

# Aktia Bank Q1 2022

Debt investor presentation



Aktia

# Highlights in Q1 2022

- Solid underlying business performance continued
- Strong growth in net interest income
- Net commission income was down mainly due to the market turbulence
- The negative unrealised value changes in the life insurance company's investment portfolio weighed down the net income from life insurance
- Comparable operating expenses excl. stability fee for Q1 decreased from Q4

## Outlook (unchanged):

The comparable operating profit in 2022 is expected to be somewhat higher than in 2021.



# Asset Management Key focus areas

Award-winning expertise in different asset classes creates a strong basis for successful investment operations.

## Emerging Market Debt

- Proven track record since 2006 in different market conditions.
- Investment philosophy based on a macroeconomic and fundamentally driven approach targeting high real yields and low FX volatility.
- ESG considerations integrated into the investment process.

## European and Nordic Small Caps

- Proven track record since 2011 in different market conditions.
- Strategies target a higher risk adjusted return by investing in companies with structural competitive advantages and a high return on invested capital.
- The strategies follow Aktia's QGARP (Quality Growth at a Reasonable Price) philosophy.
- Our experienced European and Nordic equity team manages three different Small and Micro Cap strategies.

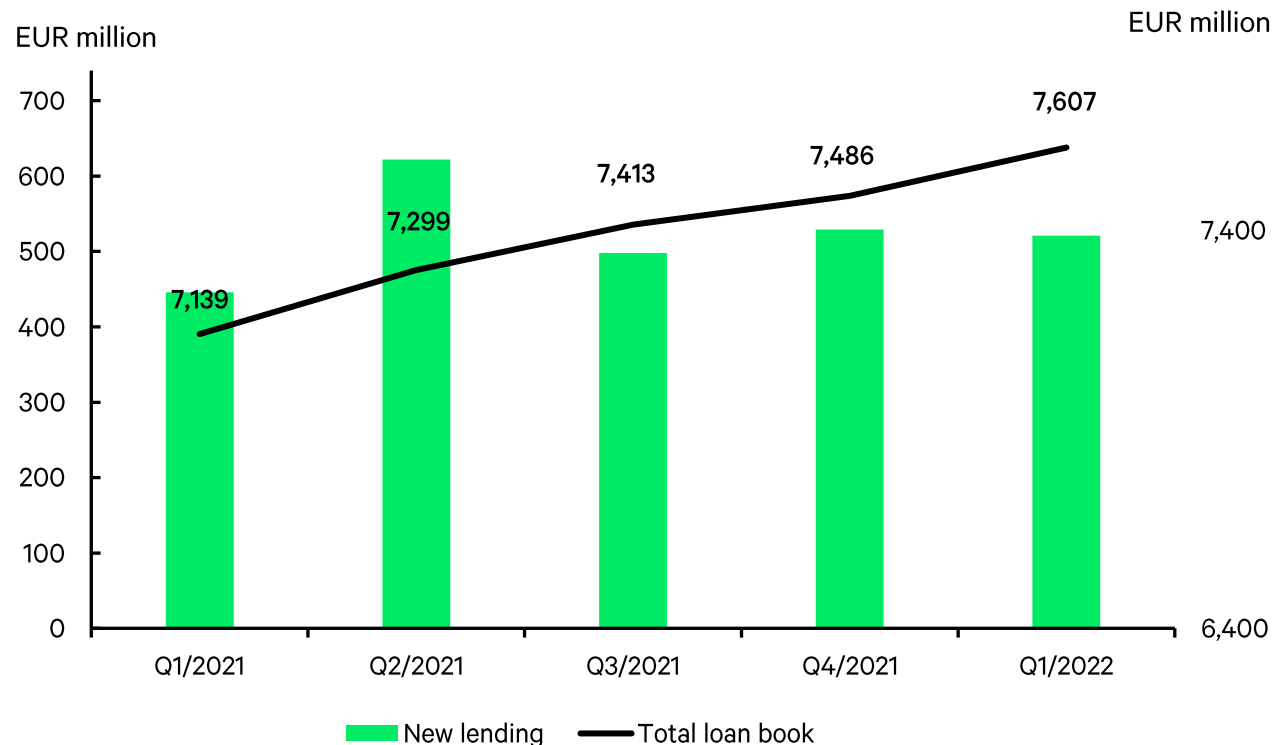
## European Credit

- Key areas of excellence include Financials & Insurance, Nordic credit, corporate hybrids and short-duration credit.
- Benchmark-agnostic approach with specific focus on diversification and identification of downside risks.
- While aiming for consistent outperformance, the team executes both core and more tactical credit views by employing theme-based company clusters and a controlled risk framework.

# Growth driven by corporate lending continues

- Excellent development in the corporate customer business
  - Growth achieved without change in our risk profile
- Private customers more cautious due to the increased interest rates and general uncertainty
  - Reduced demand for credits in Q1
  - Sales of interest rate hedges clearly increased
- Positive development in the pricing of all loans continued
- Quality of loan portfolio remains healthy

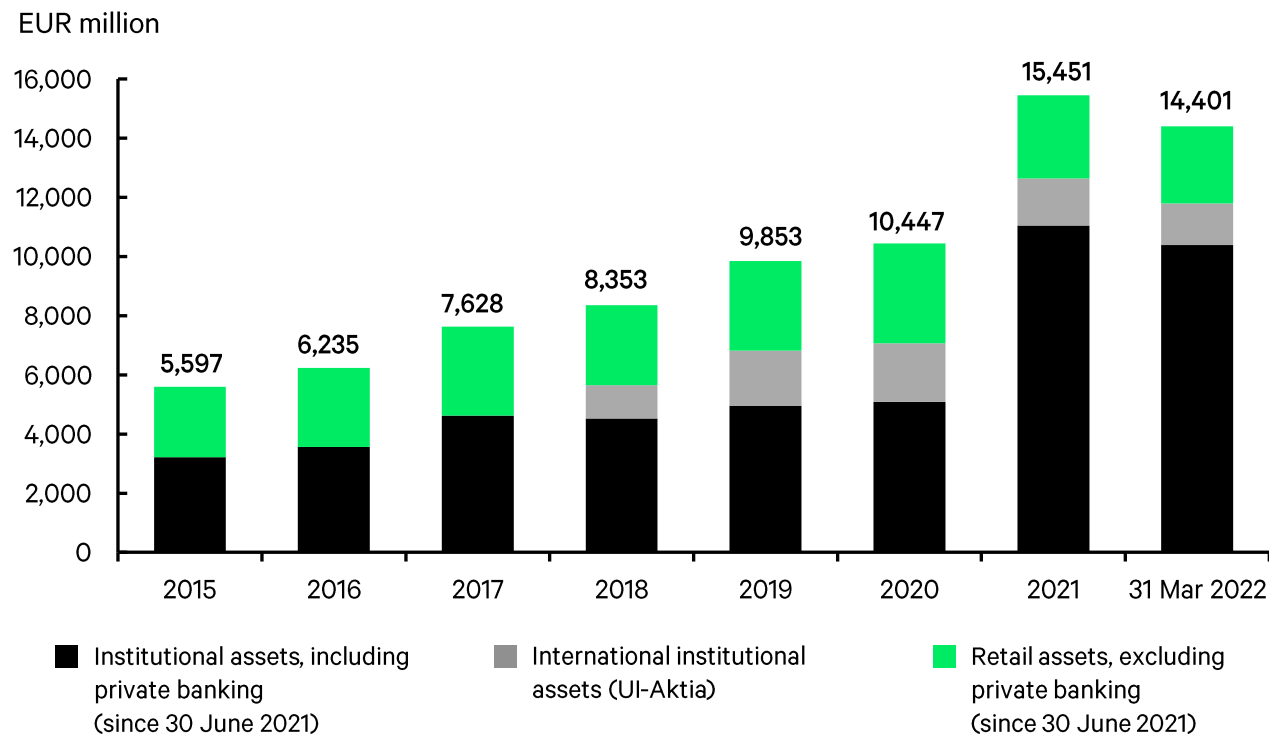
Development of credit portfolio Q-o-Q



# High market volatility decreased AuM

- AuM decreased by approx. EUR 1 billion
  - High turbulence in the market affected market values
  - Net subscriptions amounted to approx. EUR -210 million
  - Reallocation of investments by a few foreign institutional investors led to redemptions from some Aktia funds
- Sales in Private Banking continued to develop well
- Aktia won again first place in Morningstar's fund comparison

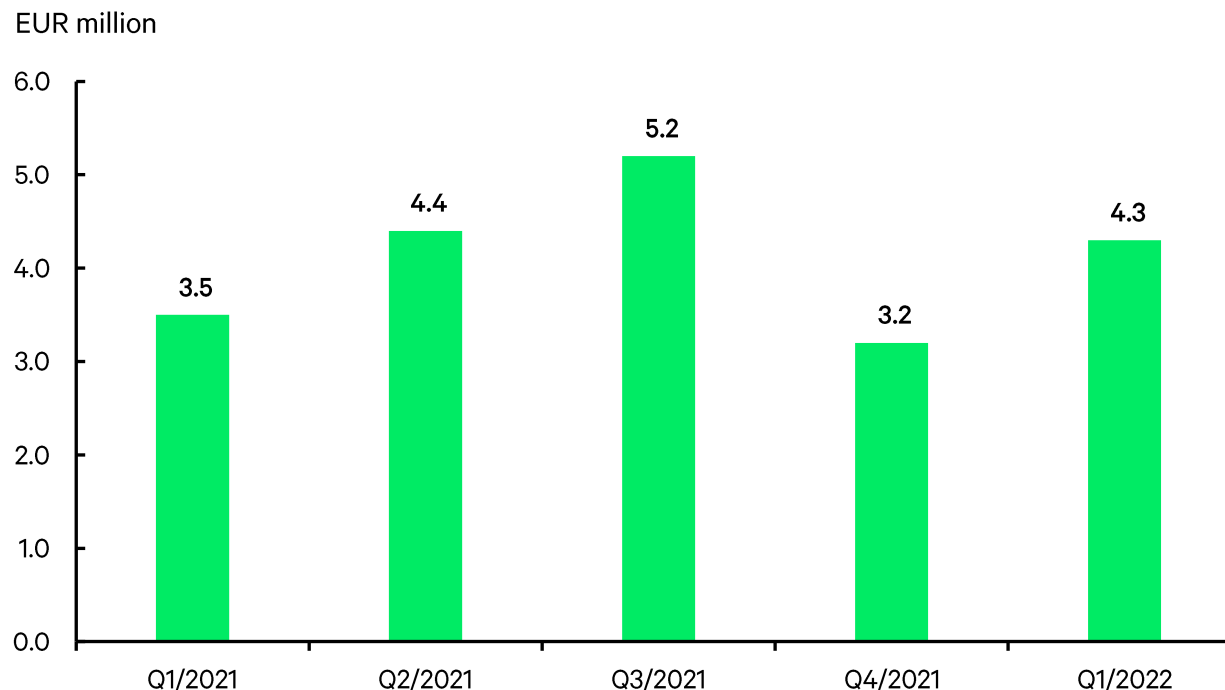
Assets under Management, excluding custody



# Increase in interest rates weighed down investment portfolio

- Positive development in Life Insurance: The actuarially calculated result for Q1 increased to EUR 4.3 (3.5) million
- Premiums written increased by 18% since last year and sales of investment-linked savings insurances and risk insurances continued to be strong
- Simplification of policy terms and approval processes have increased sales
- The negative unrealised value changes in the life insurance company's investment portfolio weighed down the net income from life insurance to EUR 1.8 (9.9) million as a result of the impact of the rapid increase in interest rates and market turbulence

Development of the actuarially calculated result Q-o-Q



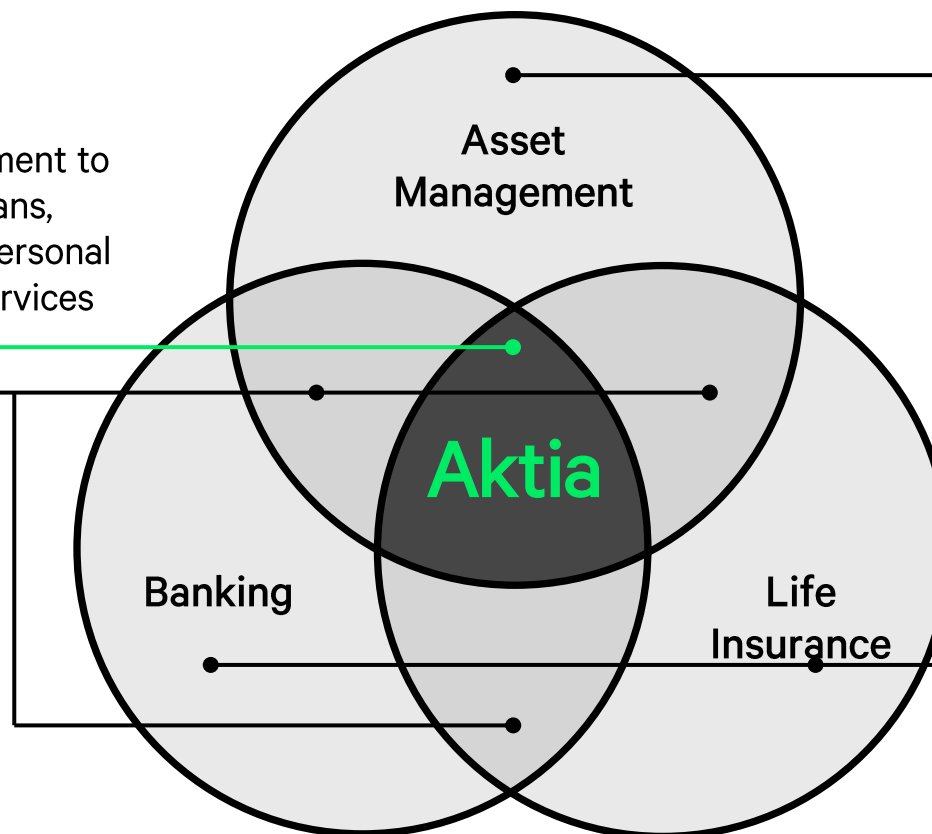
# Focus on guiding customers to our focal point

## Growth in our strategic sweet-spot

Offering comprehensive wealth management to our target segments, including wealth plans, financing, asset management services, personal life insurance and convenient banking services

## Growth through cross-selling

Focus on cross sales and development of our current customer base



Focus on excellent customer experience and offering for single product customers

Focus on production and service cost for single product customers

# The financial targets 2025

Comparable  
operating profit  
above EUR  
120 million

1-3/2022;  
EUR 13.3 million

Comparable return  
on Equity (ROE)  
above 12%

31 March 2022;  
6.5%

Comparable  
cost-to-income ratio  
under 0.60

1-3/2022;  
0.78

Common Equity  
Tier 1 capital ratio  
(CET1) above 1.5  
percentage points  
over the regulatory  
requirement

31 March 2022;  
2.9 percentage points over  
the regulatory requirement  
7.7%

# Sustainability at Aktia

Our goal since 1825 has been to build wealth for our customers and society. At present, sustainability is not only our licence to operate, but is also a major driver of profitable growth in the long term.

**2006**

Aktia's Responsible Investment Policy

**2010**

PRI signatory

**2050**

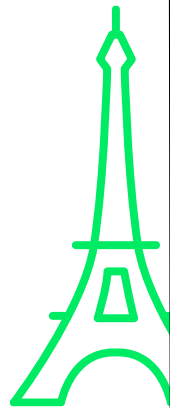
climate neutrality goal for investments

**-68%**

lower carbon footprint in mutual funds compared to the index

**TCFD**

Supporter of Task Force on Climate-related Financial Disclosures recommendations



## Strong Values of Sustainability

We have strong values of sustainability. Our Responsible Investment Policy, Responsible lending Policy, Stewardship Policy, Climate Policy and Climate Strategy guide all our activities. As part of our values we examine our contribution to UN Sustainable Development Goals. Our Corporate Responsibility Programme is based on stakeholder materiality analysis.



## From Local Presence to Global Impact

Although our operations are based in Finland, we have exposure as well as impact to global ESG megatrends such as climate change, biodiversity, demographic trends and human rights through our global investment activities

## Gender Distribution of Top Management



**29%**



**71%**

## Sustainability ratings and assessments

Signatory of:



**A+**



**B**



**AA**



**Low Risk**

# Sustainability update

In 2021, Aktia continued to work with sustainability issues according to the group's corporate responsibility programme and action plan for 2021–2023.

Aktia reports every six months on selected indicators of our corporate responsibility programme (carbon footprint of our equity funds and customer satisfaction, NPS).

## Actions in 2021:

- Aktia's climate strategy was developed.
- Aktia joined the global Net Zero Asset Managers initiative.
- Aktia joined the advisory committee for the ASCOR\* Project.
- Aktia defined a new responsible lending policy.
- Aktia implemented the initial requirements and continued to prepare for future requirements regarding the EU sustainable finance regulation.

\*ASCOR = Assessing Climate Related Opportunities and Risks, a joint project founded by leading ESG organizations (including PRI) and two pension funds from the UK

## Aktia's corporate responsibility programme



Solid and reliable



Partner for economic well-being



Most attractive workplace in the business



Environmentally responsible actor

## Performance of selected indicators from Aktia's corporate responsibility programme

**-68%**

The carbon footprint of Aktia's equity funds was on average approx. 66% smaller than reference market in 2021

**72**

The Net Promoter Score, measuring customer satisfaction was 72 in 2021

# Financial overview

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Aktia

# Financial summary Q1

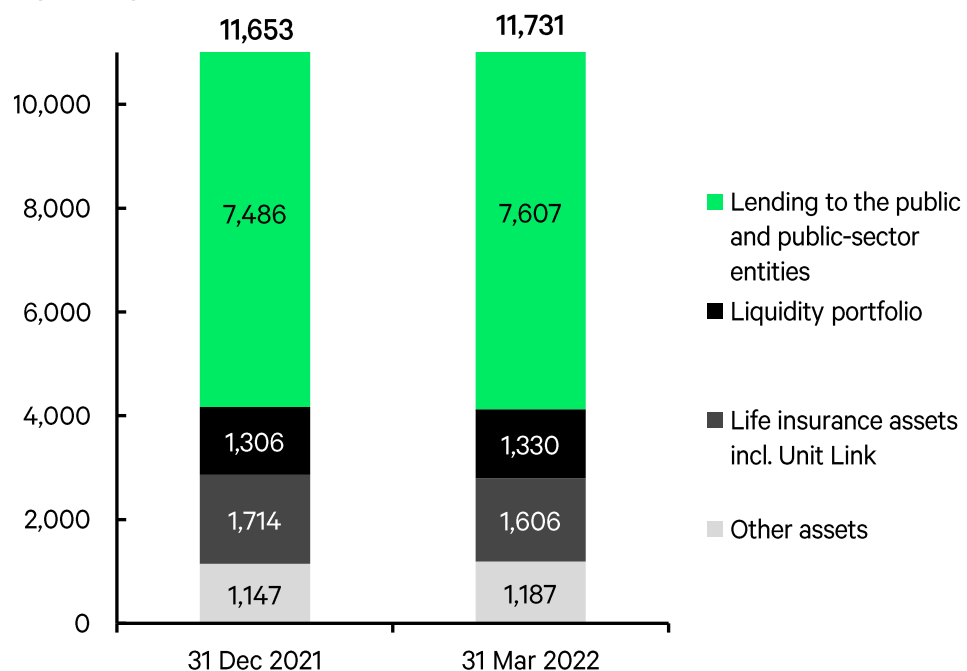
EUR million	1Q2022	1Q2021	Δ %	4Q2021	Δ %
<b>Total operating income</b>	59.0	57.9	2%	65.5	-10%
Net interest income	25.1	21.3	18%	24.1	4%
Net commission income	31.3	25.0	25%	33.7	-7%
Net income from life insurance	1.8	9.9	-82%	7.6	-76%
Other income	0.8	1.6	-51%	0.2	340%
<b>Total operating expenses</b>	<b>-45.9</b>	<b>-38.7</b>	<b>19%</b>	<b>-45.2</b>	<b>2%</b>
Impairments of credits and other commitments	0.3	-2.2	-	0.1	-
<b>Operating profit</b>	<b>13.5</b>	<b>16.9</b>	<b>-20%</b>	<b>20.3</b>	<b>-33%</b>
<b>Comparable operating profit*</b>	<b>13.3</b>	<b>16.9</b>	<b>-21%</b>	<b>20.7</b>	<b>-35%</b>
Earnings Per Share (EPS), EUR	0.15	0.20	-26%	0.23	-34%
Return on Equity (ROE), %	6.5	8.6	-24%	9.5	-31%
Cost-to-income ratio (comparable)	0.78	0.67	16%	0.69	14%
Common Equity Tier 1 capital ratio, %	10.6	13.8	-23%	11.2	-5%

\*) Excl. items affecting comparability

# Balance sheet total increased to EUR 11,731 million

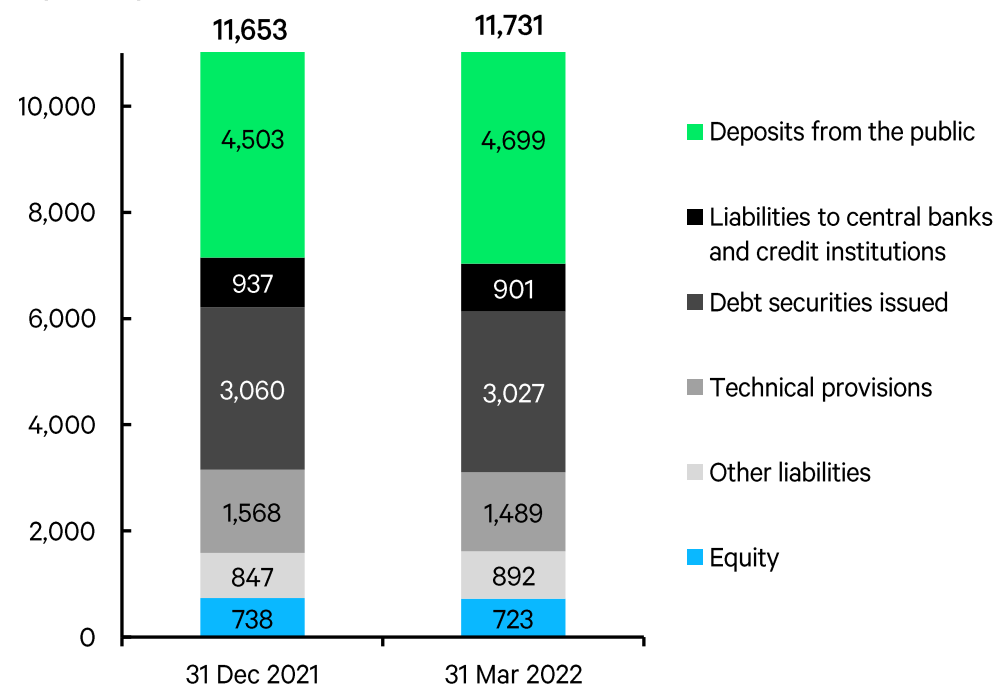
## Total assets

EUR million



## Total liabilities and equity

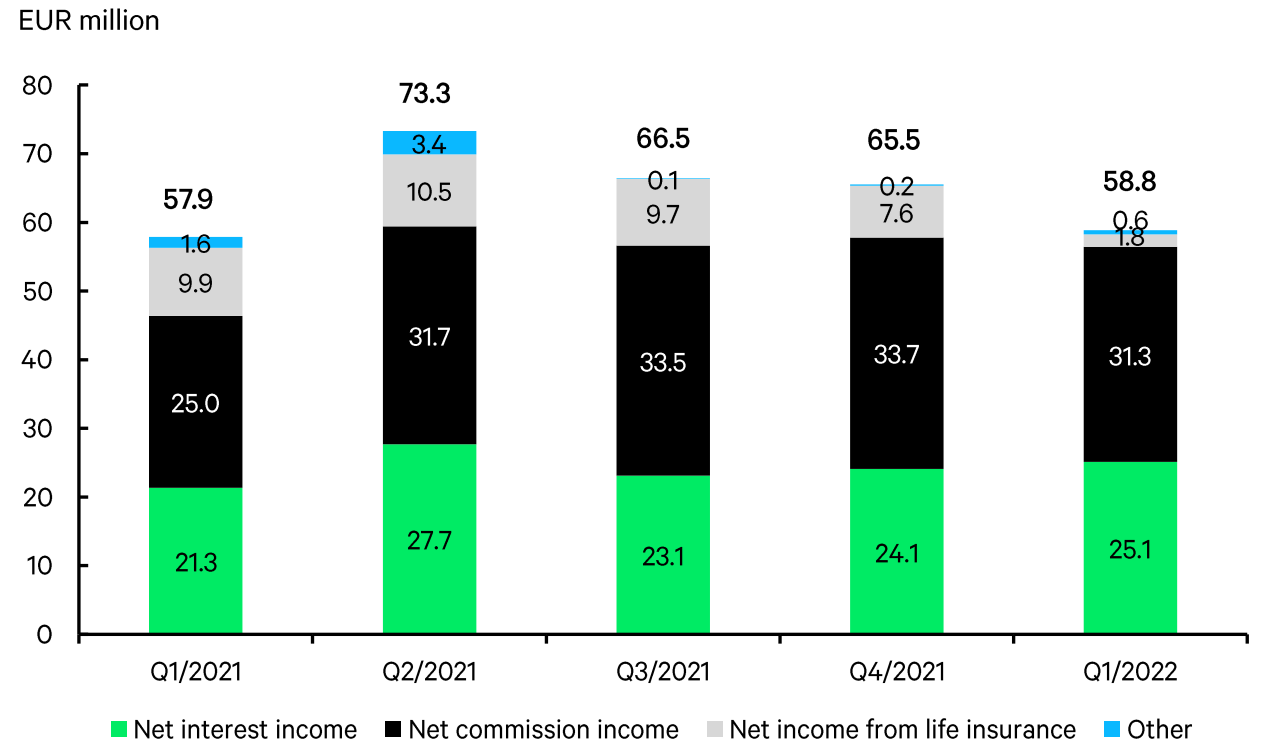
EUR million



# Solid business performance continued

- Net interest income up 18% Y-o-Y
  - The strong growth was driven by excellent development in the corporate customer business
- 25% growth in net commission income Y-o-Y mainly due to acquisition of Taaleri wealth management
  - 7% decrease Q-o-Q was affected by the nervous market sentiment
- Negative unrealised value changes in the life insurance company's investment portfolio due to rapid increase in interest rates weighed down the net income from life insurance to EUR 1.8 (9.9) million in Q1

Comparable operating income, Q-o-Q

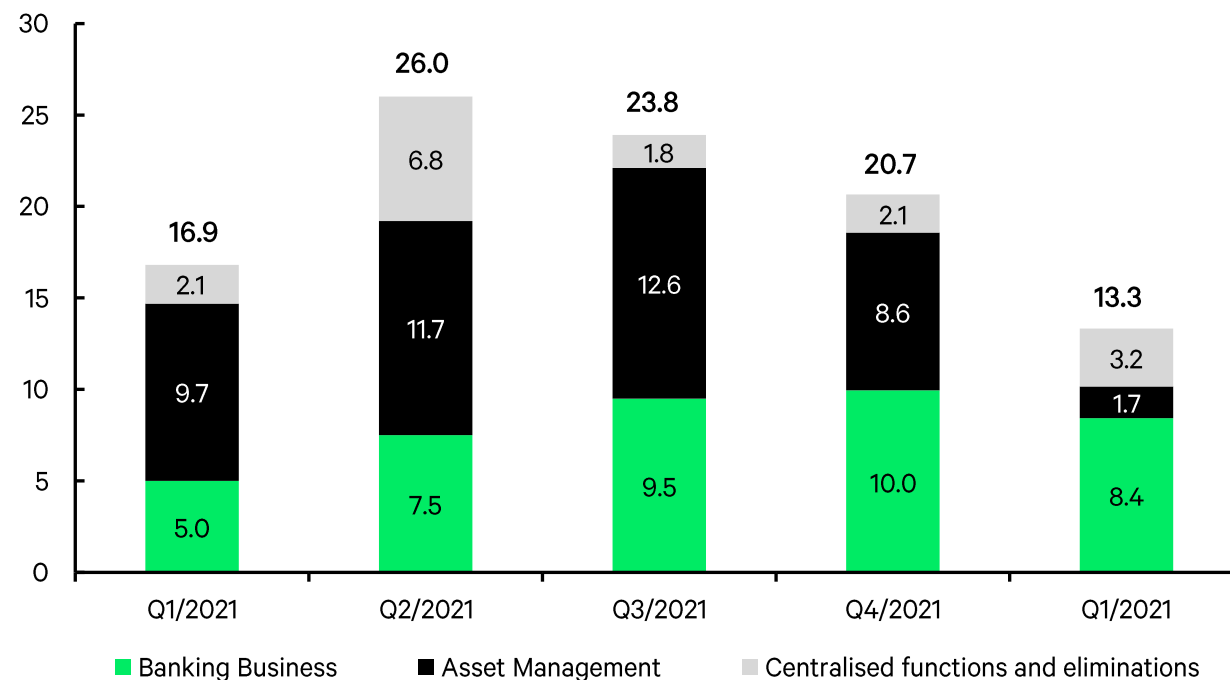


# Comparable operating profit affected by market conditions

- Very solid development in Banking Business, profitability affected by the EUR 4.6 million reservation for the stability fee
- Negative value changes in the life insurance company's investment portfolio weighed down the comparable operating profit within Asset Management segment

Comparable operating profit, Q-o-Q

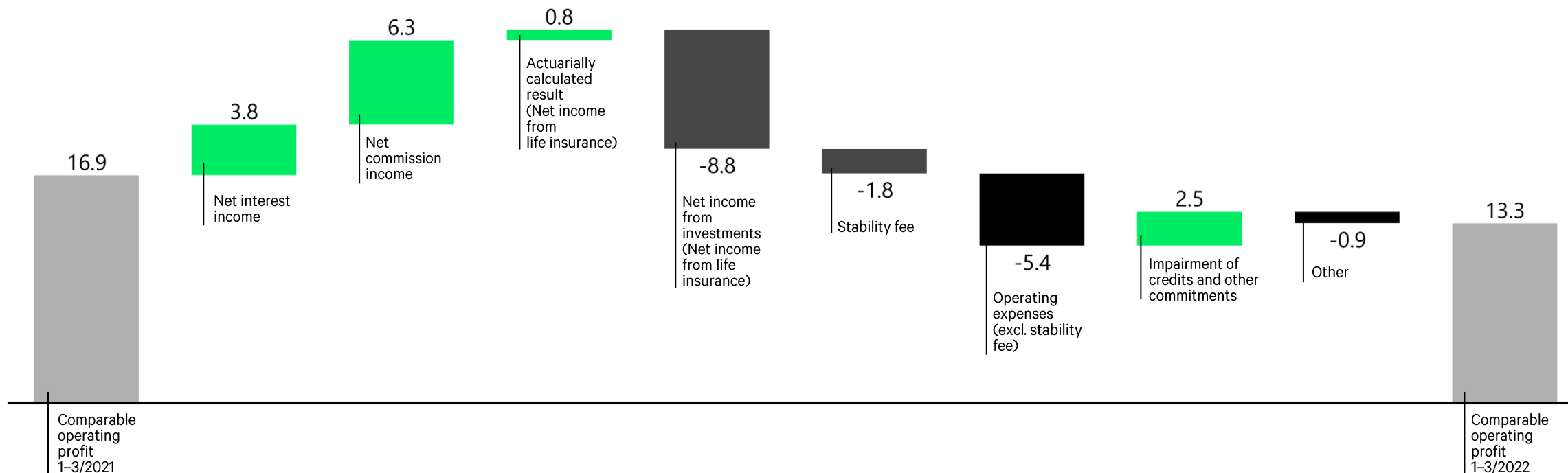
EUR million



# Underlying profit increased by 8%

## Comparable operating profit 1-3/2022 vs 1-3/2021

EUR million



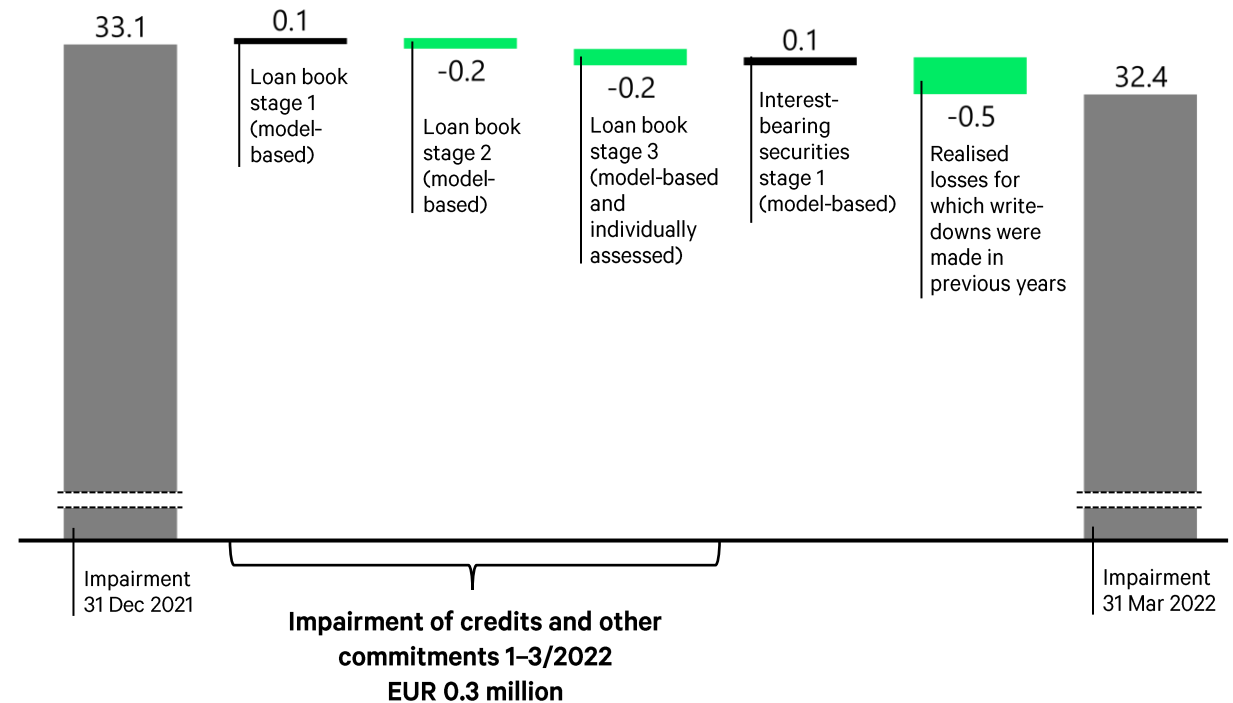
**+8% underlying profit growth (without unrealised value changes, stability fee and transactions costs 2021 for the acquisition of Taaleri wealth management business)**

# Expected credit losses at a very moderate level

- We have not observed any major new risk concentrations in our credit portfolio
- The macroeconomic assumptions in the ECL model were updated again in Q1, slightly positive but no material impact in 1Q

## Change in expected credit losses (ECL) 1-3/2022

EUR million



# The Debt Investment case

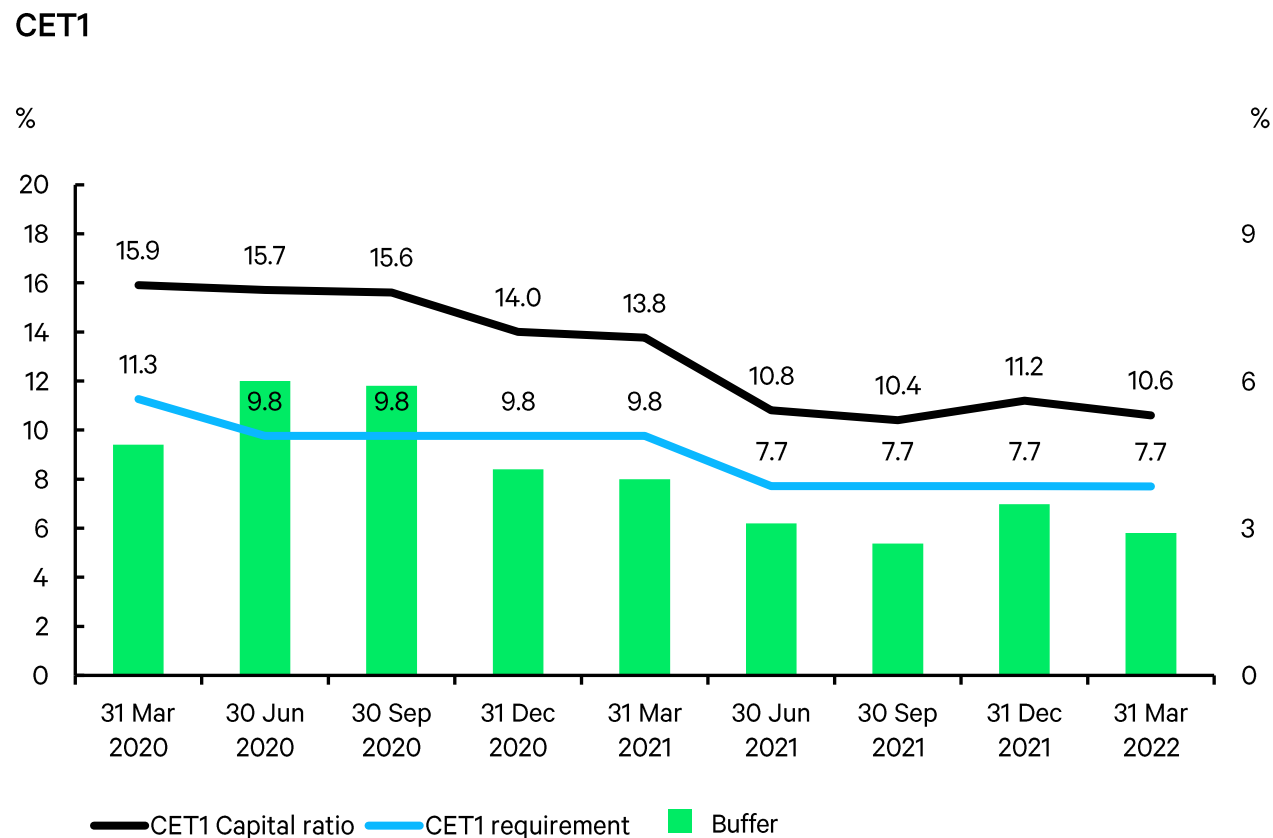
## Credit ratings

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

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

# CET1 ratio 2.9 percentage points above the requirement

- The CET1 ratio was 10.6% and decreased from year end by 0.6 percentage points
- Aktia Life Insurance Ltd paid a dividend of EUR 20 million to the parent company in March, which strengthened the Bank's CET1 capital
- The fair value reserve was negatively affected by the increase in interest rates in the first quarter, which in turn weakened the Bank's CET1 capital by approx. EUR 21 million.
- The risk-weighted assets increased by EUR 132 million, driven by growth in corporate lending



# CET1 ratio above the requirement

- Minimum CET1 requirement ratio is 7.71 % (1Q22 CET1 10.6%).
- Total minimum capital ratio requirement 11.76% (1Q22 Total capital:14.8%).
- Aktia Bank Group's leverage ratio was 3.8% (4Q21 3.9%).
  - Tier 1 capital EUR 386.3 million
  - Total exposures EUR 10,259.3 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.
  - MREL requirement EUR 610.1 million
  - Own funds and eligible liabilities EUR 1,554.3 million

Capital requirement	%
Pillar 1 req	4.5%
Pillar 2 CET1 req	0.70%
Capital Conservation buffer	2.5%
Counter Cyclical buffer	0.01%
Systemic Risk buffer**	0.0%
<b>Total CET1 % req</b>	<b>7.71%</b>
AT1 Capital	1.5%
Pillar 2 AT1 req	0.23%
Tier 2 Capital	2.0%
Pillar 2 Tier 2 req	0.31%
<b>Total Capital Requirement</b>	<b>11.76%</b>

# Funding activities

- During Q1 2022, Aktia completed 8 senior preferred private placement transactions. The total volume has been approximately EUR 276 million with maturities in the range of 2–12 years. The bank will continue to issue senior debt during the year 2022 to refinance redeeming notes and to convert some of the short-term money market funding to longer term issuance. The bank is planning also to issue limited amount of Non-Preferred Senior notes during the year of 2022.
- In January Aktia Bank issued EUR 500 million benchmark covered bond redeeming in October 2028. The transaction was more than twice oversubscribed with reoffer spread of Mid Swaps minus 1 basis point. This highly successful issue refinanced the similar size covered bond maturing on 31 March 2022.
- Aktia's liquidity continued to be at a good level. The LCR ratio has been comfortably over the regulative limit being 136% at the end of Q1. The cash level has been very good. The ECB tiering structure has been in full use for the whole period.



# High-quality liquidity reserve

The Liquidity Coverage ratio (LCR) was 136%.

The unencumbered assets in the liquidity portfolio, which can be used as a liquidity reserve, including cash and balances with central banks, had a market value of EUR 1,641 million on 31 March 2022 (4Q21: EUR 1,571 million).

## Unencumbered Liquidity reserve, market value

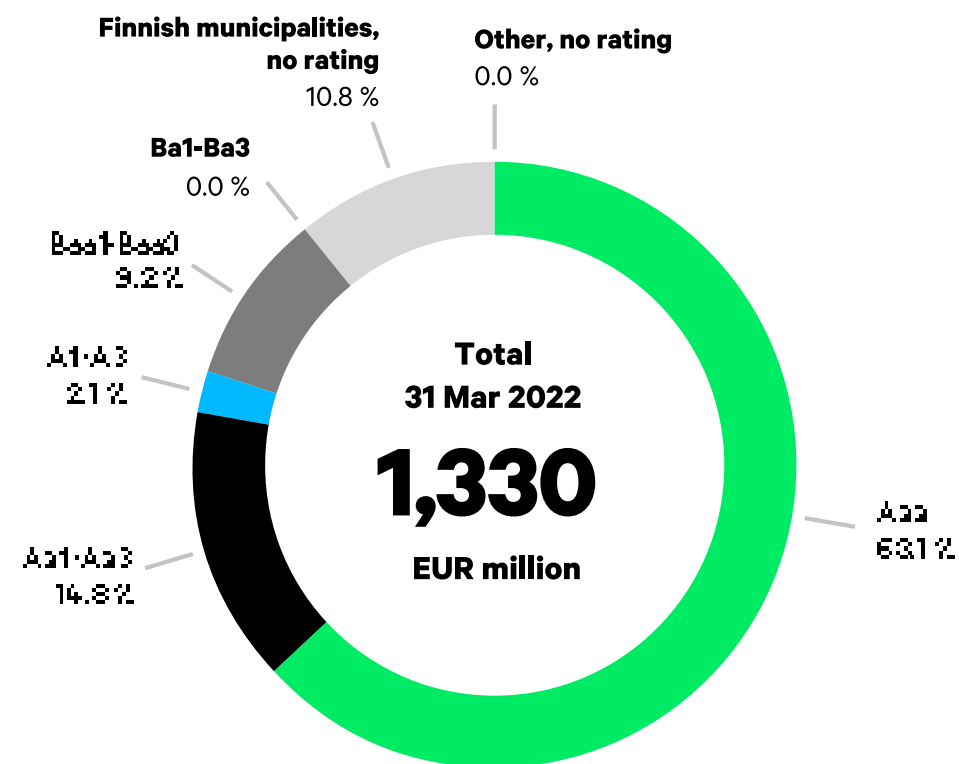
EUR million	31 Mar 2022	31 Dec 2021
Cash and holdings in central banks	732	681
Securities issued or guaranteed by sovereigns, central banks or multilateral development banks	221	222
Securities issued or guaranteed by municipalities or Public sector entities	143	155
Covered bonds	545	514
Securities issued by credit institution	0	0
Securities issued by financial corporates (commercial papers)	0	0
<b>Total</b>	<b>1,641</b>	<b>1,571</b>

# Low risk liquidity portfolio

The liquidity portfolio consists of high-quality assets that can be used to meet liquidity requirements in stressed situations.

## Assets are:

- LCR and ECB eligible covered and SSA notes
- Commercial or Municipalities issued short term papers



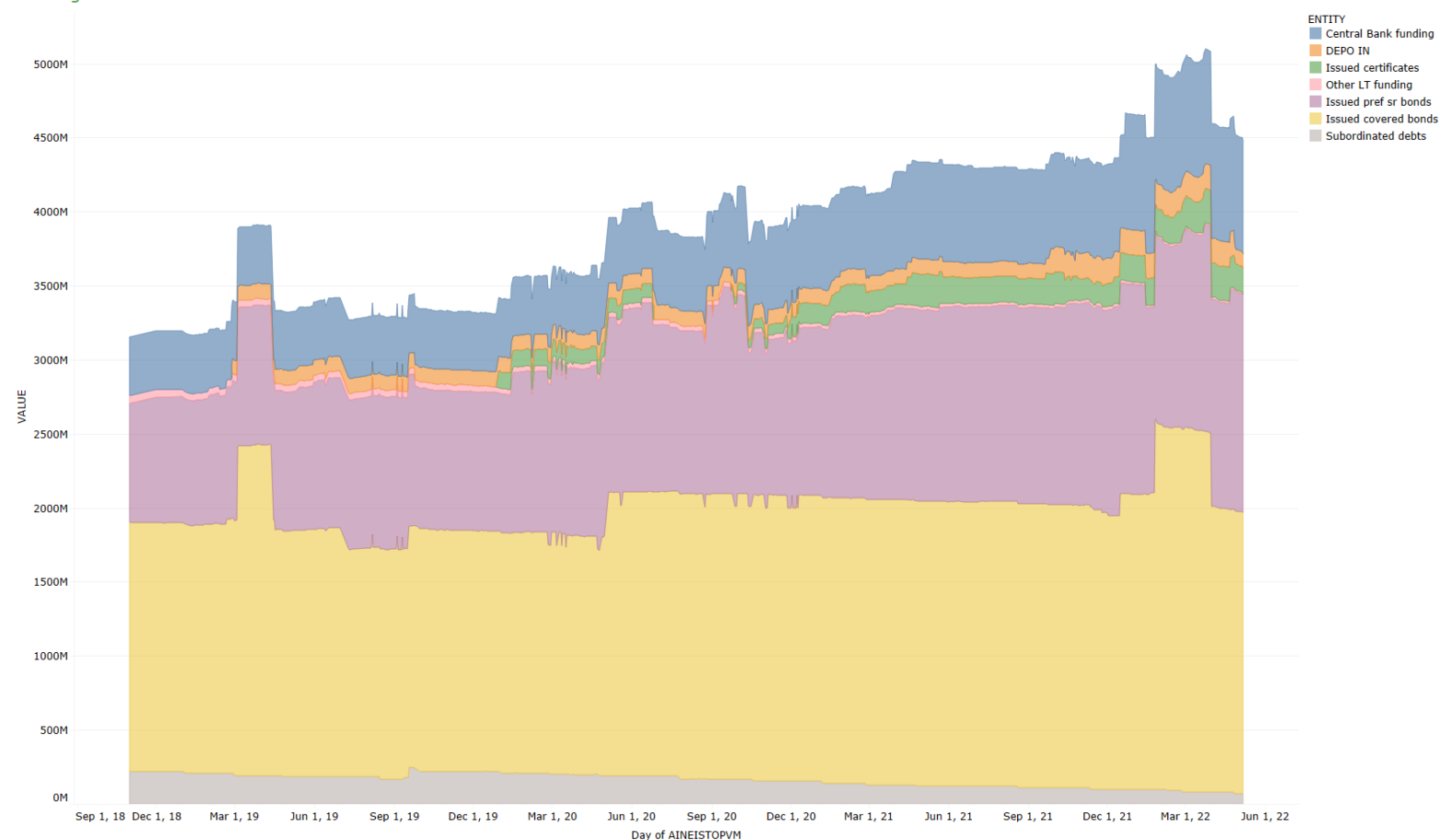
# Sound funding profile

Covered Bond issuance and customer deposits dominate

Borrowing from the public and public-sector entities increased to EUR 4,699 (4,503) million. Aktia's market share of deposits was 3.0% (3.0%) at the end of Dec 2021.

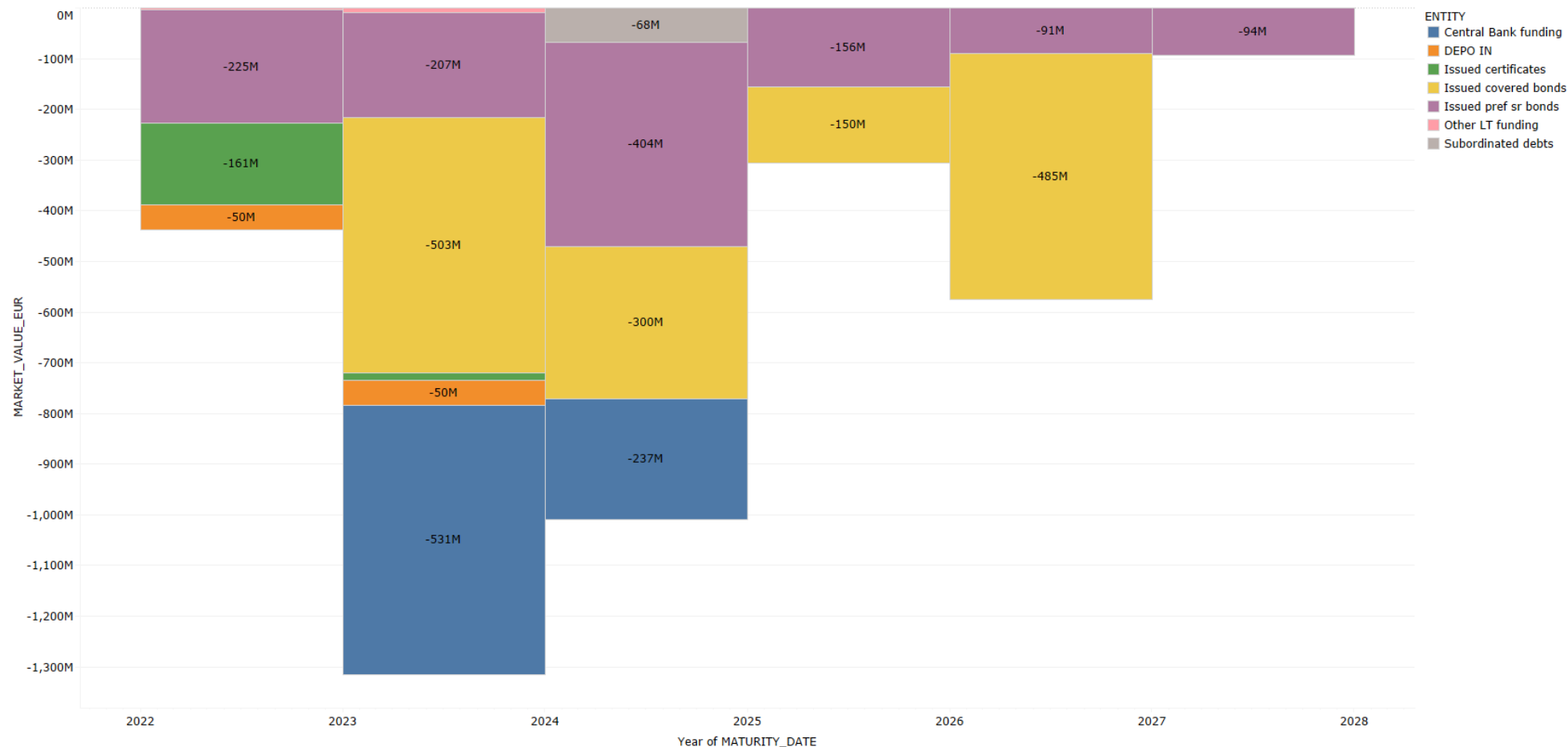
The value of bonds issued by Aktia Bank totalled EUR 2,836 (2,917) million. The total is excluding the EUR 450 million issued retained Covered Bonds.

Funding Structure



# Redemption schedule

2023  
redemptions  
requires good  
planning



# Aktia Bank as covered bond issuer

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.

The new Finnish Covered bond legislation comes into effect on 8<sup>th</sup> July 2022. The legislation complies with the Directive (EU)2019/2162 and the regulation (EU) 2019/2160 of the European Parliament and of the Council

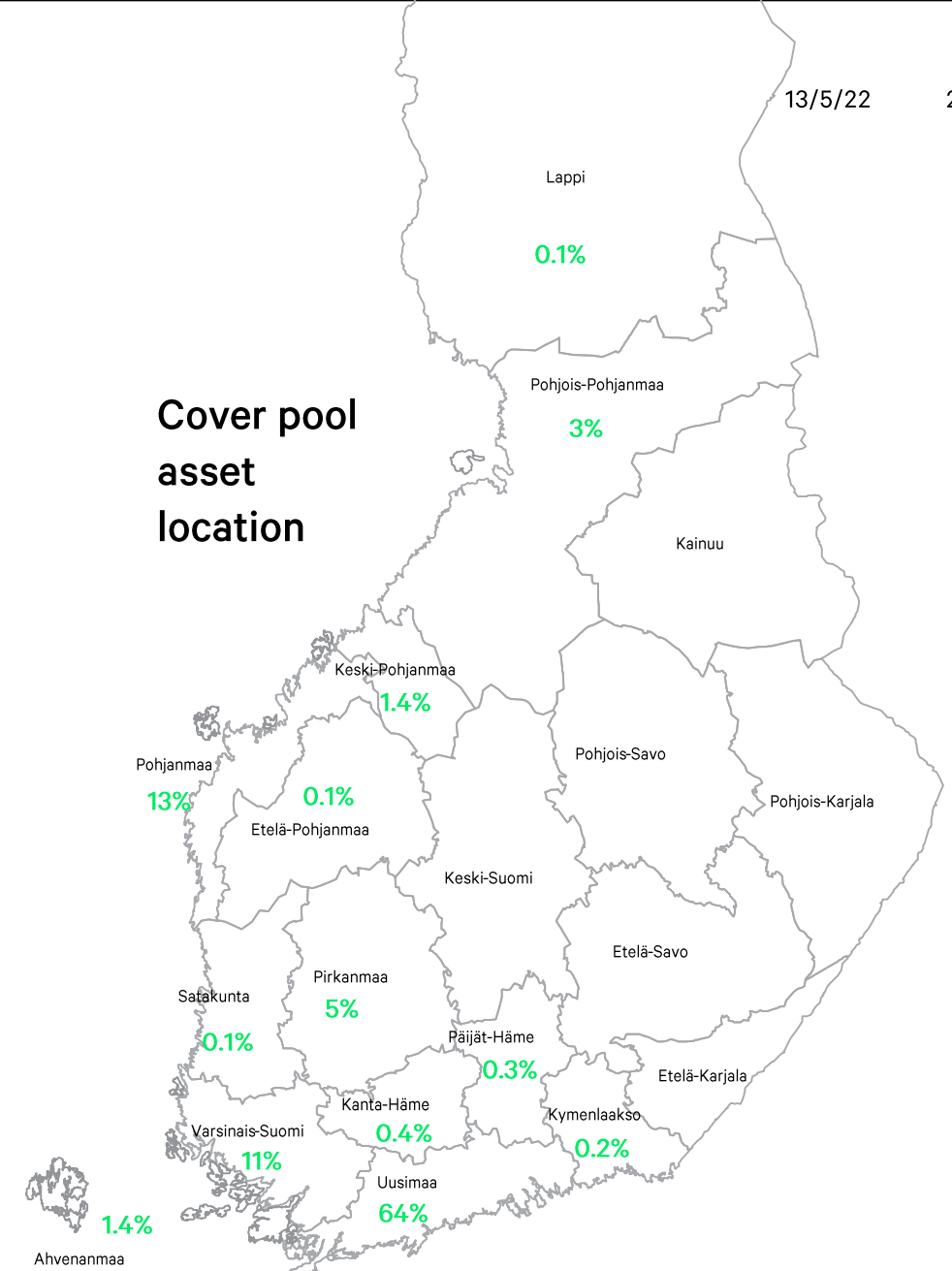
- The Aktia Bank mortgage loan portfolio is of very high quality:
  - Prime residential mortgage loans and loans to Housing Companies
  - Collateral located in Finland
  - Low average LTV
- Aktia Bank covered bonds are CRR & UCITS, ECB repo and CBPP eligible
- Bank aims to comply with the ECBC covered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

# Aktia Cover pool

1Q 2022

	Cover pool
Total asset pool (No substitute assets)	EUR 2,740 million
No of loans / average loan balance	38,966 / EUR 70,324
Types of loans	First ranking residential mortgages, pledges of shares in housing companies and loans to housing companies
Geography	Finland, well diversified with concentration on growth areas
Non-performing loans > 90 days in arrears	0.0
WA indexed LTV	46.93%
Maximum LTV	LTV limit: 70%
Interest base	floating 95%, fixed 5%
WA seasoning	62.4 months
Overcollateralisation (%)	40.53% (committed 10%)
Moody's Collateral Score	5.00%

## Cover pool asset location



# Finland – a responsible Nordic welfare economy

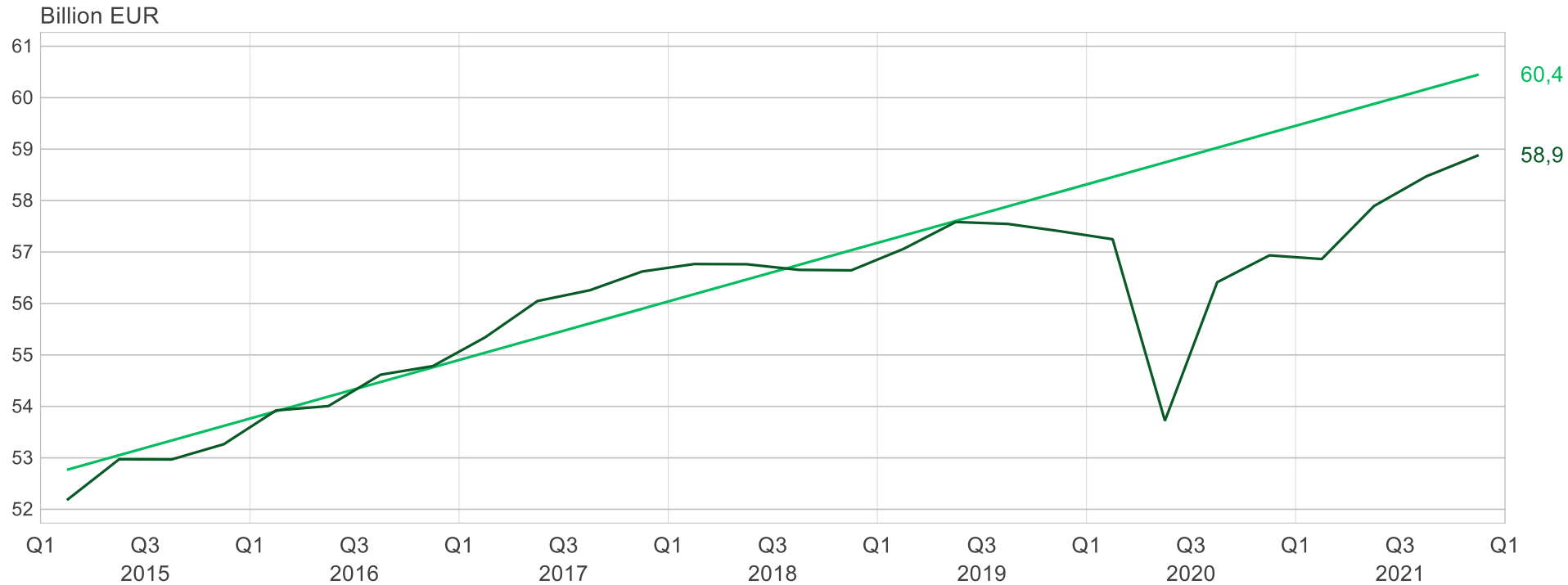
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Aktia

# Gross domestic product behind trend

## Finland, quarterly gross domestic product, 2015 prices

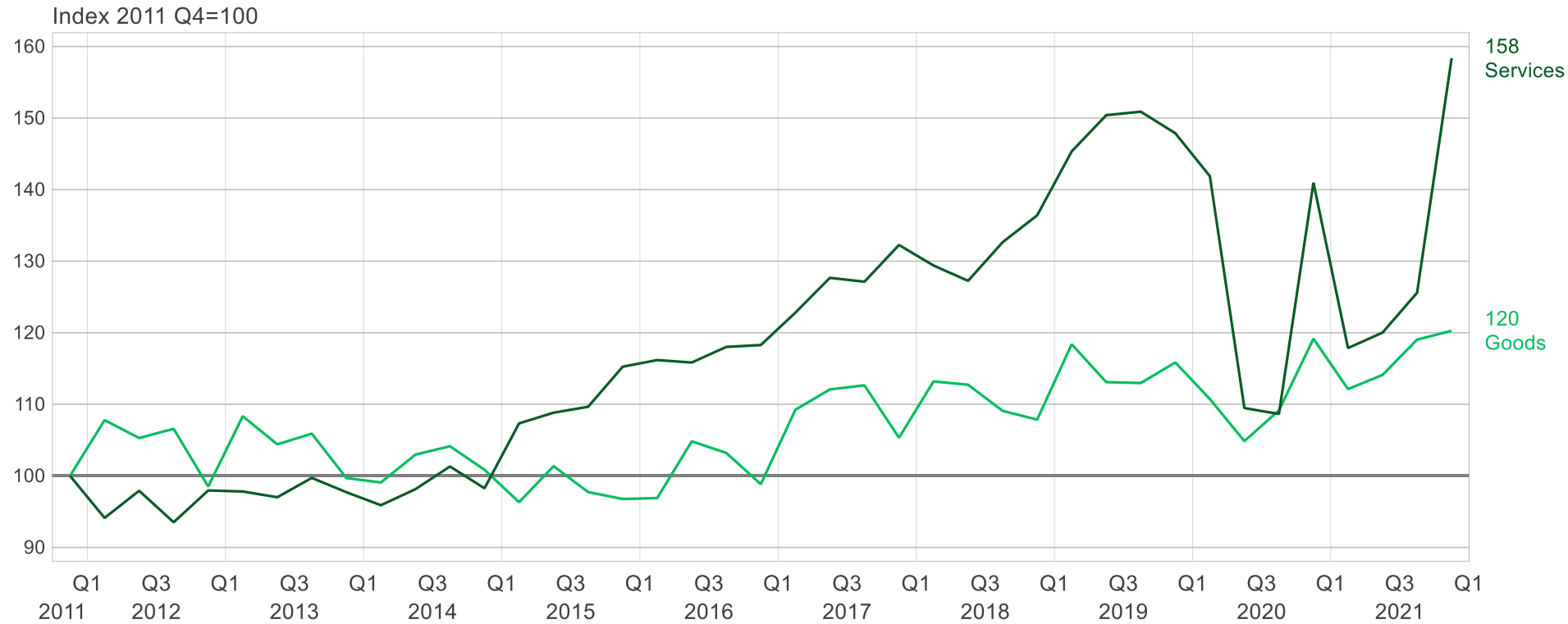
— GDP — Trend 2015-2019



Lähde: Aktia, Macrobond, Statistics Finland.

# Service exports supported by weak euro

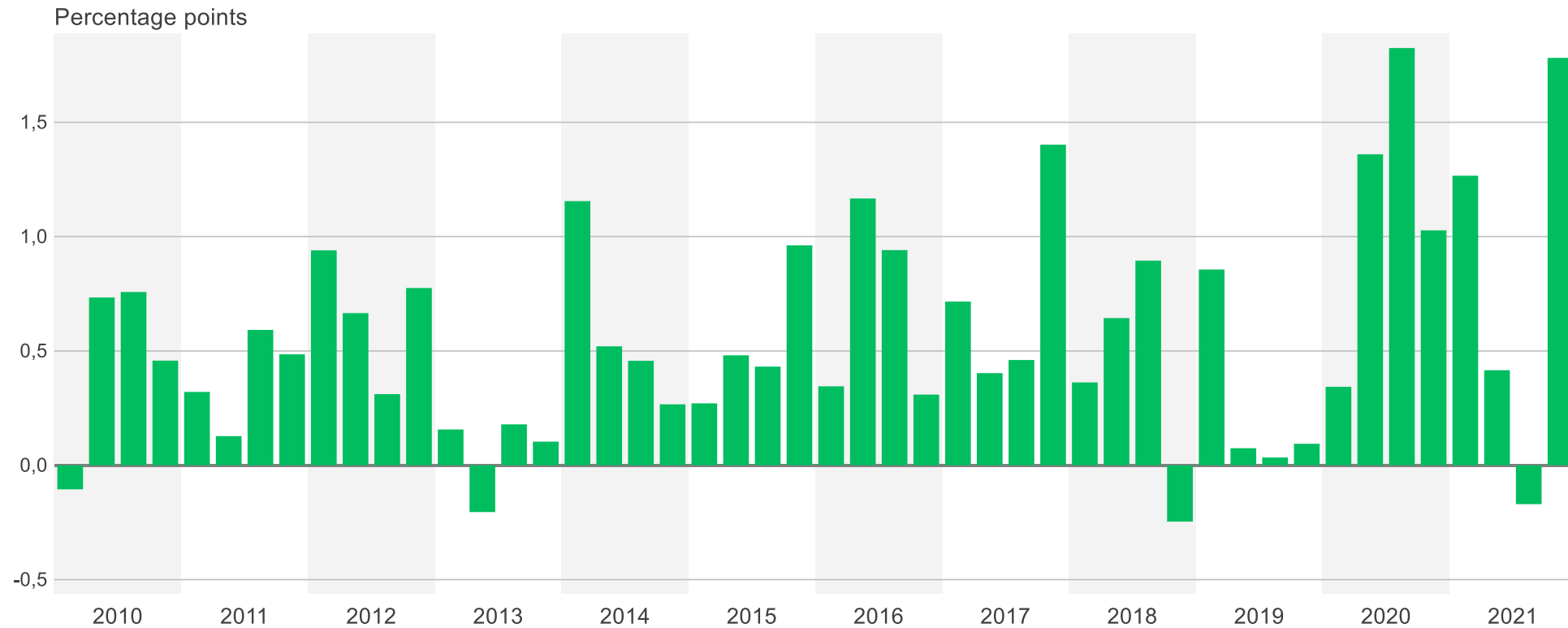
## Finland, export of goods and services



Source: Aktia, Macrobond, Statistics Finland.

# Household indebtedness is not growing

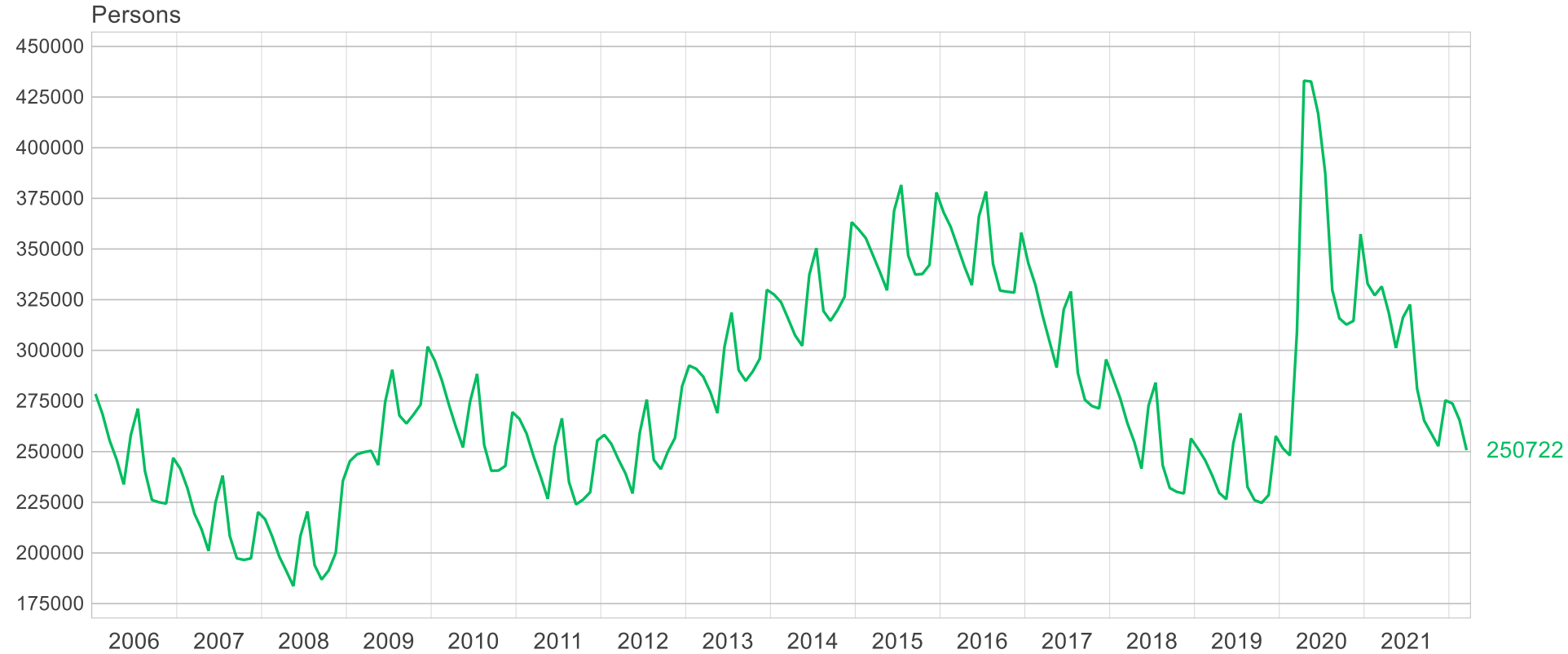
## Quarterly change in households' indebtedness ratio



Source: Aktia, Macrobond, Statistics Finland.

# Labor market: almost at pre-corona

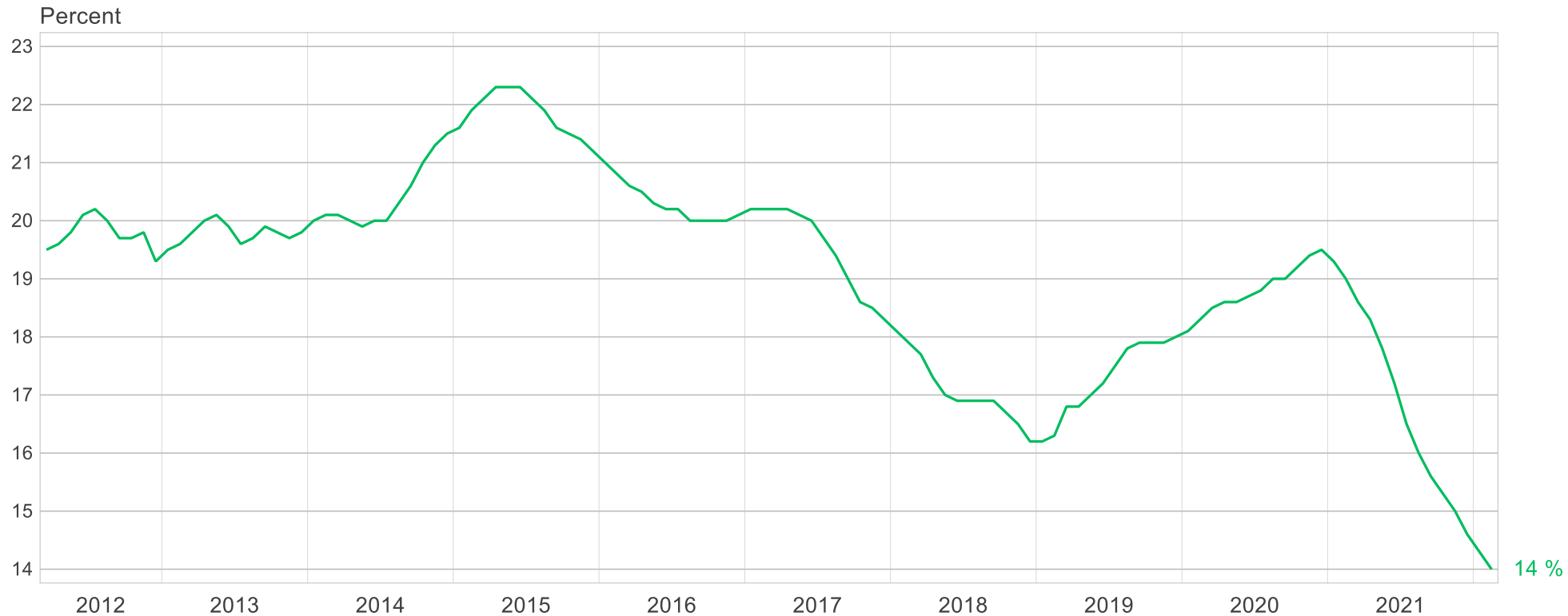
## Unemployed persons in Finland



Source: Aktia, Macrobond, Finnish Ministry of Employment & The Economy.

# More good news from the labor market

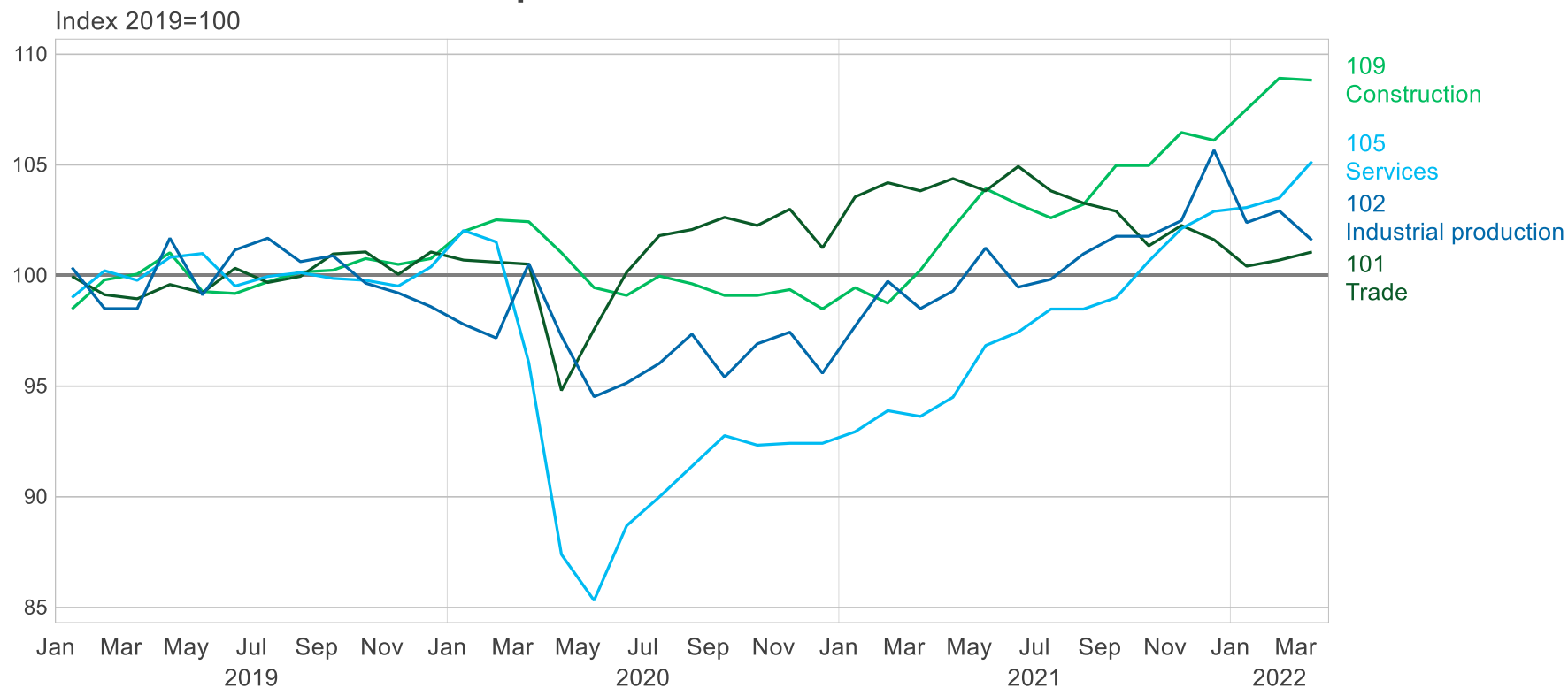
## Youth unemployment in Finland (aged 15-24)



Source: Aktia, Macrobond, Statistics Finland.

# Industrial output and service sector fully recovered

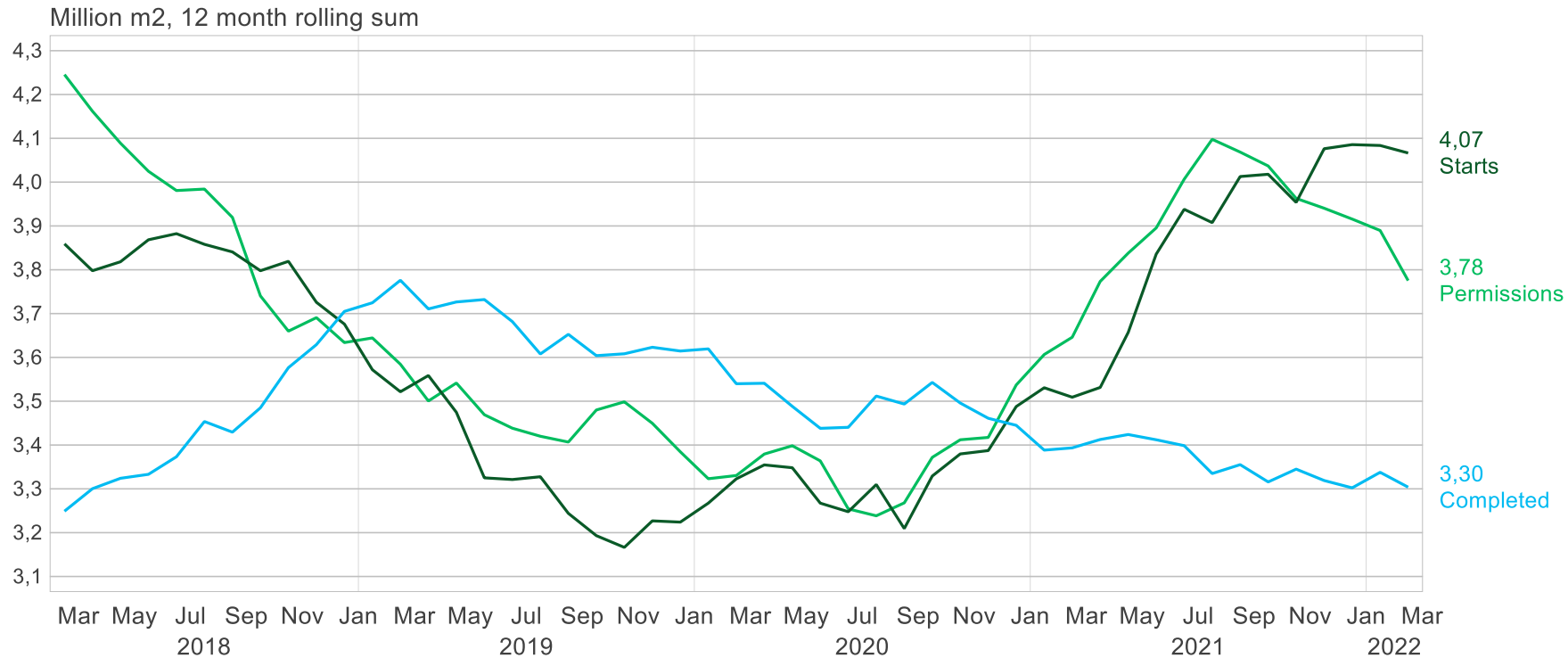
## Sales volume and industrial production



Source: Aktia, Macrobond, Statistics Finland.

# Permissions in residential construction are decreasing

## Residential construction activity

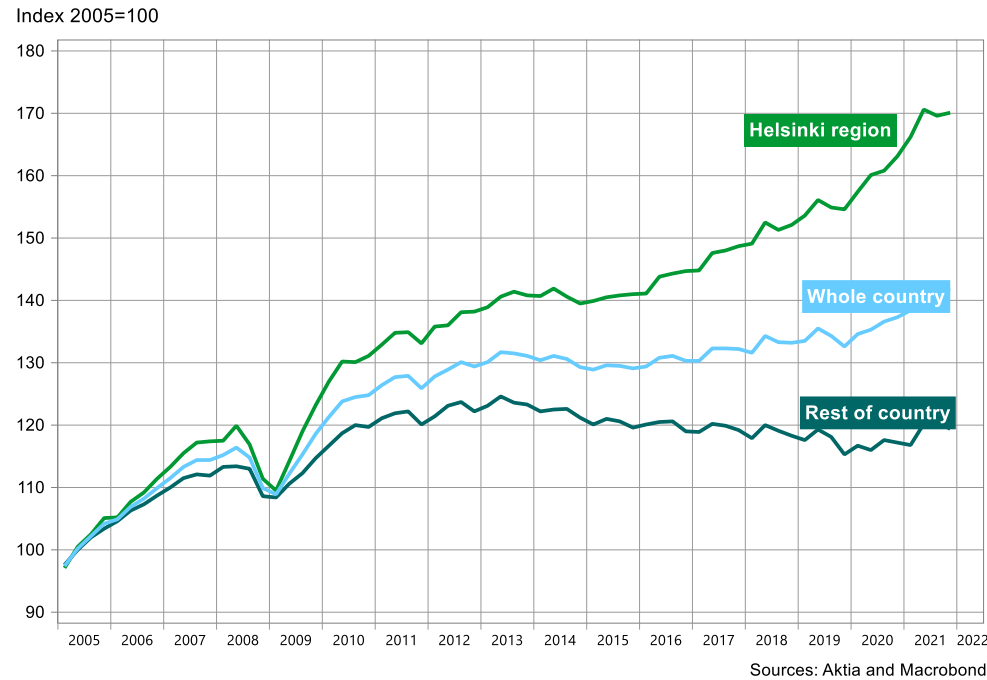


Source: Aktia, Macrobond and Statistics Finland.

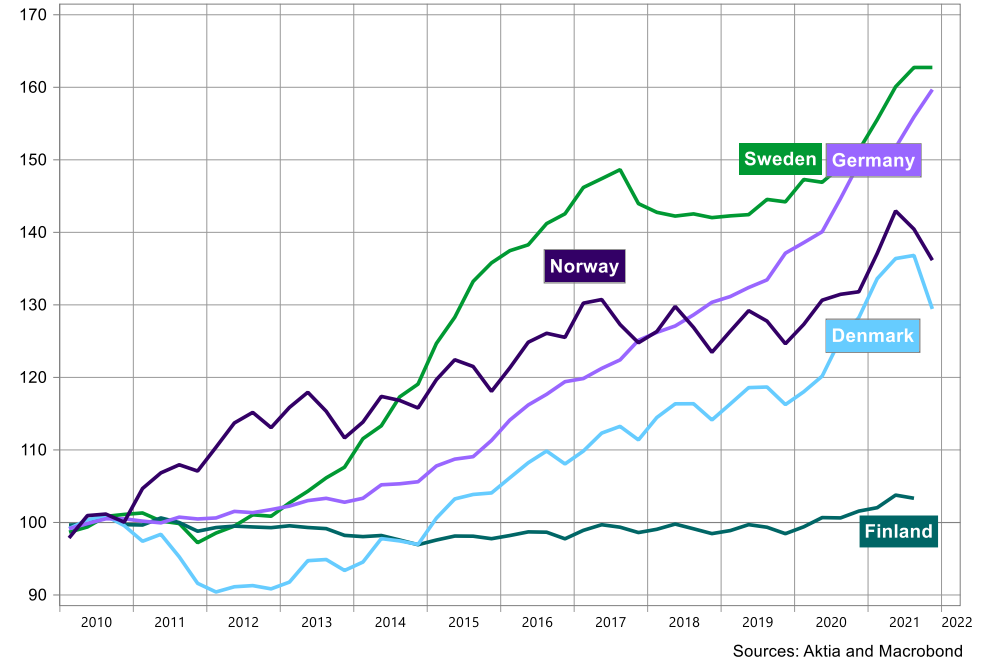
# Finnish housing market

Solid and stable market, positive development focused on growing cities

Finland: Prices, old apartments



Real House Prices, <Property IndexBase not found.>





# Thank you

Aktia

# Contacts and additional information



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## Debt investor information:

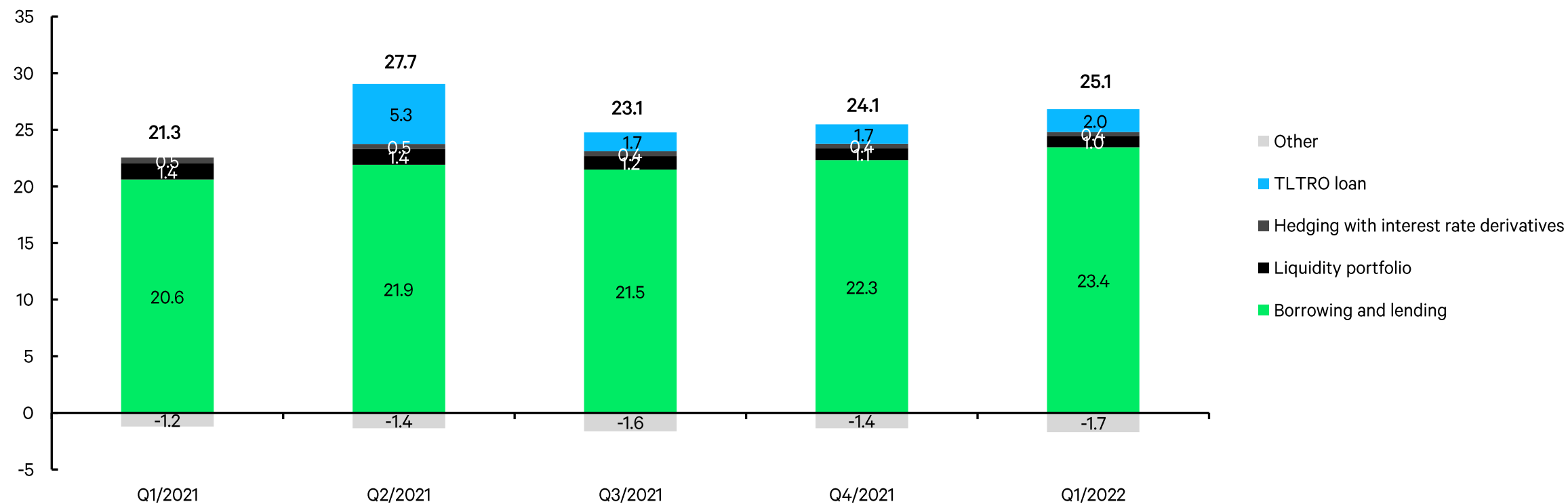
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# Appendices

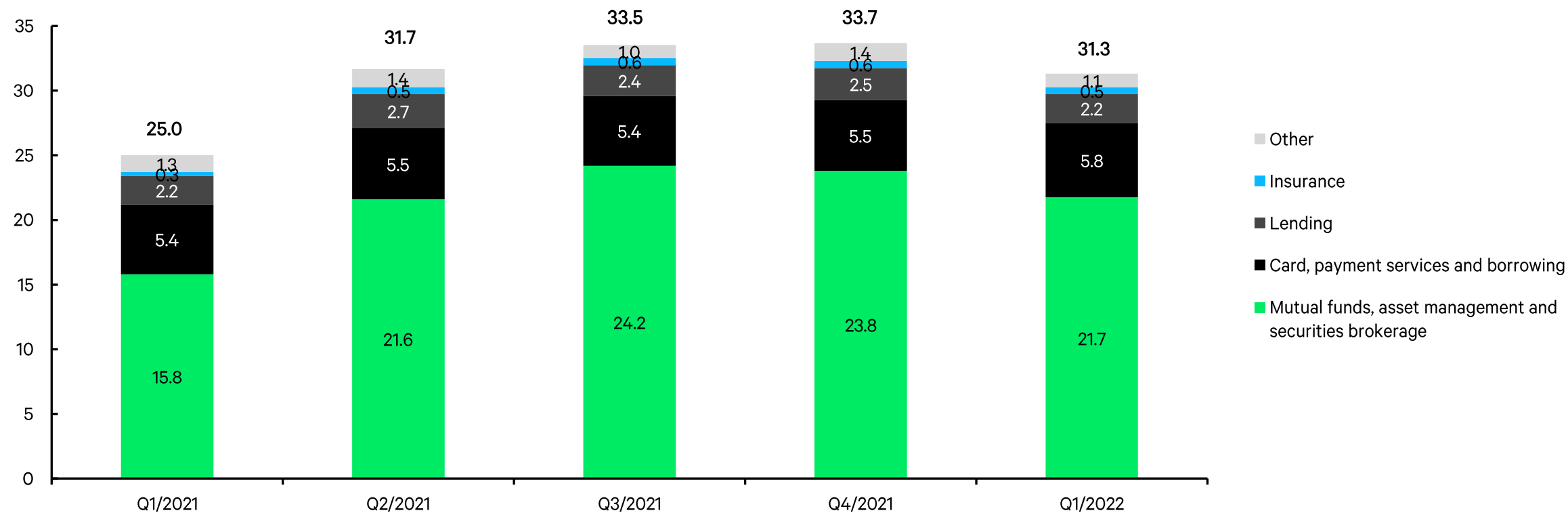
# Net interest income mix

EUR million



# Net commission income mix

EUR million



**Aktia**