



# Debt Investor presentation 4Q2018

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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 78 % of the loan portfolio and 74 % of the deposit stock.

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

Write-downs on credit and other commitments were still at very low level in 2018 EUR 0.8 (0.6) million and impairments at EUR 0.5 million.

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

Return on Equity (ROE) 9.4 % and Tier 1 Capital Ratio 17.5 % in 2018.

### **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 Benchmark Covered Bond

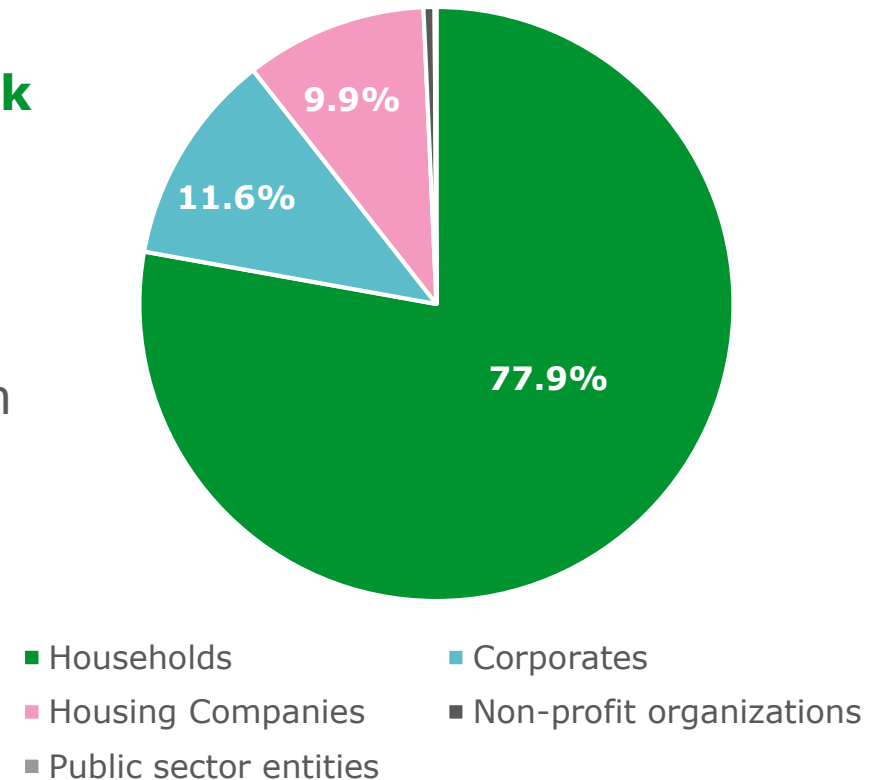
# Aktia's 2018 in brief

- A year of **solid growth** despite market challenges during the last quarter.
- The total **operating income was on the same level** as the previous year and the operating expenses **decreased by 11%** in 2018.
- The comparable operating profit **increased by 9%**.
- The Board of Aktia Bank proposes **a dividend of EUR 0.61** per share in line with annual dividend target.
- Aktia's **capital adequacy exceeds regulatory requirement** comfortably and is well above KPI levels.

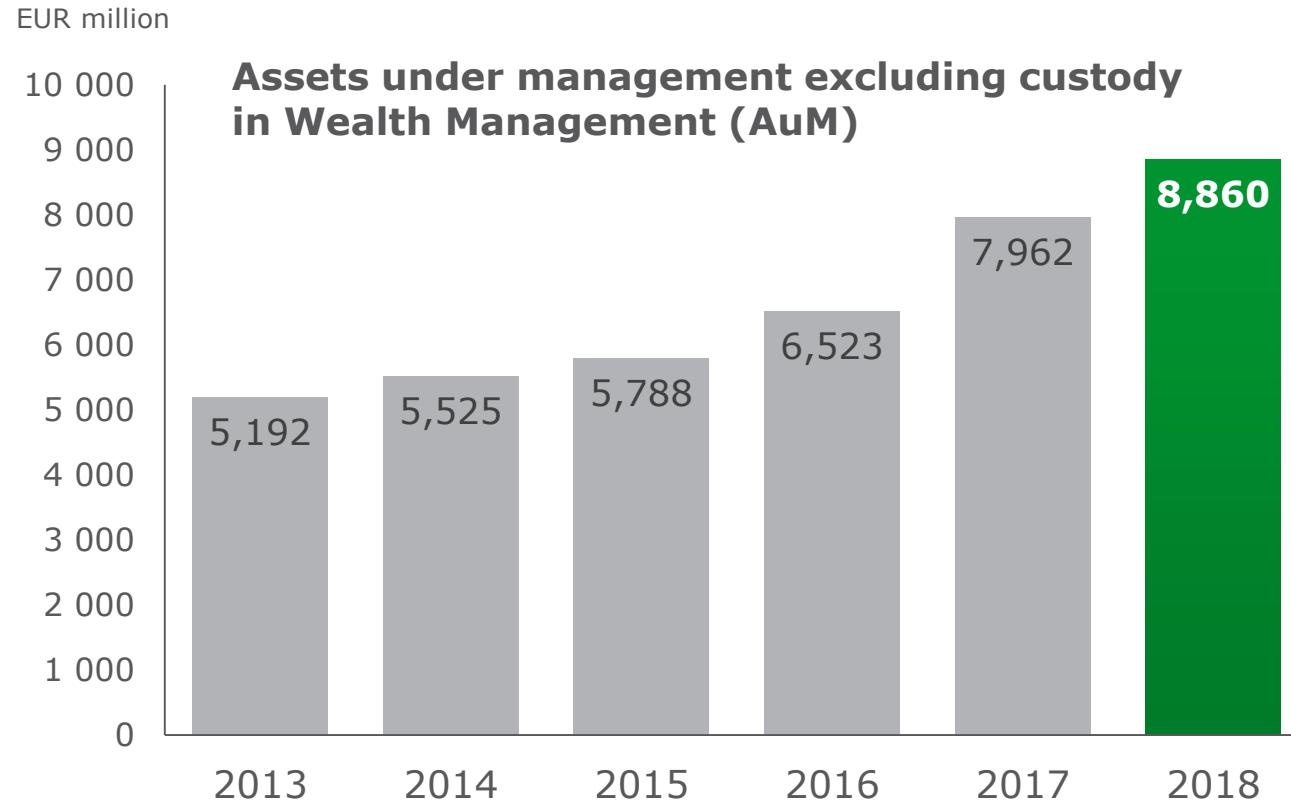
## Personal & Corporate Banking: Continuous high demand of mortgage loans

- The demand for housing loans is still high but **hard competition puts pressure on margins**.
- The **19% increase in the corporate business loan book** reflects both our growth efforts within the segment as well as the strong demand for corporate investments and property financing.
- The renewed customer concepts, new strategy and price adjustments resulted in **higher commission income** from payments services and borrowing.
- The **operating expenses decreased** as a result of implementation of a new model of operations and restructuring of the branch network.

Loan book by sector



## Wealth Management: Strong growth in international markets



- Great success was reached during 2018 with Nordic and European institutions – the **UI-Aktia mutual fund capital was over EUR 1.1 billion** at the end of December 2018.
- Net commission income **increased by 7% for Private Banking and by 9% for Asset Management.**
- Institutional sales on total continued well despite the market turbulence.

# Financial targets 2022

**Comparable operating profit  
to approximately EUR 80 million**

1-12/2018: EUR 65.4 million

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

1-12/2018 (comparable): 0.69

**Return on Equity  
ROE to 9.7%**

1-12/2018: 9.4%

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

1-12/2018: 17.5% (7.2 percentage points over  
regulatory requirements\*)

*\*Regulatory requirement (minimum capital requirement): 10.3%*

# Priorities for the year 2019

**Operational excellence**

**Reshape customer experience**

**Sales**

# Financial overview



# Operating income was burdened by the unfavourable market development during the last quarter of the year

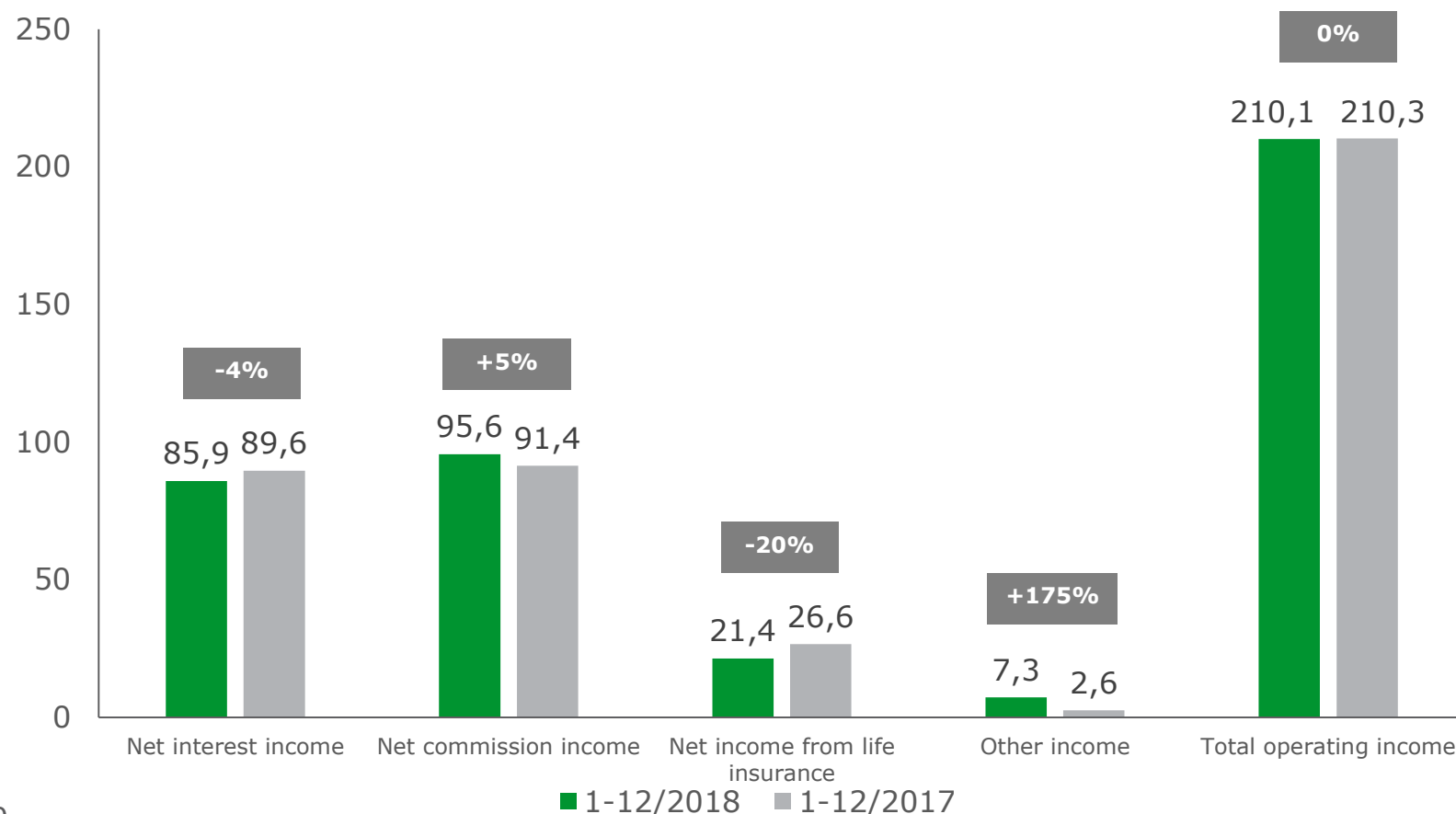
EUR million	4Q2018	4Q2017	Δ, %
<b>Total operating income</b>	<b>47.7</b>	<b>52.7</b>	<b>-9%</b>
Net interest income	20.7	21.8	-5%
Net commission income	22.6	23.7	-5%
Net income from life insurance	5.1	7.4	-31%
Other income	-0.7	-0.3	-169%
<b>Total operating expenses</b>	<b>-39.4</b>	<b>-42.0</b>	<b>-6%</b>
<b>Operating profit</b>	<b>8.0</b>	<b>10.3</b>	<b>-22%</b>
<b>Comparable operating profit*</b>	<b>10.2</b>	<b>11.4</b>	<b>-10%</b>
Earnings Per Share (EPS), EUR	0.09	0.12	-25%
Return on Equity (ROE) %	4.4	5.5	-21%
Cost-to-income ratio (comparable)	0.79	0.78	1%
Common Equity Tier 1 capital ratio	17.5	18.0	-3%

1-12/2018	1-12/2017	Δ, %
<b>210.1</b>	<b>210.3</b>	<b>0%</b>
85.9	89.6	-4%
95.6	91.4	5%
21.4	26.6	-20%
7.3	2.6	175%
<b>-143.0</b>	<b>-160.7</b>	<b>-11%</b>
<b>67.6</b>	<b>49.1</b>	<b>38%</b>
<b>65.4</b>	<b>59.9</b>	<b>9%</b>
0.81	0.57	42%
9.4	6.5	45%
0.69	0.71	-3%
17.5	18.0	-3%

## Income mix:

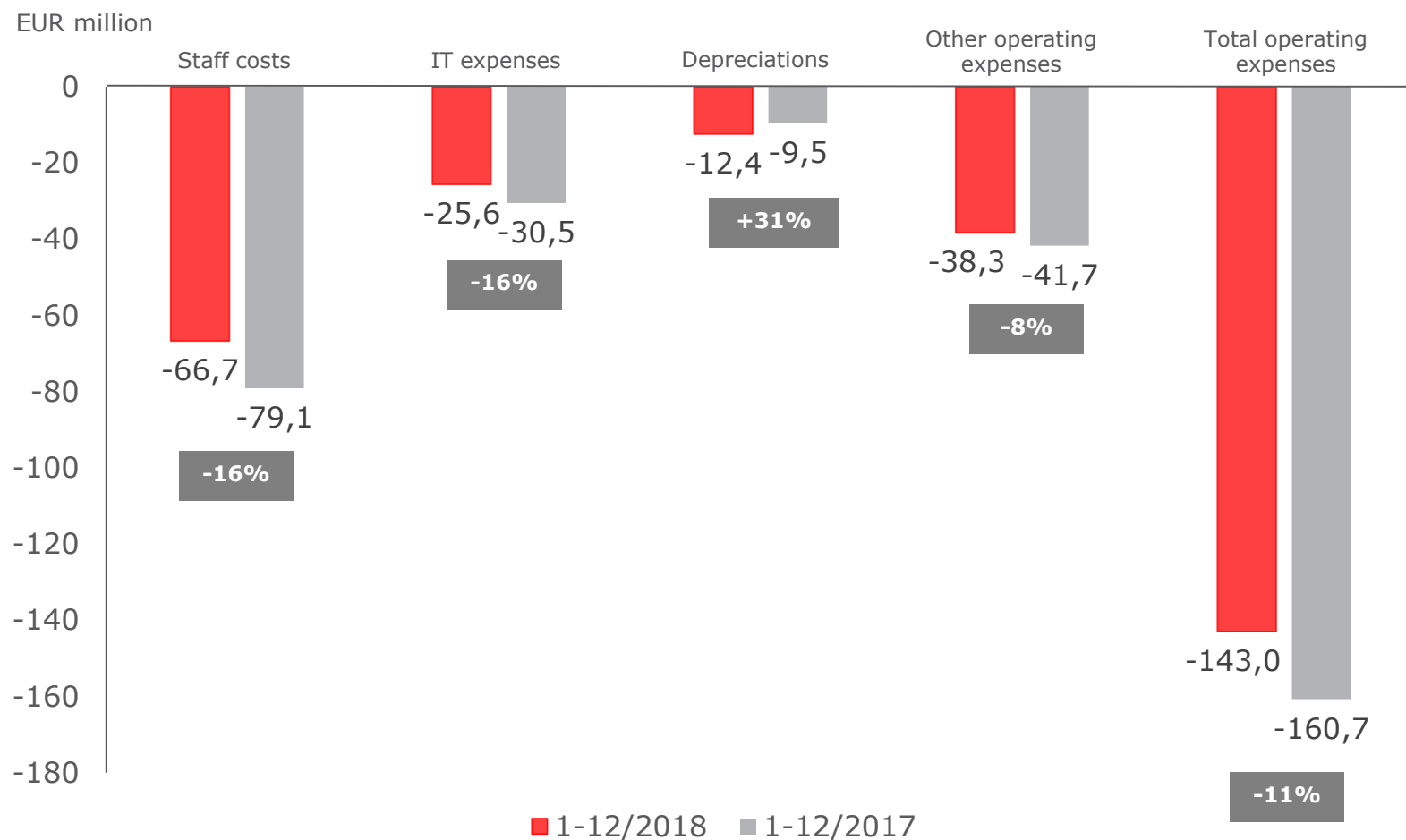
# Good increase in net commission income regardless Q4 market turbulence

EUR million



- **Net interest income:** Despite lower margins for mortgage loans the average margin for the total loan book remained stable. Volume growth for lending compensated for low margins in mortgage loans.
- **Net commission income:** Increase in net commission income originates mainly from Asset Management as well as from renewed pricing. As a result of divestment of the holdings in Real Estate Agency shares, the commissioned income was reduced.
- **Net income from life insurance:** The net income from life insurance includes EUR -4.6 million unrealised value changes (IFRS 9). The actuarially calculated result increased since last year.

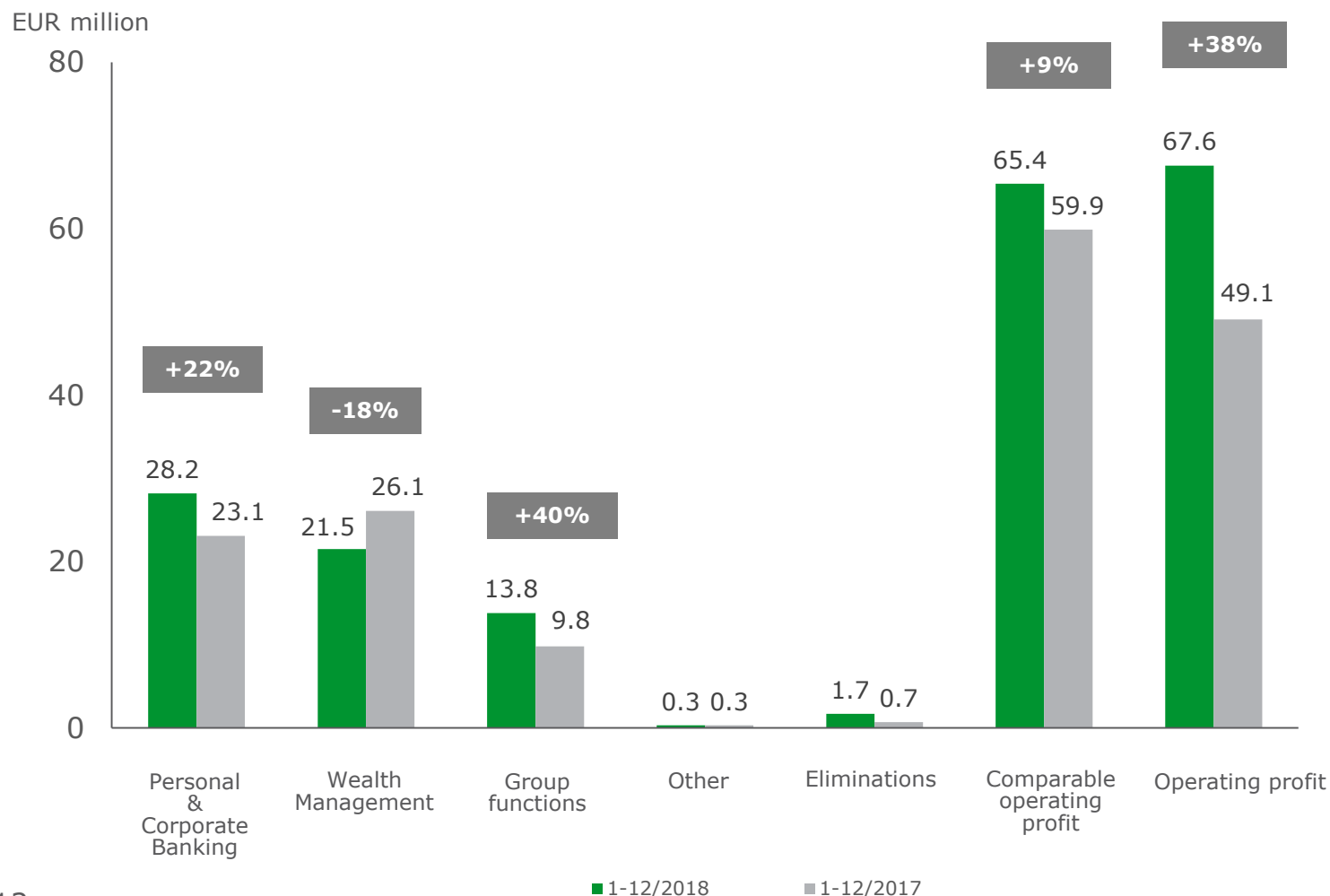
## Operating expenses: The Group's cost efficiency improved further



- Staff costs:**  
 The staff costs decreased considerably due to savings from the restructuring in 2017 and a decrease in staff.
- IT expenses:**  
 The running IT costs decreased as a result of the implementation of the new core banking system and other measures taken in order to enhance effectiveness.
- Depreciations:**  
 Higher depreciations due to the new core banking system.
- Other:**  
 Other operating expenses are lower than the previous year but they include EU statutory expense to the fund for financial stability of EUR 2.3 million. In 2017 this expense was covered by the bank tax paid during previous years.

**Aktia**

# Comparable operating profit per segment: Solid development in profitability



- Personal & Corporate Banking:**  
 Strong net commission income and implementation of the new core banking system in 2017 as well as introduction of a new business model and restructuring of the branch network led to improved profitability.
- Wealth Management:**  
 Strong increase in the net commission income was dampened by the EUR -4.6 million unrealised value changes in the net income from life-insurance (IFRS 9).
- Group Functions:**  
 Better cost efficiency compensated for the lower liquidity portfolio return.

# Aktia – the debt investment case

## Capital adequacy and Capital requirements:

# CET1 on a solid level

- Aktia's Common Equity Tier 1 (CET1) Capital is at a good level at **17,5 %** (18.0 % on 31 December 2017)
- Target over time is to exceed the regulative requirement with 150-300 basis points
- Aktia Bank Group's leverage ratio was 4.7 (4.5)%
  - Tier 1 capital      384 million
  - Total exposures    8111 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                      539,7 million
  - Balance Sheet based      645,5 million
  - Own funds and eligible liabilities totalled 1 193.1 million

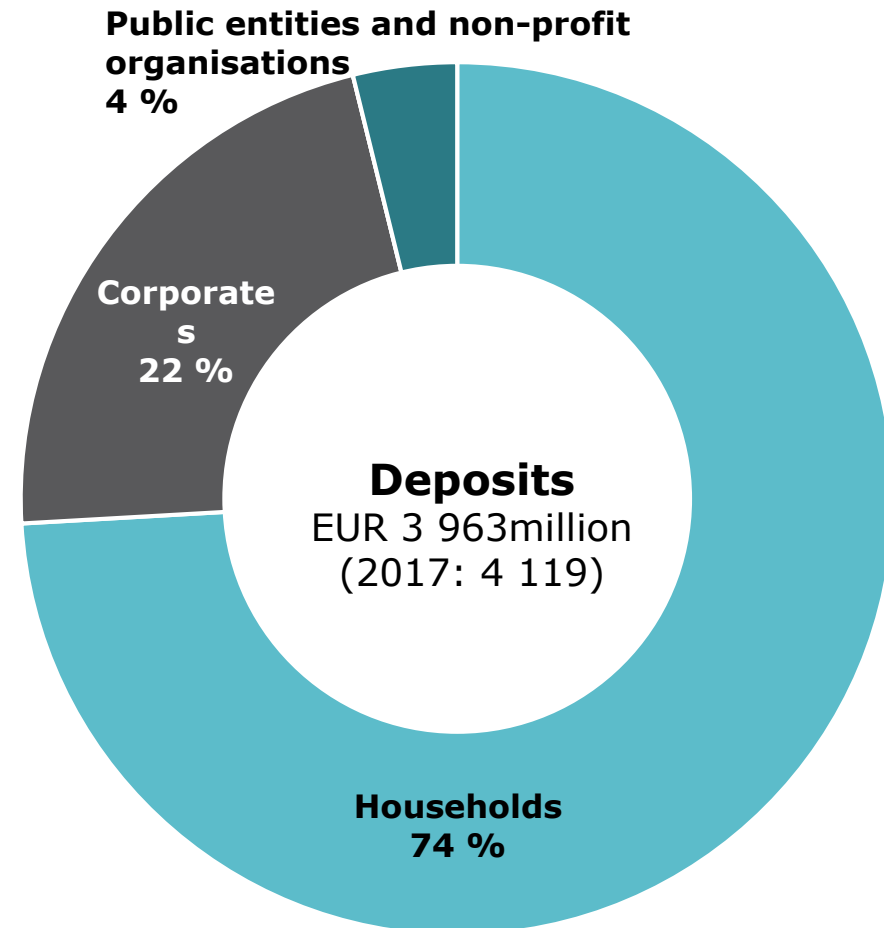
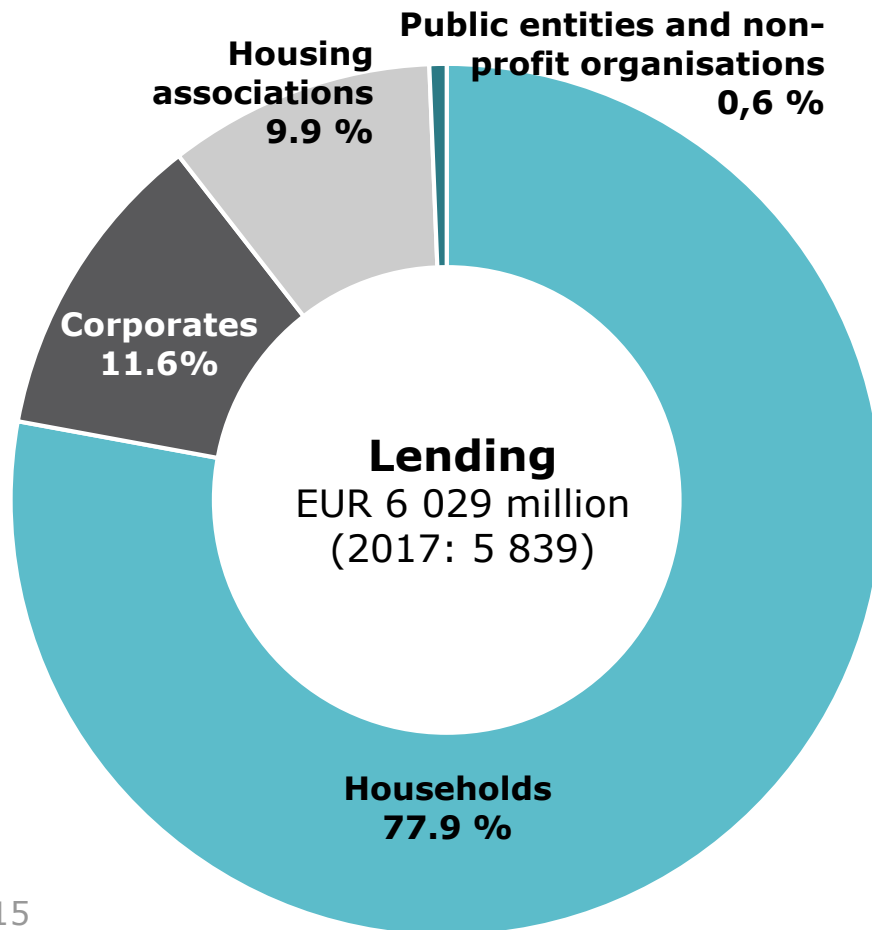
### Capital Requirement

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>



Structure of lending and deposits:

## Finnish households a key business driver



Stable long-term trend in non-performing loans:

## Prudent and low-risk lending policy

Aktia Bank operates under strict origination criteria:

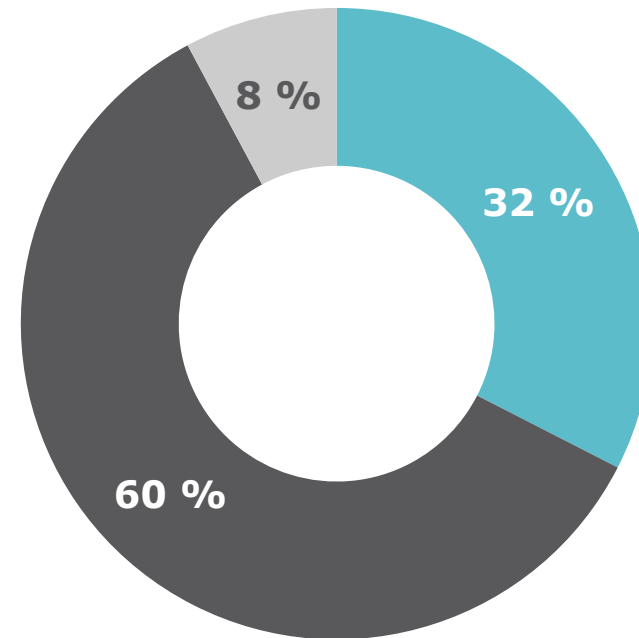
- Identification of the customer mandatory (KYC)
- Responsible lending: customer ability to pay stress tested
- Credit personnel internally educated and examined
- Rating and behavior based credit risk valuation
- Collateral only in Finland

<b>ECL (IFRS 9)</b>	Stage 1	Stage 2	Stage 3	<b>€mio</b>
≤ 30 days	3,2	5,1	0,0	
Households	2,9	5,1	0,0	
> 30 ≤ 90	0,0	18,1	0,1	
Households	0,0	17,8	0,1	
> 90 days	0,0	0,0	34,1	
Households	0,0	0,0	27,3	
Total	3,2 (13,3)	23,2 (19,2)	34,2 (32,4)	
% of portfolio	0,05 (0,23)	0,38 (0,33)	0,56 (0,56)	

# High-quality liquidity portfolio

At the end of December 2018 the Bank Group's liquidity buffer was approximately equivalent to the estimated outgoing cash flow of finance from the wholesale market for 21 months. The Liquidity Coverage ratio (LCR) was **134%**.

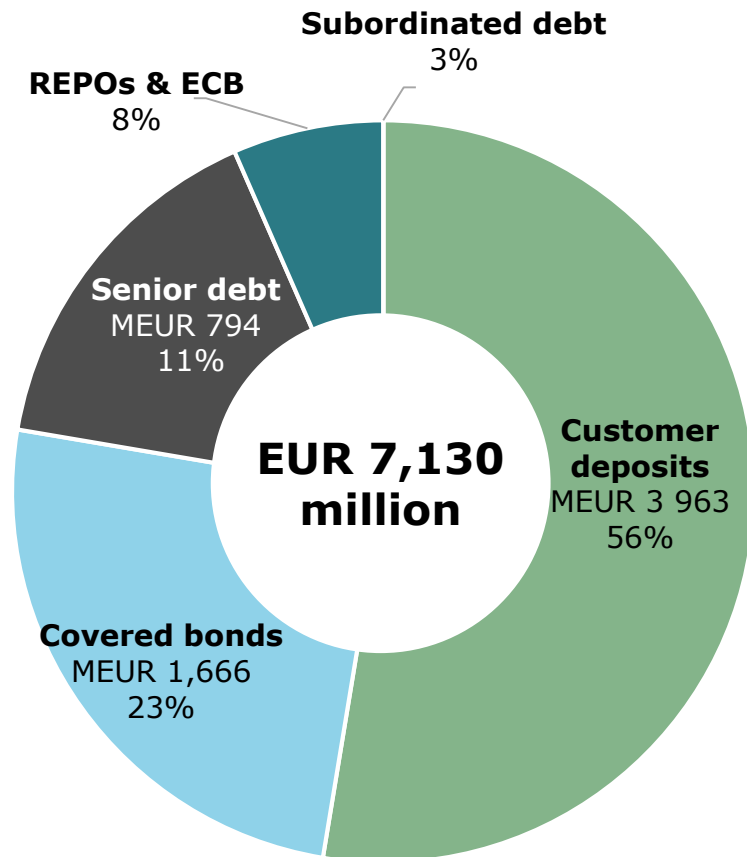
	31.12.2018	31.12.2017
<b>EUR million</b>	<b>1 368</b>	<b>1 816</b>
AAA	56.7 %	53.1 %
Aa1–Aa3	24.4 %	27.4 %
A1–A3	3.6 %	5.0 %
Baa1–Baa3	1.2 %	2.3 %
Ba1–Ba3	0.0 %	0.0 %
Finnish municip. (no rating)	14.0 %	11.6 %
No rating	0.0 %	0.6 %
<b>Total</b>	<b>100.0 %</b>	<b>100.0 %</b>



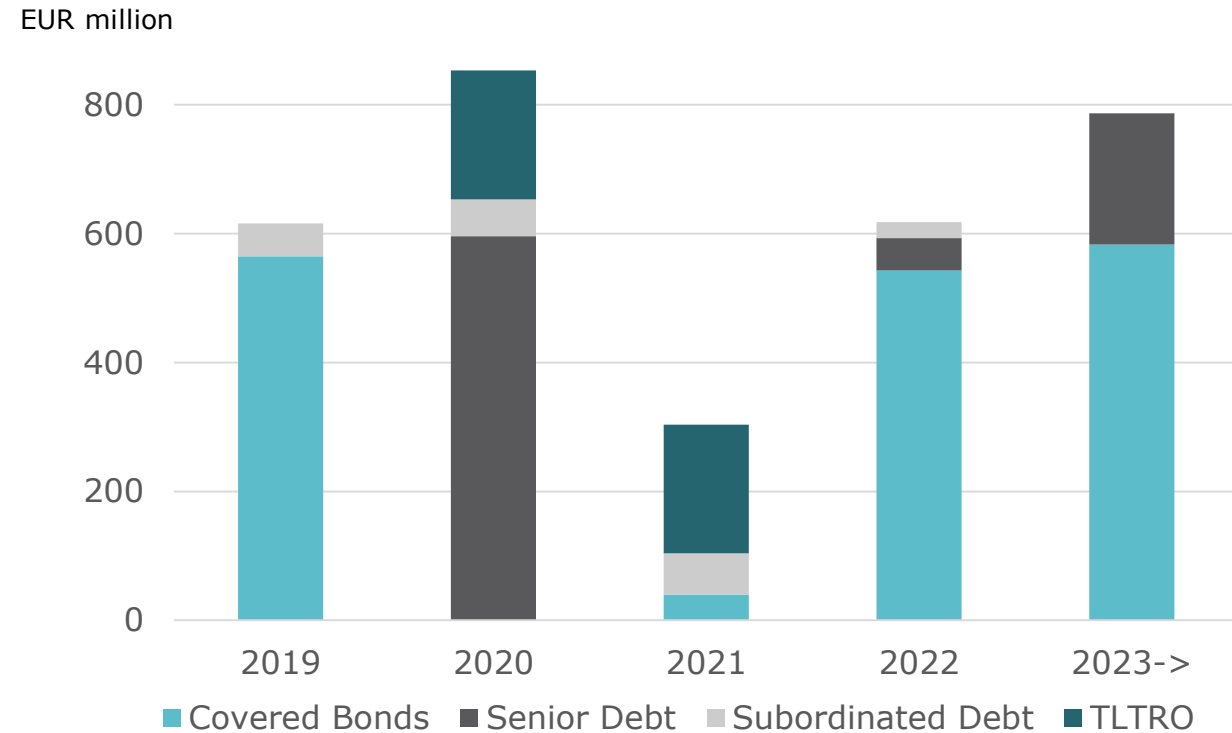
- Government and gov guaranteed bonds
- Covered bonds
- Financial sector excl. CB

# Sound funding profile

## Customers deposits and covered bonds dominate



## Debt maturity profile



# Aktia Bank as covered bond issuer

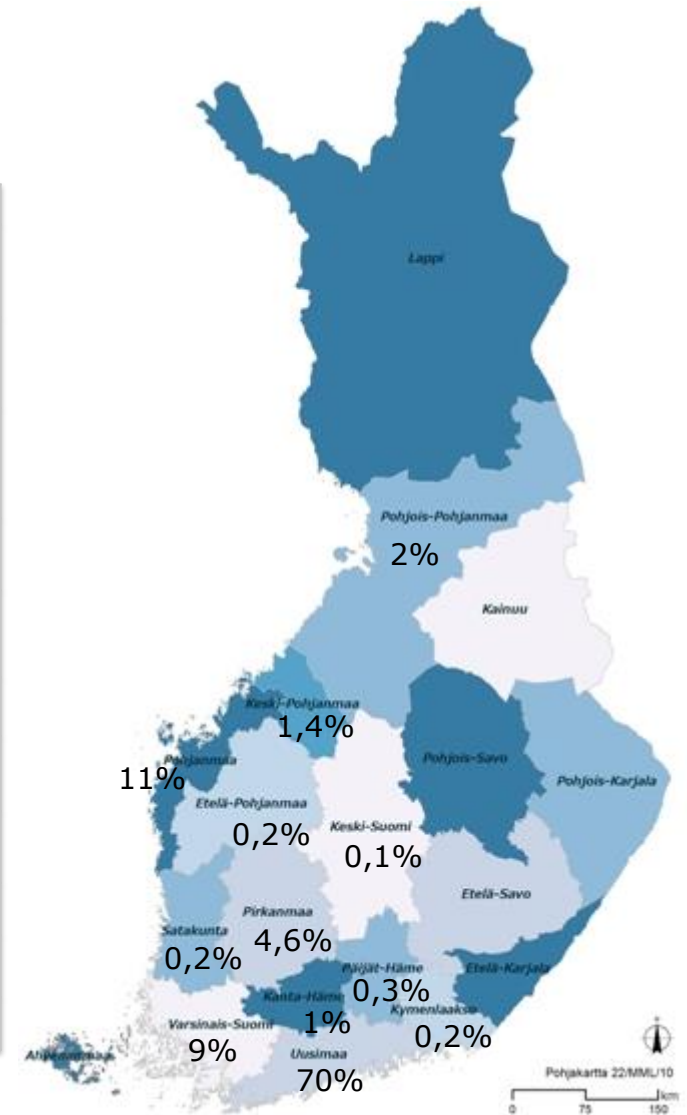
- The Aktia Bank mortgage loan portfolio is of very high quality:
  - ✓ Only prime residential mortgage loans
  - ✓ Collateral located in Finland
  - ✓ Low average LTV
- Aktia Bank covered bonds are CRR & UCITS, ECB repo and CBPP eligible
- Bank aims to comply with the ECBC covered bond label transparency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

4Q 2018

	Cover Pool 2	Cover Pool 1
Total asset pool (No substitute assets)	EUR 2,073 million	EUR 191 million
No of loans / average loan balance	34,820 / EUR 59,523	2,540 / EUR 75,369
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	46,85 %	37,79 %
Maximum LTV	LTV limit: 70%	LTV limit: 70%
Interest base	floating 97 %, fixed 3 %	floating 98 %, fixed 2 %
WA seasoning	63,7 months	77 months
Overcollateralisation (%)	34,58% (committed 10%)	77,67% (committed 12%)
Moody's Collateral Score	5,00 %	5,00 %





# The Finnish Economy

Strong but very export driven Economy

# The Finnish Economy

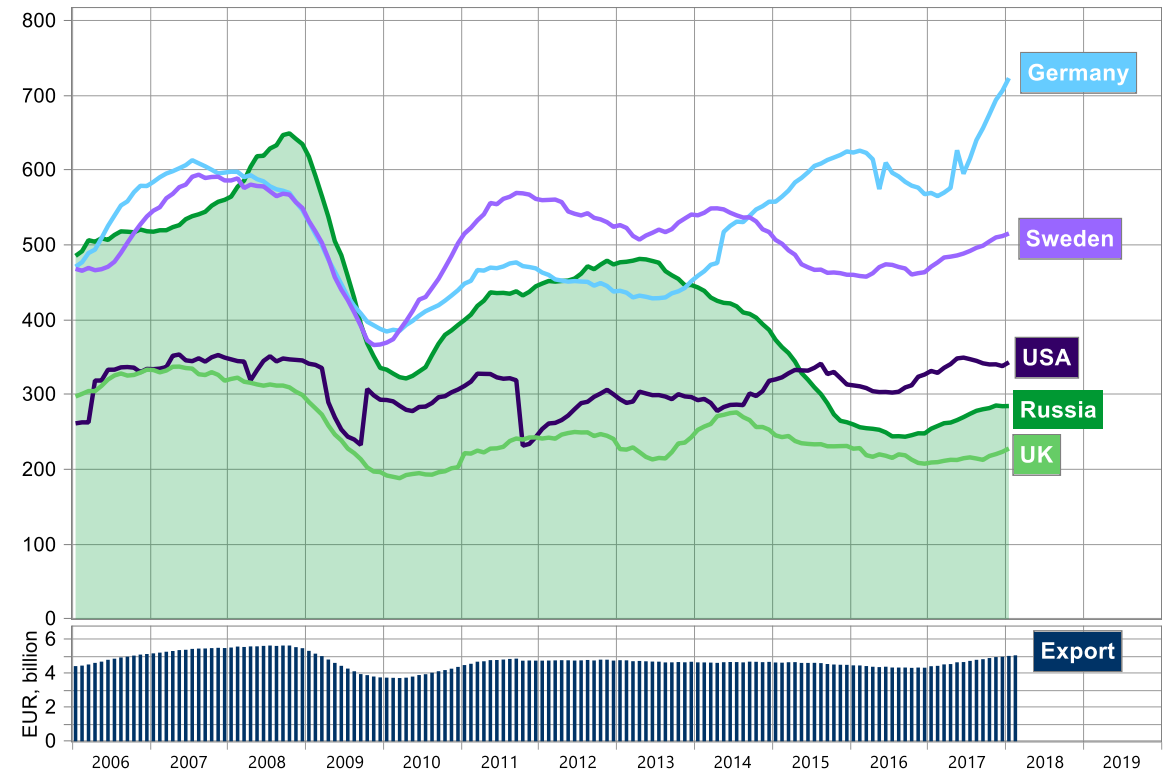
## Export driven growth

### 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

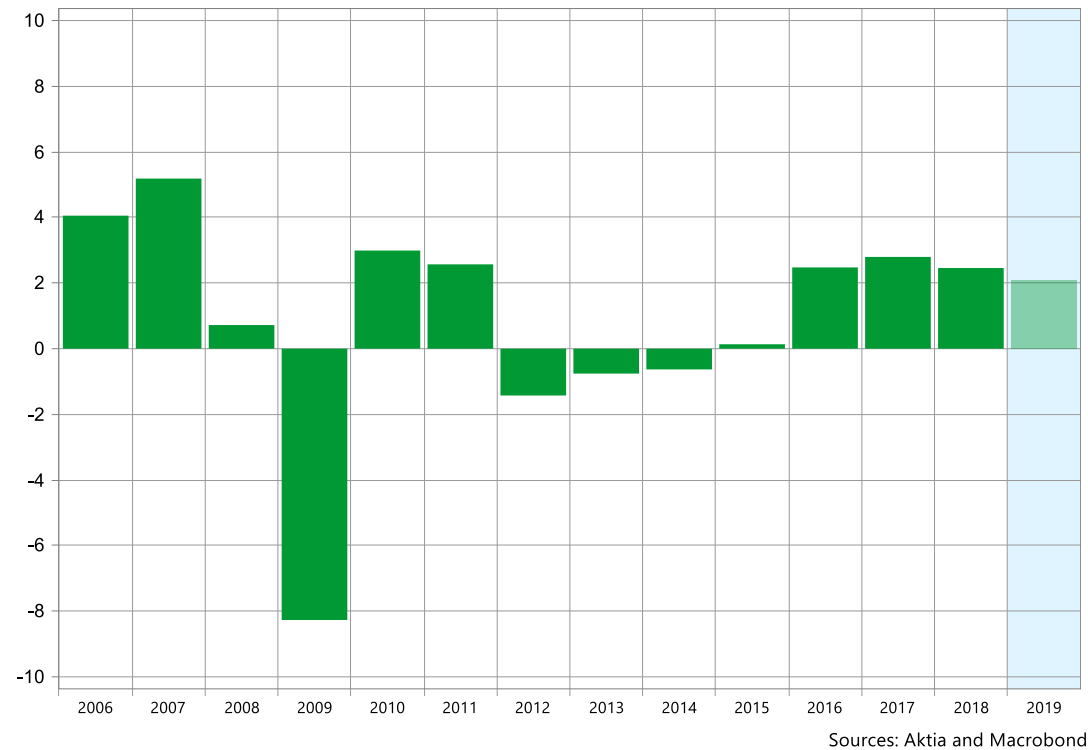


Sources: Aktia and Macrobond

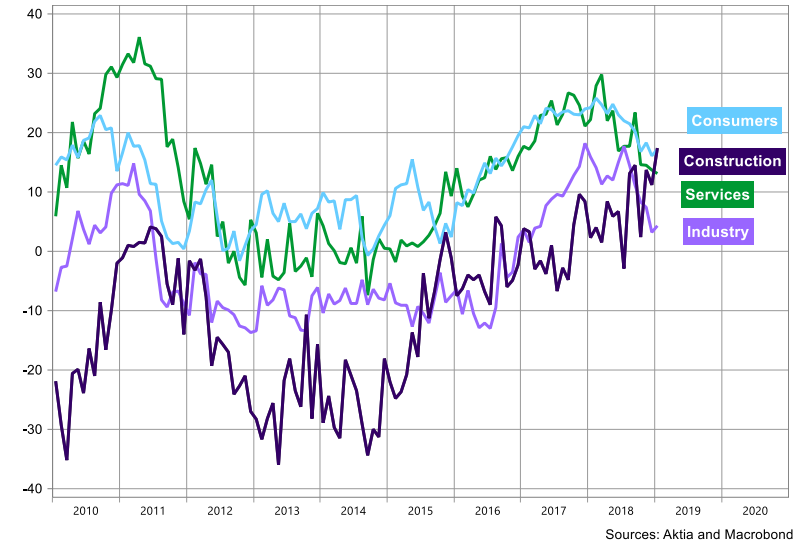
# The Finnish Economy

## Growth continues, but weaker

GDP growth, %

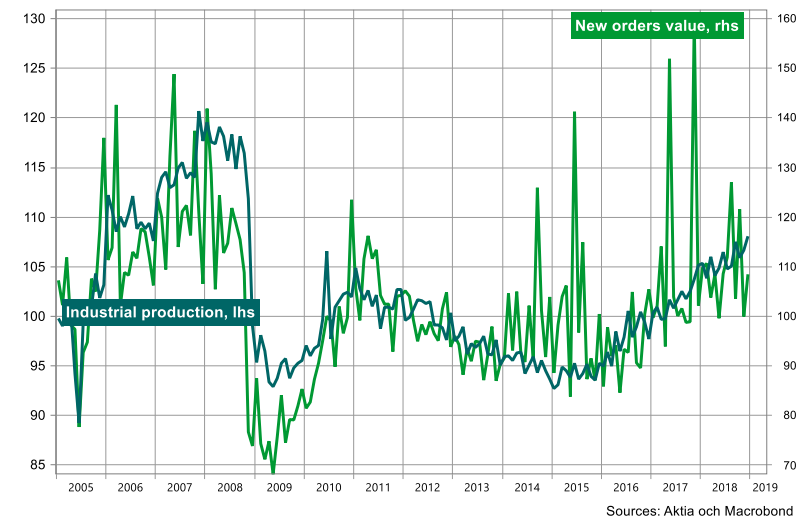


Confidence



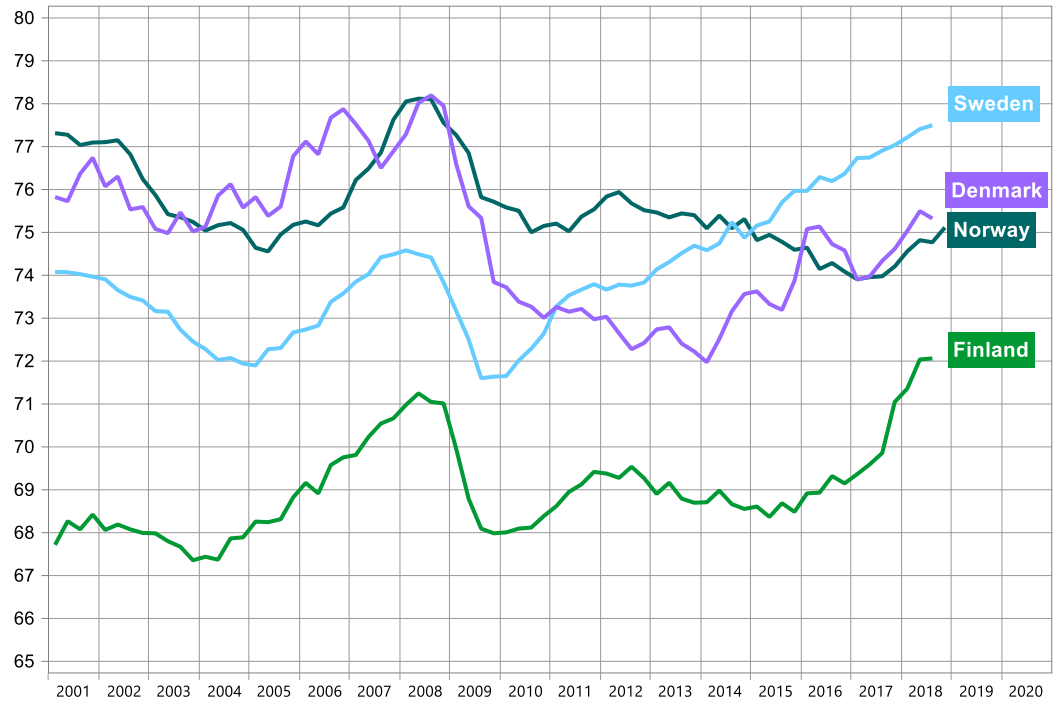
Industrial production and new orders

Seasonally adjusted indices, 2010=100



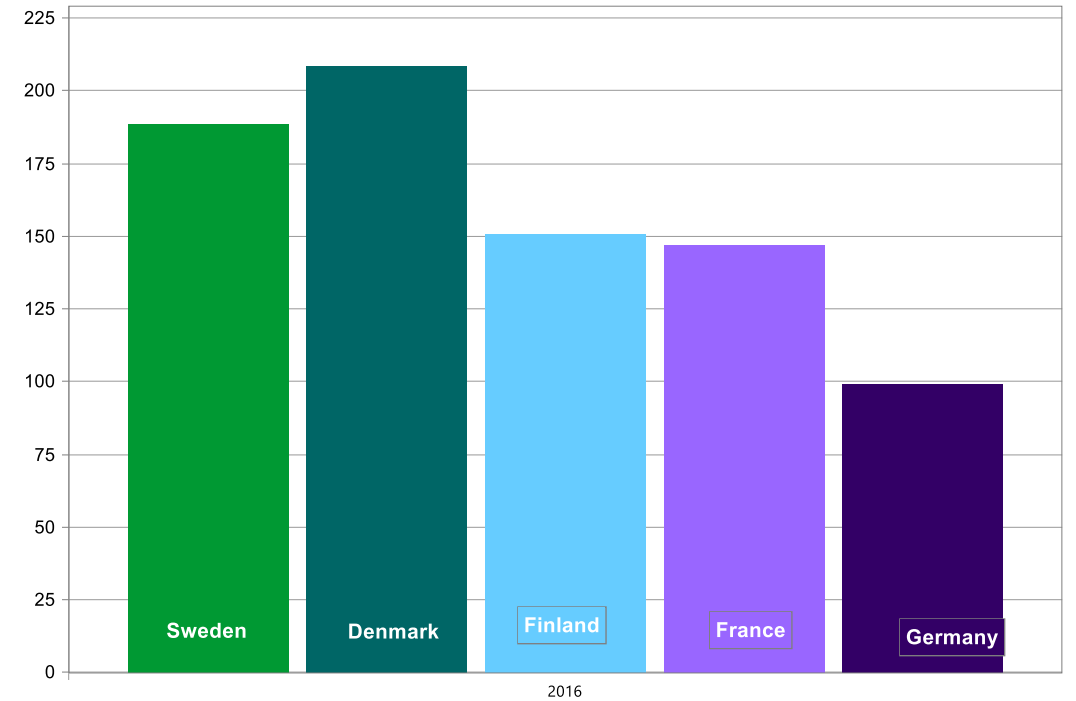
# The Finnish Economy

Employment rate, 15-64 year olds



Sources: Aktia and Macrobond

Private debt, % of GDP



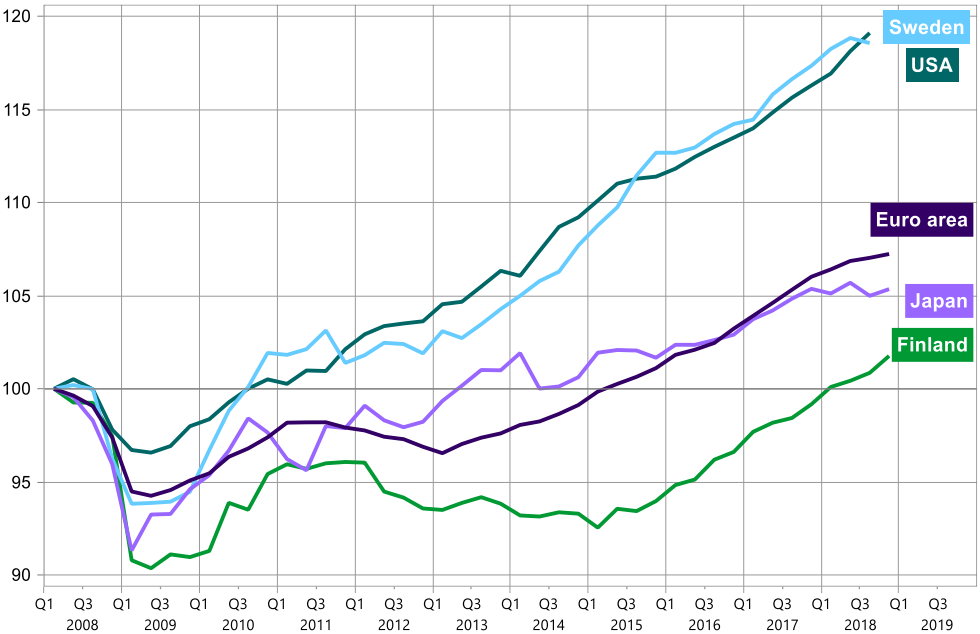
Sources: Aktia and Macrobond

# Macroeconomic environment

Worrying environment.

GDP in some countries

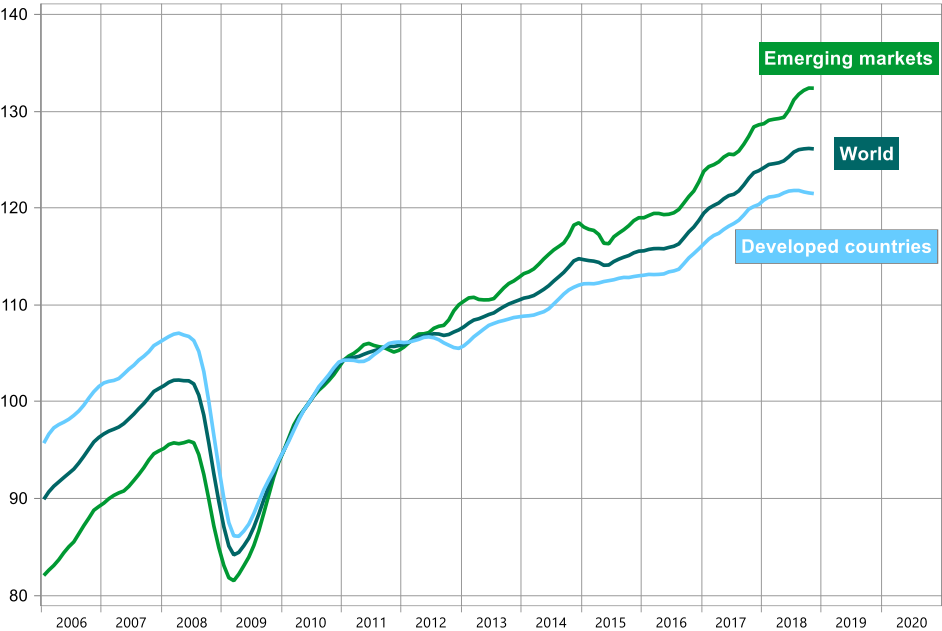
Index, Q12008=100



Sources: Aktia and Macrobond

World exports

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

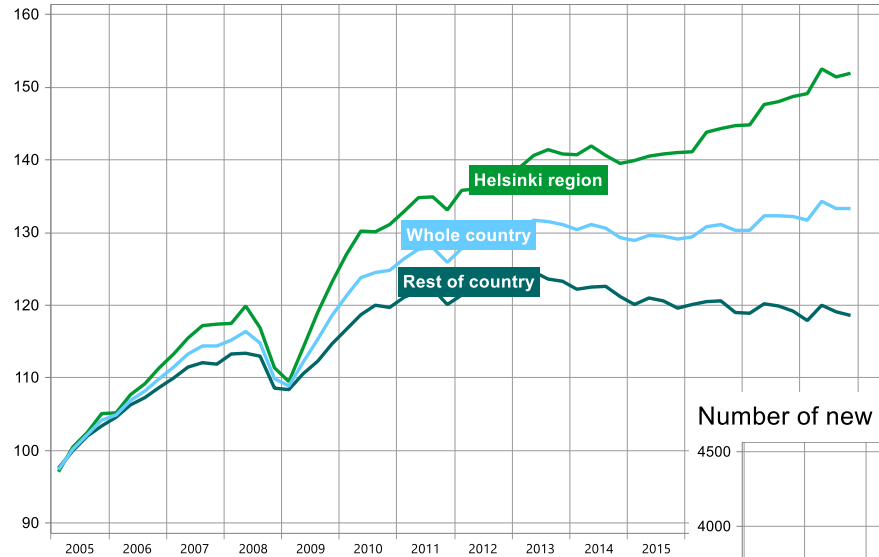


# Finnish housing market

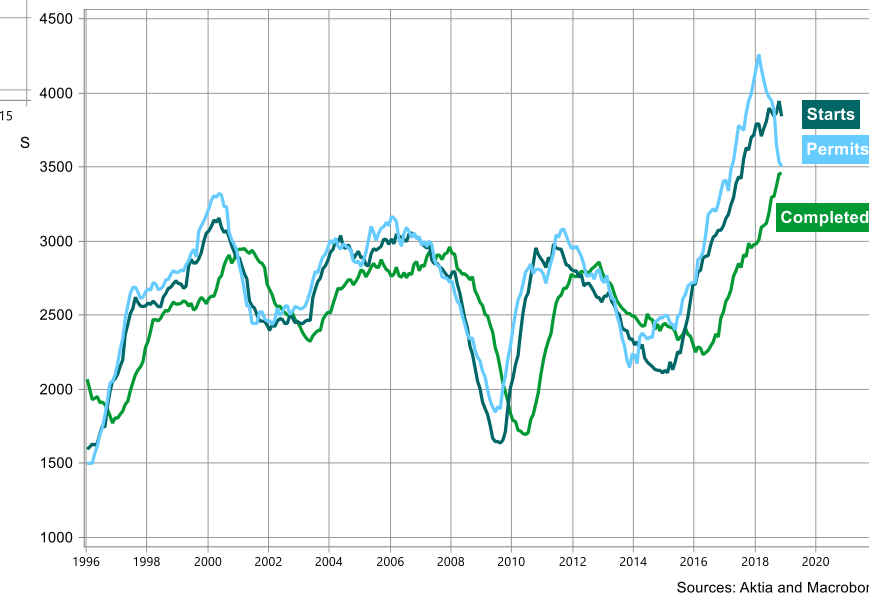
**Solid and stable market, a slowdown in growth projected**

Finland: Prices, old apartments

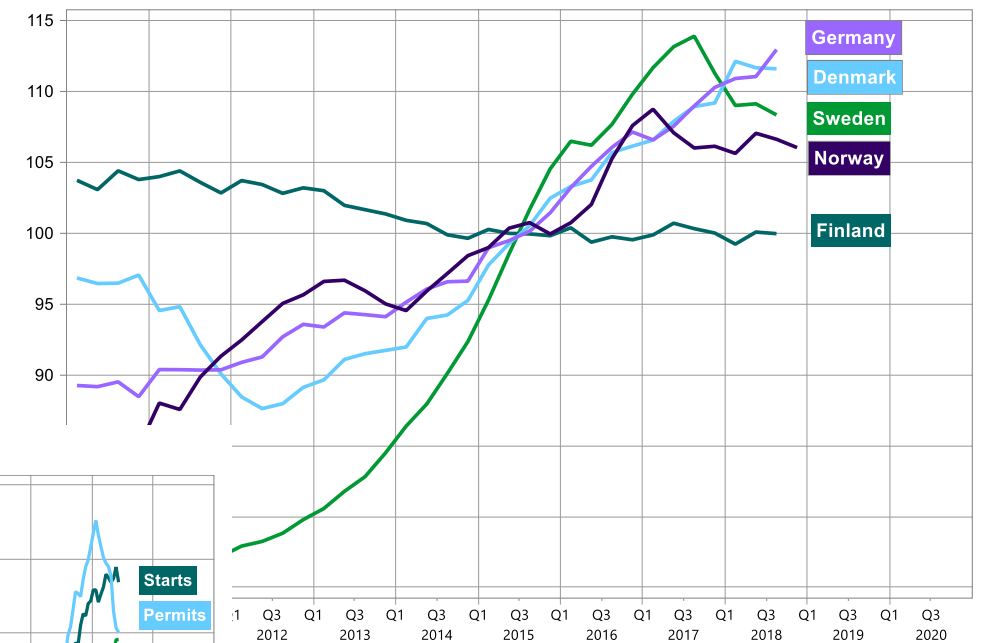
Index 2005=100



Number of new dwellings



Real House Prices, index 2010=100



Sources: Aktia and Macrobond



The background features a series of white, curved, rib-like structures that create a sense of depth and movement, resembling a modern architectural interior or a stylized wave pattern. The lines are set against a light grey gradient.

**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)