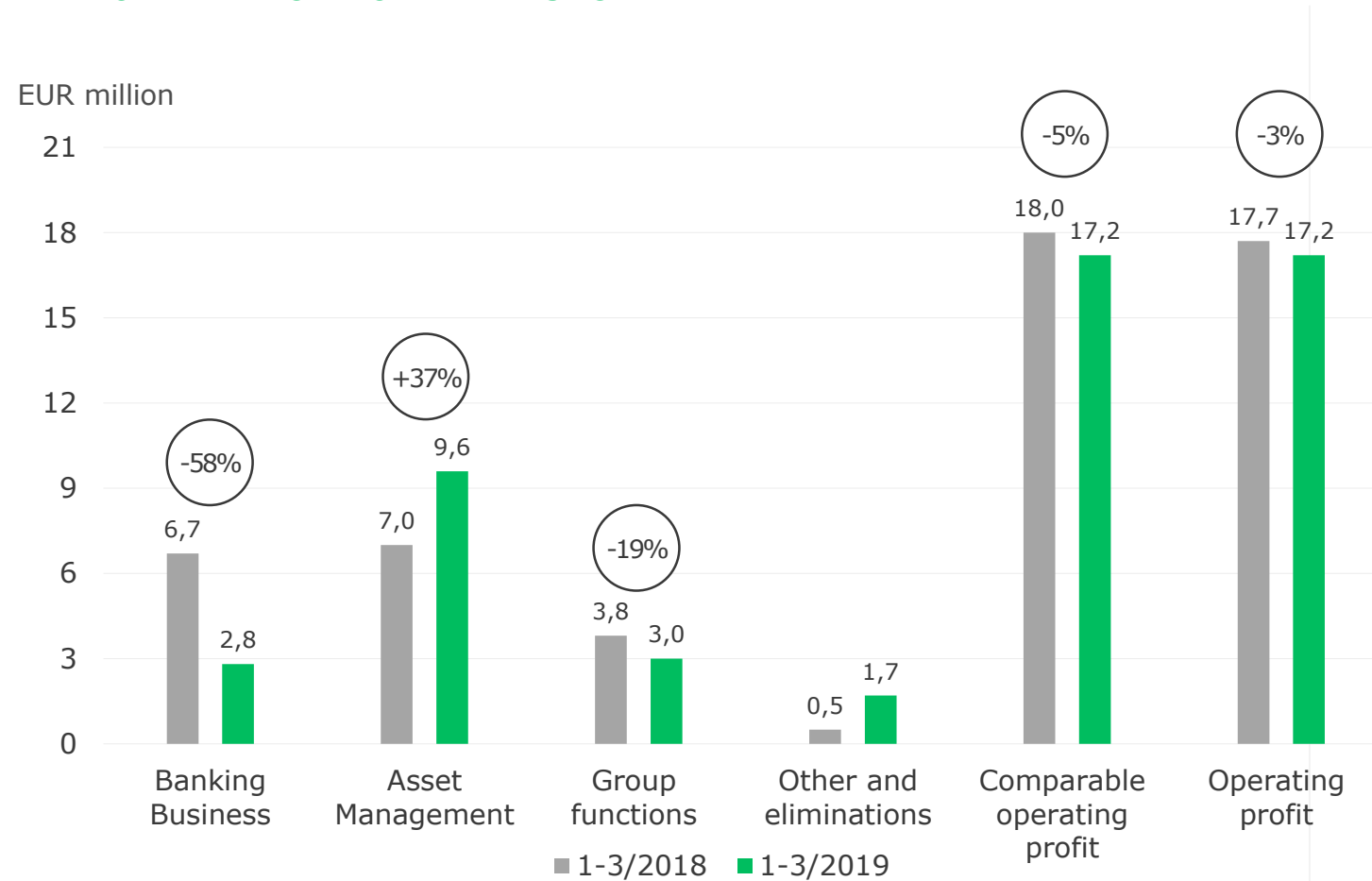
Lease expenses for real estate are reported from 1 January 2019 according to IFRS 16, which means including them in the depreciations (EUR 1.7 million) and interest expenses (EUR 0.3 million).

### Other:

The estimated stability fee of EUR 2.0 million has been booked in its entirety in the first quarter.

# Comparable operating profit decreased by 5%

## COMPARABLE OPERATING PROFIT PER SEGMENT



# Aktia – the debt investment case



# CET1 on a solid level

## CAPITAL ADEQUACY AND CAPITAL REQUIREMENT

- Aktia's Common Equity Tier 1 (CET1) Capital is at a good level at **16.9 %** (16.4% on 31 March 2018)
- Target over time is to exceed the regulative requirement with 150-300 basis points
- Aktia Bank Group's leverage ratio was 4.5 (4Q18: 4.7)%
  - Tier 1 capital      389 million
  - Total exposures    8,676 million
- The Finnish Financial Stability Authority has set the MREL requirement for Aktia Bank at twice the minimum capital requirement, at least 8% of the balance sheet total.
  - RWA based      565,7 million
  - Balance Sheet based    691,5 million
  - Own funds and eligible liabilities totalled 1 237.5 million

### Capital Requirement

CET1 %	<b>8.0%</b>
Pillar 1 min req	4.5%
Pillar 2 req	1.75%
Capital Conservation buffer	2.5%
Counter Cyclical buffer	0.05%
<b>Total CET1 % req</b>	<b>8.8%</b>
<b>AT1 Capital</b>	<b>1.5%</b>
<b>Tier 2 Capital</b>	<b>2.0%</b>
<b>Total Capital Requirement</b>	<b>12.30%</b>

# Prudent and low-risk lending policy

## LOW LONG-TERM TREND IN NON-PERFORMING LOANS:

Aktia Bank operates under strict origination criteria:

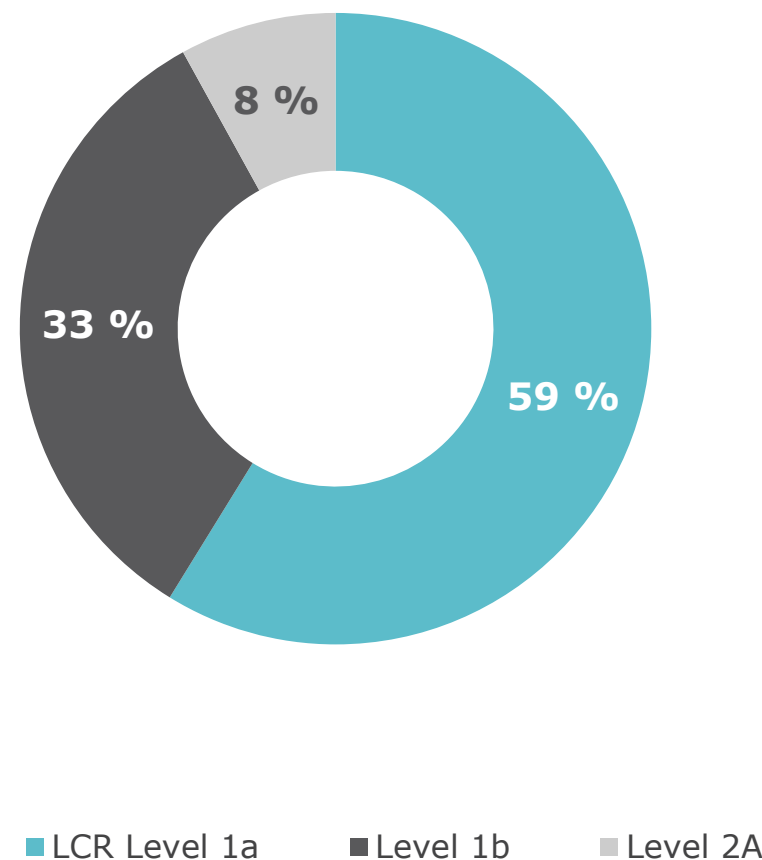
- Identification of the customer mandatory (KYC)
- Responsible lending: customer ability to pay stress tested
- Credit personnel internally educated and examined
- Rating and behavior based credit risk valuation
- Collateral only in Finland

<b>ECL (IFRS 9)</b>	Stage 1	Stage 2	Stage 3	<b>€mio</b>
≤ 30 days	6,7	7,0	0,1	
Households	2,4	5,9	0,0	
> 30 ≤ 90	0,0	17,3	2,0	
Households	0,0	16,3	1,1	
> 90 days	0,0	0,0	35,1	
Households	0,0	0,0	27,4	
Total	6,7 (3,2)	24,3 (23,2)	37,2 (34,2)	
% of portfolio	0,11 (0,05)	0,39 (0,38)	0,60 (0,56)	

# High-quality liquidity portfolio

At the end of March 2019 the Bank Group's liquidity buffer was approximately equivalent to the estimated outgoing cash flow of finance from the wholesale market for 36 months. The Liquidity Coverage ratio (LCR) was **113%**.

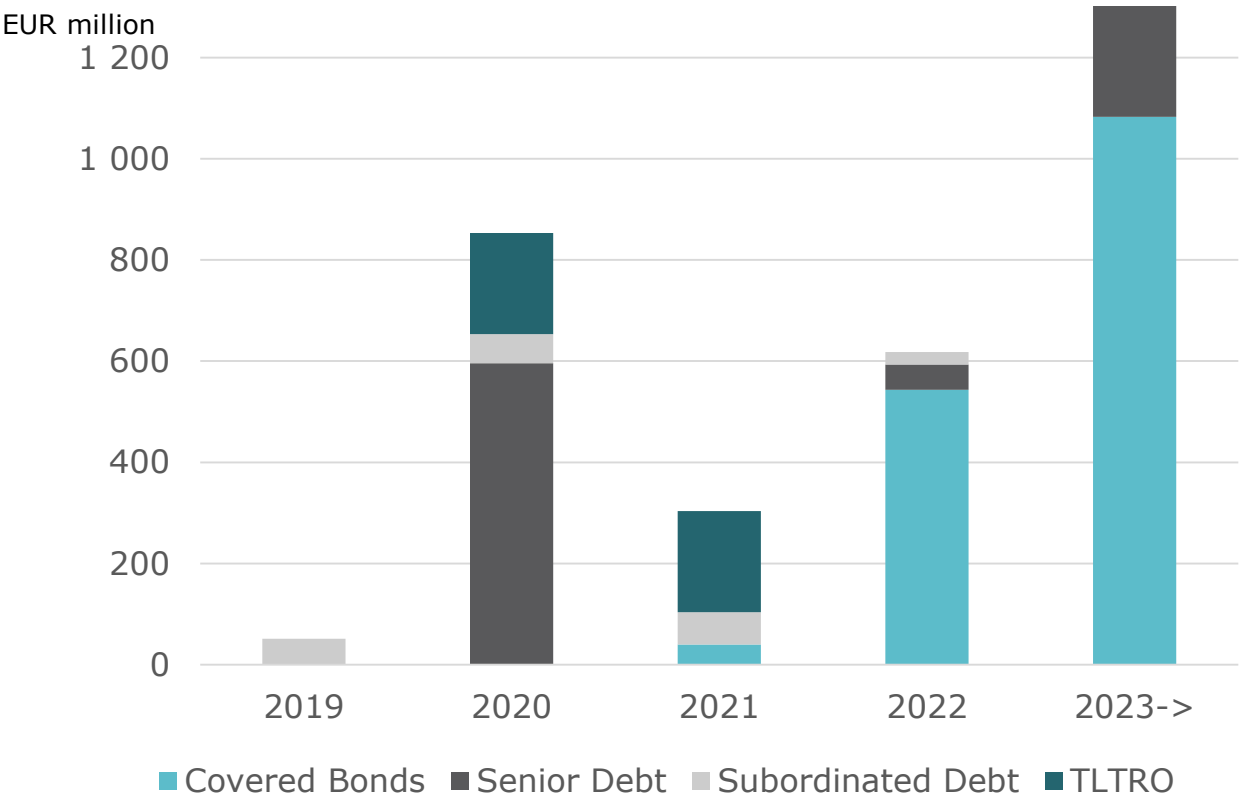
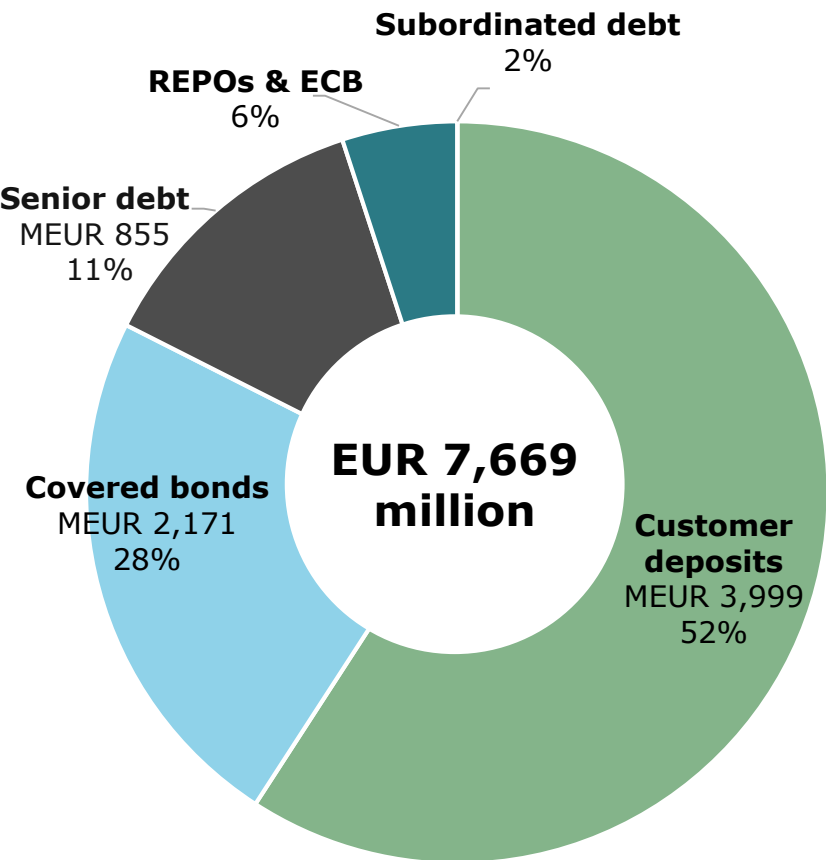
	31.12.2018	31.12.2018
<b>EUR million</b>	<b>1,527</b>	<b>1,368</b>
AAA	49,5%	56.7%
Aa1-Aa3	19,2%	24.4%
A1-A3	2,5%	3.6%
Baa1-Baa3	3,9%	1.2%
Ba1-Ba3	2.0%	0.0%
Finnish municip. (no rating)	16.9%	14.0%
No rating	6.0%	0.0%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>



# Sound funding profile

## DEBT MATURITY PROFILE

Customers deposits and covered bonds dominate



# Aktia Bank as covered bond issuer

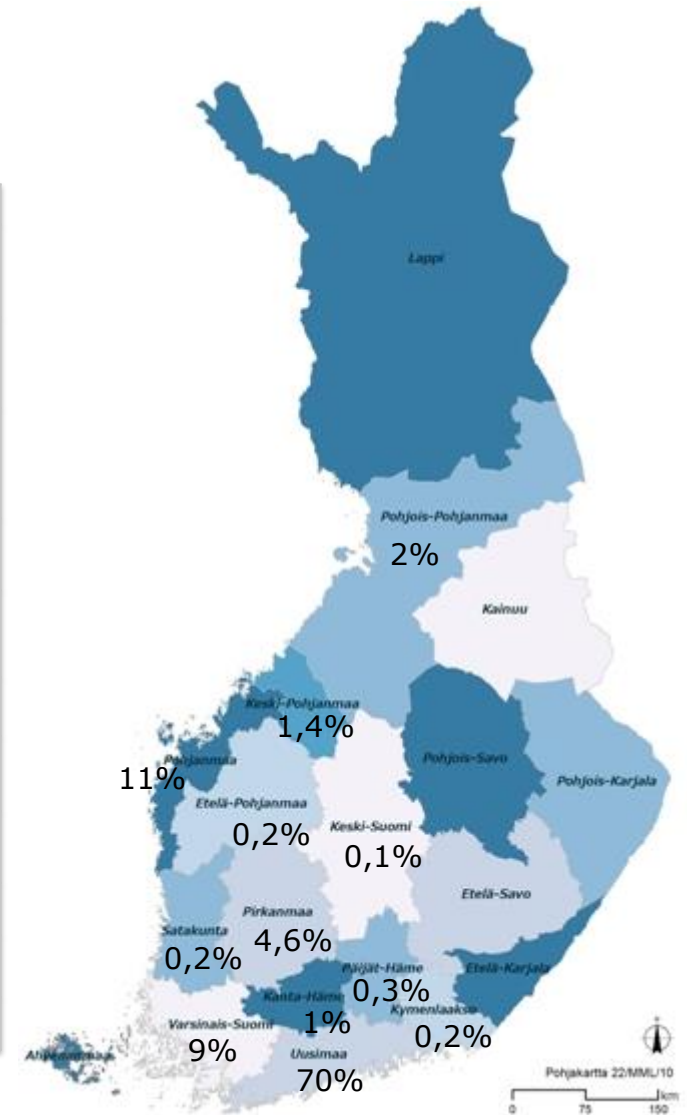
- The Aktia Bank mortgage loan portfolio is of very high quality:
  - ✓ Only prime residential mortgage loans
  - ✓ Collateral located in Finland
  - ✓ Low average LTV
- Aktia Bank covered bonds are CRR & UCITS, ECB repo and CBPP eligible
- Bank aims to comply with the ECBC covered bond label transparency 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

1Q 2019

	Cover Pool 2	Cover Pool 1
Total asset pool (No substitute assets)	EUR 2,305 million	EUR 182 million
No of loans / average loan balance	38,094 / EUR 60,513	2,467 / EUR 73,819
Types of loans	First ranking residential mortgages and pledges of shares in housing companies	First ranking residential mortgages and pledges of shares in housing companies
Geography	Finland, well diversified with concentration on growth areas	Finland, well diversified with concentration on growth areas
Non-performing loans > 90 days in arrears	0,0	0,0
WA indexed LTV	47,63 %	37,31 %
Maximum LTV	LTV limit: 70%	LTV limit: 70%
Interest base	floating 97 %, fixed 3 %	floating 98 %, fixed 2 %
WA seasoning	59,3 months	80 months
Overcollateralisation (%)	13% (committed 10%)	69,01% (committed 12%)
Moody's Collateral Score	5,00 %	5,00 %



# The Finnish Economy

STRONG BUT VERY EXPORT DRIVEN ECONOMY

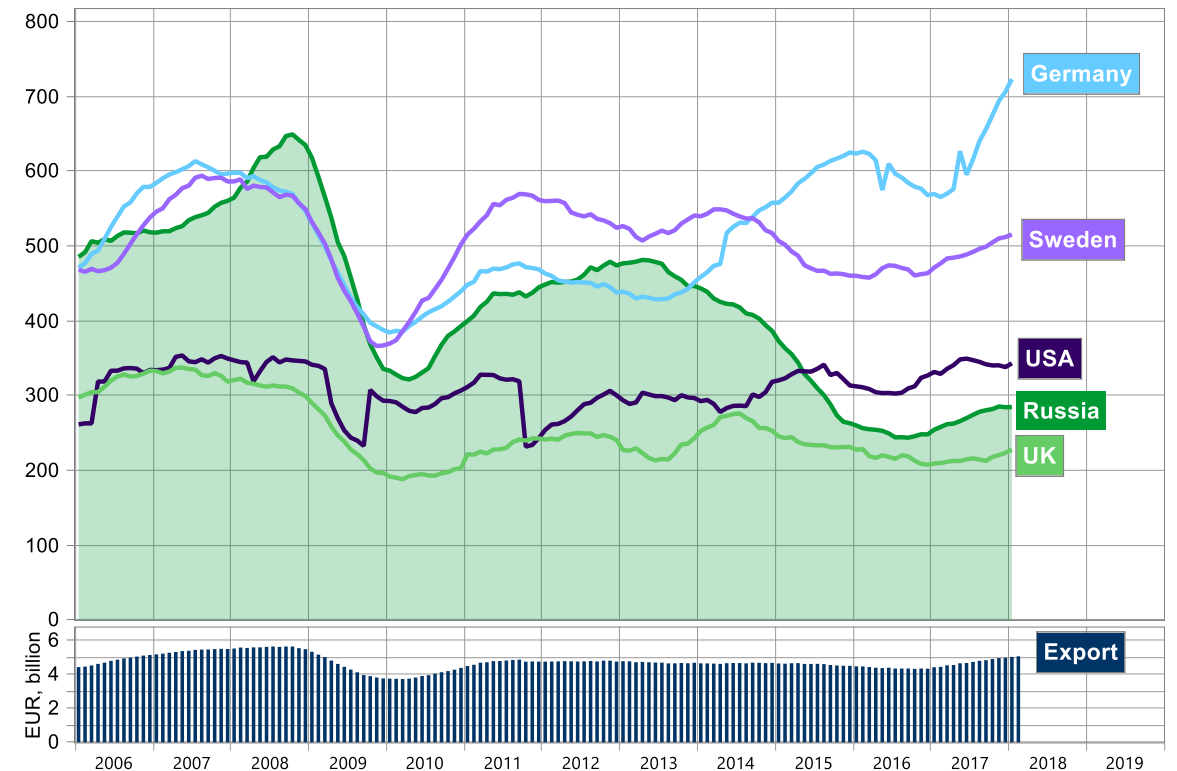
# The Finnish Economy

## 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



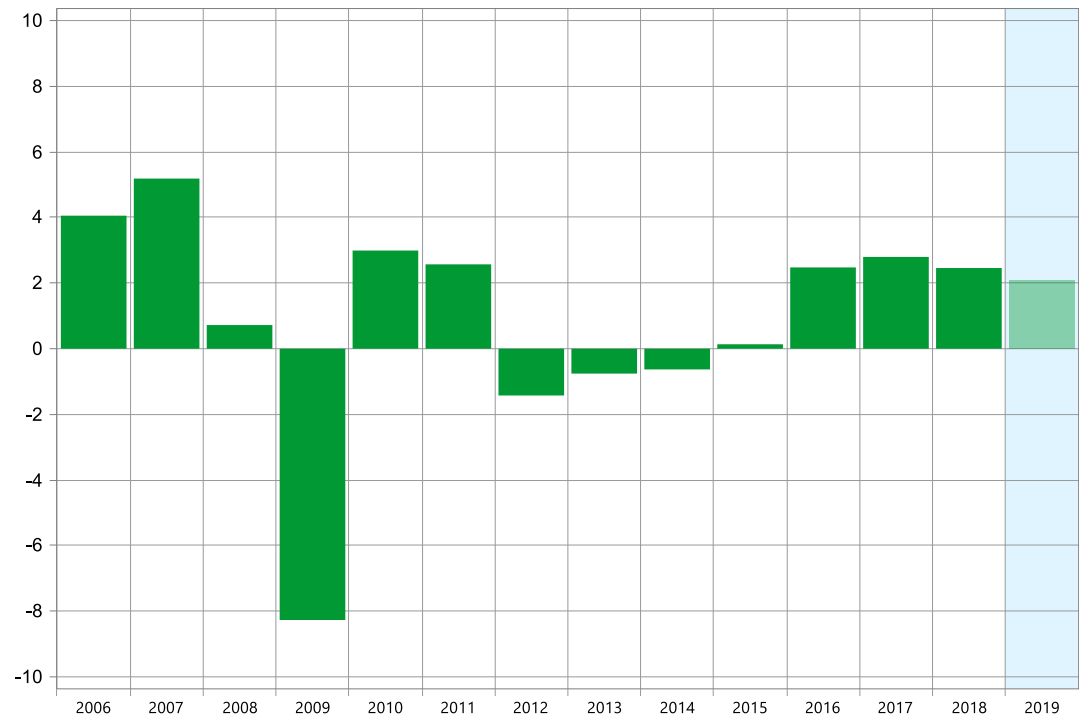
Sources: Aktia and Macrobond



# The Finnish Economy

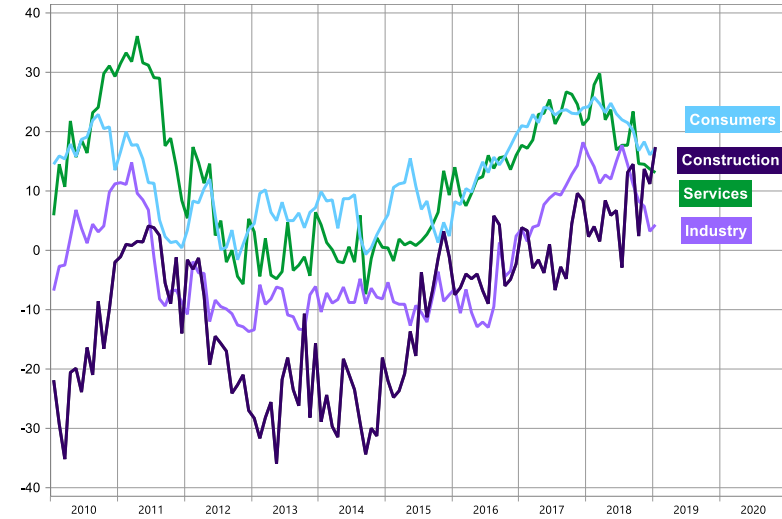
GROWTH CONTINUES, BUT WEAKER

GDP growth, %



Sources: Aktia and Macrobond

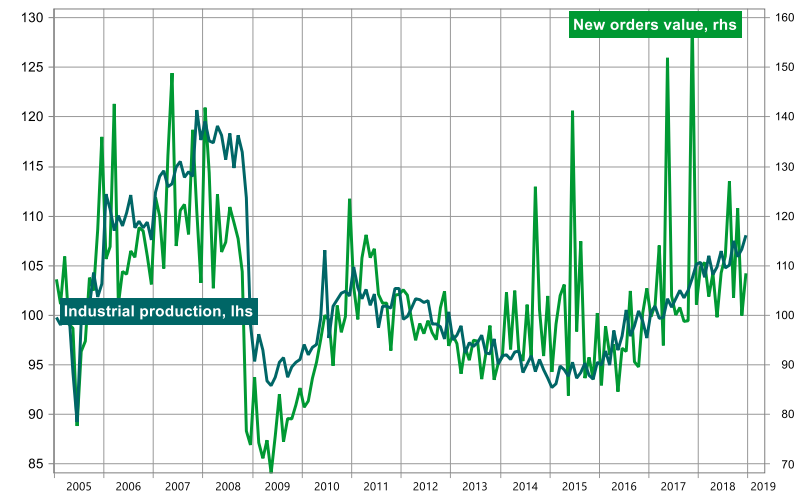
Confidence



Sources: Aktia and Macrobond

Industrial production and new orders

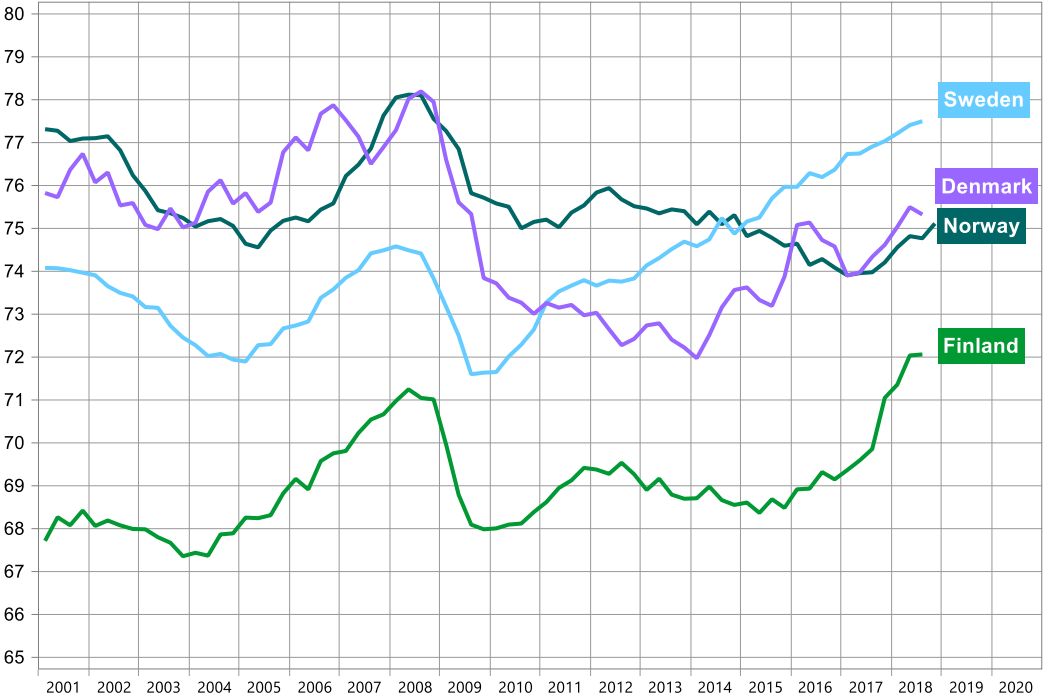
Seasonally adjusted indices, 2010=100



Sources: Aktia och Macrobond

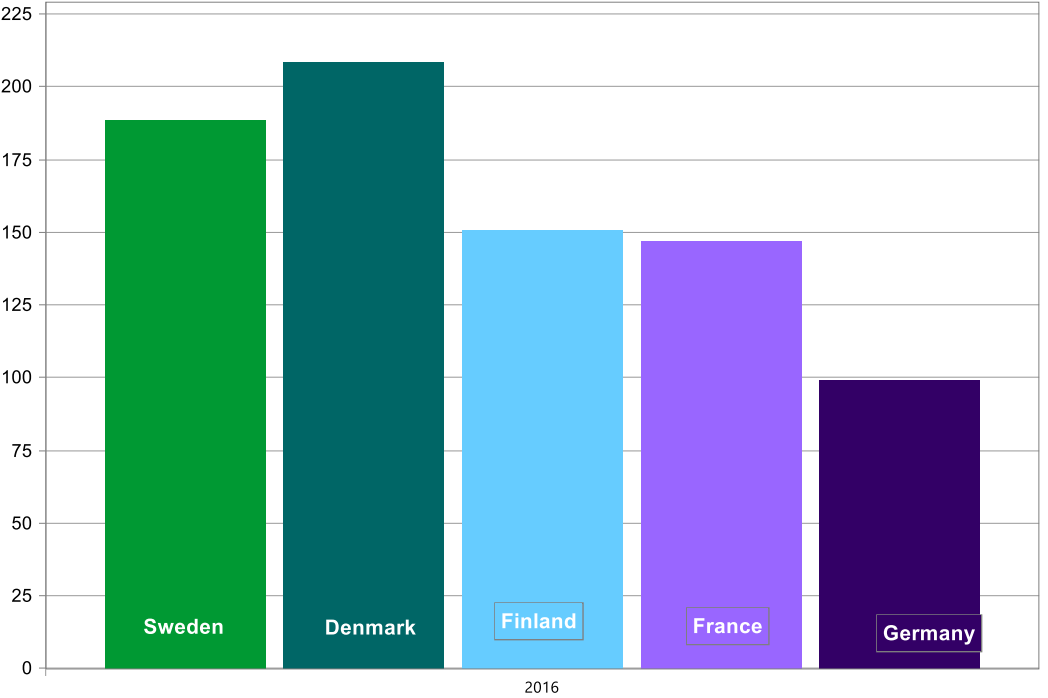
# The Finnish Economy

Employment rate, 15-64 year olds



Sources: Aktia and Macrobond

Private debt, % of GDP



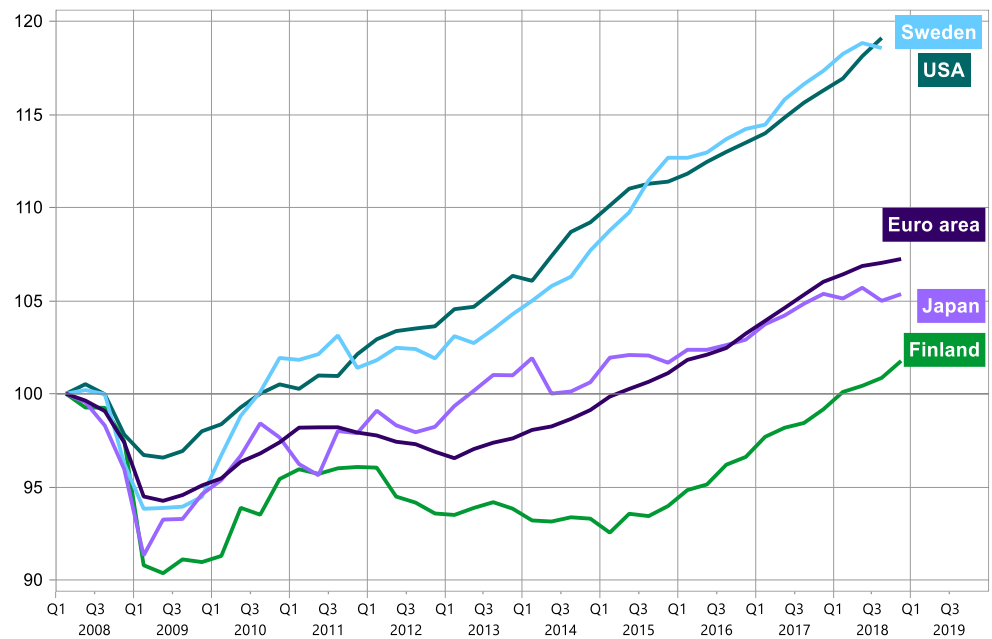
Sources: Aktia and Macrobond

# Macroeconomic environment

## WORRYING ENVIRONMENT

### GDP in some countries

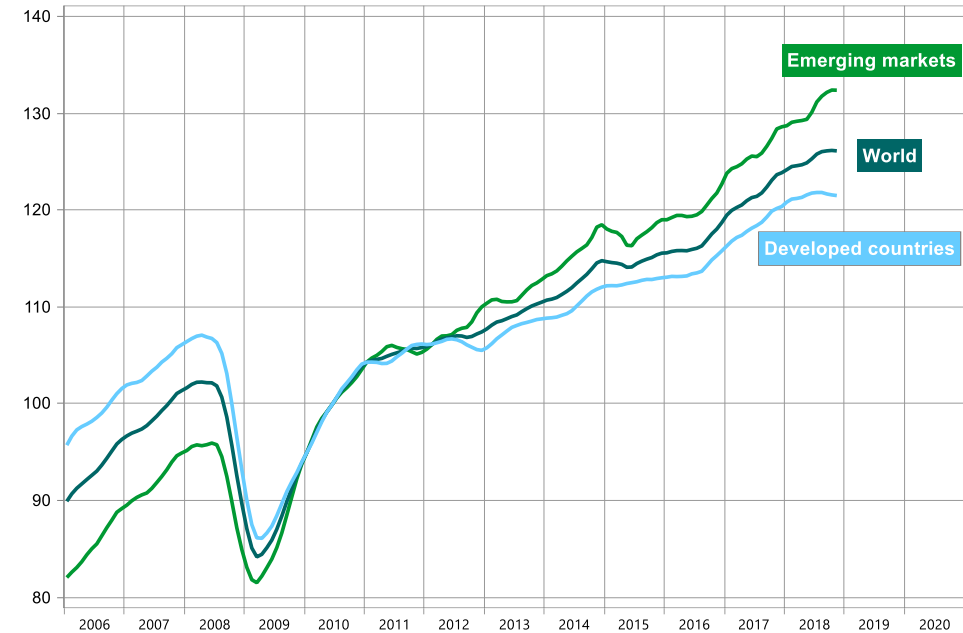
Index, Q12008=100



Sources: Aktia and Macrobond

### World exports

Volyme. Index 2010=100. 6 mMA. Sources: Aktia and Macrobond

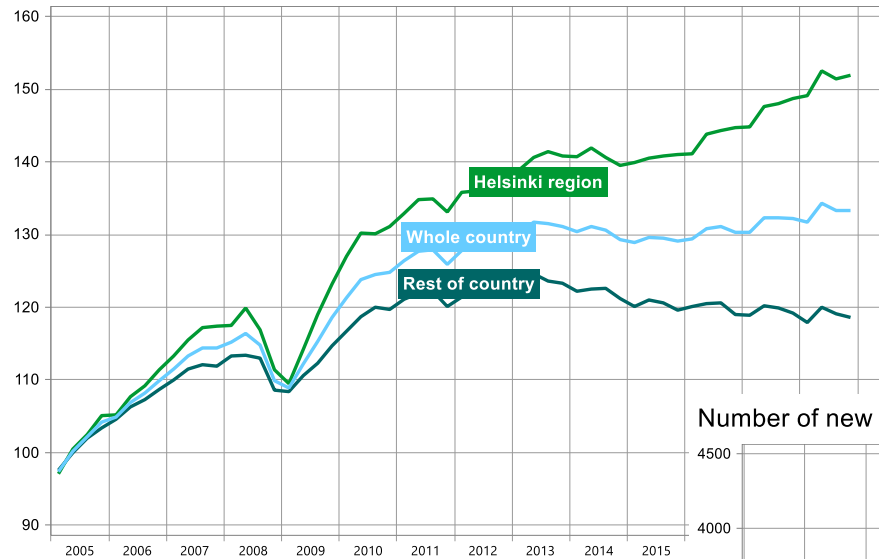


# Finnish housing market

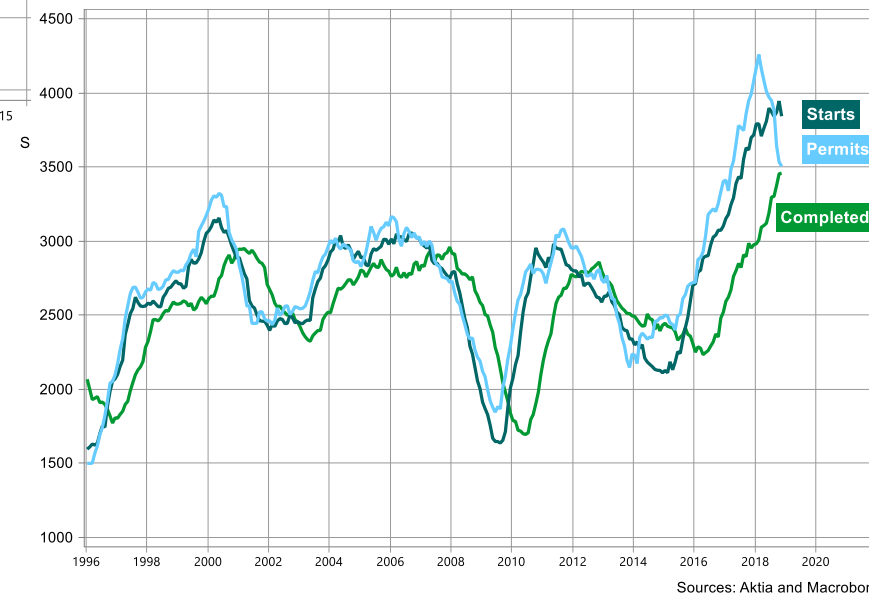
SOLID AND STABLE MARKET, A SLOWDOWN IN GROWTH PROJECTED

Finland: Prices, old apartments

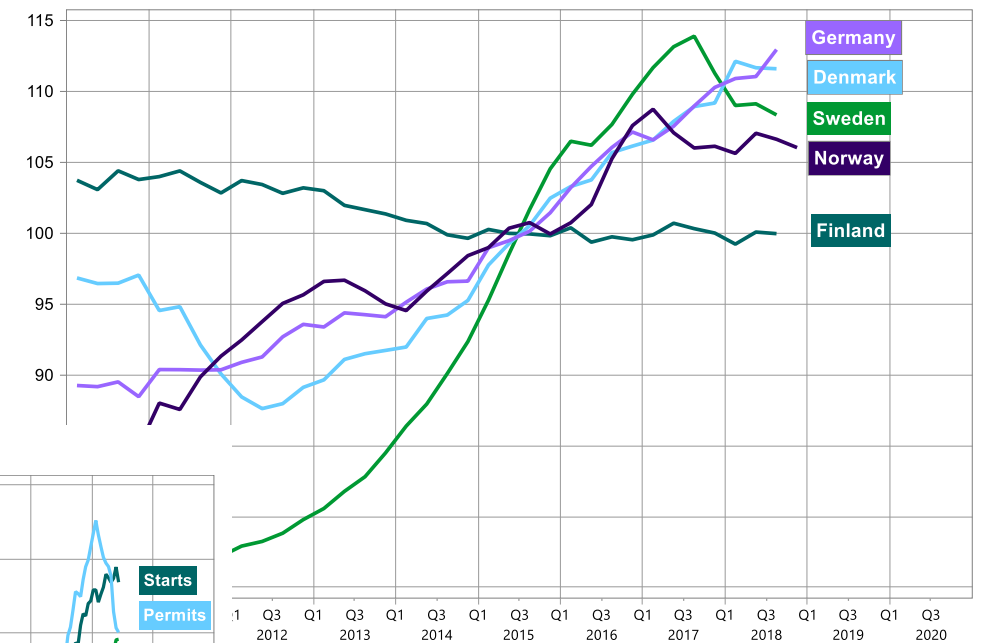
Index 2005=100



Number of new dwellings



Real House Prices, index 2010=100



Sources: Aktia and Macrobond

The background features a series of white, curved, parallel lines that create a sense of depth and movement, resembling a tunnel or a series of concentric arcs. The lines are set against a light grey gradient background.

**Courageously.  
Skilfully.  
Together.**

# 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)