

Aktia Savings Bank plc

Interim Report
1.1. - 31.3.2004



Significantly improved result during the first quarter

Aktia Savings Bank plc's profitability improved during the first quarter of 2004. The operating profit rose to EUR 9.7 million, or close to 50% compared to the previous year, and the return on equity (ROE) rose to 13.9%. The bank also continued to grow. Lending to households increased by 11.1% and saving by households by 9.4%.

The Aktia Group's operating profit rose to EUR 9.7 million, an increase of 3.2 million (48.9 %) compared with the corresponding period in the previous year. The improvement is attributable to increased income, which includes non-recurring items at a net sum of EUR 2.2 million, while the costs remained unchanged. Growth in volume continued. The growth rate for both total lending and lending to households was slightly lower than the previous year, while growth in total savings was clearly higher compared with the corresponding period in the previous year. During the first quarter, loan losses were booked at a net sum of only EUR 0.1 million compared with EUR 0.5 million during the first quarter of 2003.

Profit for the period after estimated tax rose to EUR 6.7 million compared with EUR 4.8 million in 2003, an increase of 41.6%. The Group's profitability improved considerably during the first quarter, and the return on equity (ROE) rose from 10.6 % to 13.9 %. The cost/income ratio improved from 0.75 to 0.68.

– I am pleased that the bank's investment in personal service with a clear focus on Finnish customers is bearing fruit in increased volumes, says managing director **Mikael Ingberg**. Aktia's link to the business area via its ownership foundations is unique. The bank's principal owners, the savings bank foundations, channel the good result back into the local community. The savings bank foundations are continuing to support non-profit activities, which further confirms Aktia's position as "the bank with the human touch" and the driving force of the local community.

Focus on saving and investment

Business volumes among savings products increased. Deposits by the public increased by 2.9% to EUR 1,984 million compared with the corresponding period last year. Total saving (deposits + mutual fund capital) grew significantly stronger, increasing by 9.7% to EUR 2,704 million.

Household saving (deposits + funds) also showed a clear increase of 9.4% to EUR 2,076 million, while deposits from households rose by 3.7% to EUR 1,620 million.

– Our employees within the capital market sector have really shown the way, confirms Ingberg. The active launch of new products, i.e. index-linked loans, new funds and combination deposit accounts, has started to bear fruit. The fact that the bank has over 100,000 customers with investments in mutual funds also shows that confidence in Aktia as a portfolio manager is well-founded.

Prospects for 2004

The actions taken by Aktia during 2003 to improve efficiency have cut the increasing cost trend compared to earlier periods. The reduction in the number of employees towards the end of 2003 was greater than the average reduction during the year, which is why the full effect will be seen during 2004.

The Group's net interest income for 2004 is to a high level hedged against any additional interest rate fall without limiting the positive effect of a moderate interest rate rise.

Through continued streamlining of operations, the objective is to maintain profitability at the same level as in 2003 despite the low interest rate, the intense competition and the economic outlook remaining uncertain.

A presentation on financial performance can be downloaded from www.aktia.com under the heading Financial information.

AKTIA SAVINGS BANK PLC

Improved profitability during the first quarter

The period in brief

- The Group's operating profit increased by 48.9% to EUR 9.7 million
 - Total income increased by 11.0% to EUR 30.2 million including non-recurring items at a net value of EUR 2.2 million
 - Total costs remained at the same level as last year, EUR 20.3 million
 - Return on equity (ROE) rose to 13.9% (10.6%)
 - Cost/income ratio improved and was 0.68 (0.75)
 - Savings by households* rose by 9.4% to EUR 2,076 million
 - Loans to households increased by 11.1% to EUR 2,123 million
 - Mortgage loan stock increased from EUR 135 million to EUR 283 million (+110.2% from March 2003)
- * Deposits by the public plus investments in mutual funds managed by the Aktia Group

Financial result

The Group's operating profit rose to EUR 9.7 million, an increase of 3.2 million (48.9%) compared with the corresponding period in the previous year. The improvement is attributable to increased income, which includes non-recurring items at a net sum of EUR 2.2 million, while the costs remained unchanged. Growth in volume continued. The growth rate for both total lending and lending to households was slightly lower than the previous year, while growth in total savings was clearly higher compared with the corresponding period in the previous year. During the first quarter, loan losses were booked at a net sum of only EUR 0.1 million compared with EUR 0.5 million during the first quarter of 2003.

Profit for the period after estimated tax rose to EUR 6.7 million compared with EUR 4.8 million the previous year, an increase of 41.6%. The Group's profitability improved considerably during the first quarter, and the return on equity (ROE) rose from 10.6% to 13.9%. The cost/income ratio improved from 0.75 to 0.68.

Income

The Group's total income rose to EUR 30.2 million, an increase of 11.0%. The low market interest rate continued to have a major negative impact on the underlying operating net income from financial operations. The tough competition also reduced the customer margins on both lending and deposits. The Group's net income from financial operations therefore fell by 5.3% to EUR 17.6 million compared with the first quarter last year, despite an increase in lending and deposits. The hedging operation against the fall in market interest rates improved the net income from financial operations by EUR 1.4 million (0.8 million during the first quarter 2003).

The improvement in income from equity investments, EUR 1.4 million, refers to the dividend received on the shareholding in the Bank of Åland.

The rising trend in commission income continued. Commissions receivable thus increased by EUR 1.9 million (23.5%) to EUR 9.6 million.

The net income from securities and currency trading rose to EUR 1.2 million, an increase of EUR 1.0 million, which is mostly due to the net effect from, on the one hand, sales profit from the sale of shares in OMHEX and, on the other, from the valuation of the shares in the Bank of Åland at market value.

Other operating income fell by 13.8% to EUR 1.4 million. This is mostly due to real estate income having reduced as the Group has continued to reduce its real estate holding.

Expenses

The Group's total costs remained at the same level as last year, EUR 20.3 million

Personnel costs fell by 3.0% to EUR 9.0 million and the average number of employees from 871 to 809.

Other administration expenses rose by 6.0% to EUR 5.7 million, largely due to increased marketing expenses during the period.

Planned depreciation decreased by 10.5% to EUR 1.9 million, mainly due to a reduced real estate holding.

Other operating expenses increased by 4.7% to EUR 3.6 million. However, during the current period they include non-recurring real-estate-related costs amounting to EUR 0.6 million.

Lending and saving

The business volume continued to grow. Lending to households, especially housing loans, grew strongly. The growth, which during the last 12-month period was slightly lower than the market average, has followed the market growth since the start of the year. The margin erosion continued on the whole of the credit stock.

The Group's lending amounted to EUR 2,668 million at the end of the reporting period, an increase of EUR 202 million (8.2%) compared with the corresponding period last year. The entire growth was, in reality, related to households, whose credit stock increased by EUR 212 million (11.1%) to EUR 2,123 million. The housing loan stock increased by 13.0% to EUR 1,723 million, of which mortgages constituted EUR 283 million, an increase of 110.2% from March 2003.

Deposits by the public increased by 2.9% to EUR 1,984 million compared with the corresponding period last year. Total saving (deposits + mutual fund capital) grew significantly stronger, increasing by 9.7% to EUR 2,704 million.

Household saving (deposits + funds) also showed a clear increase of 9.4% to EUR 2,076 million, while deposits from households rose by 3.65% to EUR 1,620 million.

Loan losses and risks

The Group's loan losses were again low. During the quarter, loan losses were booked at a net sum of EUR 0.1 million (EUR 0.5 million net during the first quarter last year). New loan losses totalled EUR 0.3 million and reversals of the previous year's booked loan losses totalled EUR 0.2 million. No changes to the branch-specific credit loss provisions have been booked since December 2003 and these amounted to EUR 4.2 million at the end of the period. The Group's non-performing and non-interest bearing loans increased to EUR 16.5 million. Their relative share of the entire credit stock was 0.6% or with the same level as last year, which is, however, an increase from the start of this year when they were 0.5%.

Interest risks

The Group's net income from financial operations is sensitive to changes in interest rates as the lending is often tied to short-term market interest rates, whereas deposits are, for the most part, fixed-rate. The majority of derivative contracts made are therefore intended to reduce the volatility of the net income that depends on the difference in the duration for borrowing and lending. The aim is thus to attempt to limit the annual impact of the interest changes on the net income from financial operations by using derivative contracts.

At the end of the reporting period, the value of the underlying assets of derivative contracts for hedging purposes totalled EUR 2,022 million, of which EUR 505 million were forward rate agreements and interest rate swaps, EUR 1,405 million were interest rate options, EUR 52 million currency-related forward contracts and EUR 60 million in share options.

Capital Adequacy

The Group's capital base amounted to EUR 280.9 million on 31 March 2004, of which EUR 187.3 million was Tier 1 capital and EUR 93.6 million Tier 2 capital. During the reporting period, the Group issued subordinated bonds for EUR 29.2 million that are taken into account in the Tier 2 capital. The Group's risk-weighted commitments rose to EUR 1,957 million. The capital adequacy ratio was 14.4%, the proportion of Tier 1 capital being 9.6%. The Tier 1 capital includes both the profit for the reporting period and deductions for the 2003 dividend decided by the Annual General Meeting of Shareholders, as well as calculated dividend for the reporting period corresponding to last year's dividend level.

Personnel

The number of personnel (number of current employment contracts) has fallen by 55 since 31 March 2003 and totalled 807 at the end of the period. The number of actual bank staff has fallen by 64 since 31 March 2003 to 749. The actual bank staff corresponded to 685 full-time employees at the end of the reporting period (742 in 2003). The average number of staff during the accounting period was 809 (871).

Other events

On 1 January 2004, Aktia acquired all the shares of Robur Life Assurance Finland Ltd, the Finnish subsidiary of Swedish company Robur Försäkring. This acquisition will have a very marginal impact on the Group's capital adequacy ratio and Tier 1 equity ratio, as the risk related to the insurance business' invested capital and its return rests with the policy holders. Due to the company's small size in relation to the whole Aktia Group's balance sheet and capital requirements, the company has been consolidated in accordance with the Financial Supervision Authority's directive according to the so-called 'equity method.' On 30 March, Robur Life Assurance Finland Ltd changed its name to Aktia Life Assurance Finland Ltd.

On 29 January 2004, Aktia decided not to carry through the letter of intent signed with the Bank of Åland on 26 May 2003. Aktia still owns around 9% of the capital and approximately 2.7% of the votes in the Bank of Åland. The shares were acquired in connection with the assessment of joint venture possibilities during 2003. Following the decision at the end of January 2004 not to carry through on the letter of intent, the shares have been reclassified from fixed to current assets and valued at the stock exchange price as of 31 March 2004.

In cooperation with the bank's ownership foundations, Aktia days were arranged from 31 March - 2 April. During the Aktia days, festivities were arranged both inside and outside branch offices, e.g. in nearby shopping malls and squares. A number of branches were open on Saturday 3 April. Aktia days are intended for current and potential customers, owners and the media, and the overall theme was saving in all its different forms. In connection with the festival seminar on 2 April, Stundars open air museum in Mustasaari was chosen as the Saver of the Year and received a grant of EUR 10,000.

Kenneth Kaarnimo, General Manager and member of the Executive Committee, retired from Aktia on 1 April.

The parent company's financial statements and the consolidated financial statements were adopted at the Annual General Meeting of Shareholders of Aktia Savings Bank plc, which was held on 20 April. The Board of Supervisors, Board of Directors, the Managing Director and his alternate were discharged from liability. It was decided to pay a dividend of EUR 0.20 per share.

Sten Eklundh, Torbjörn Jakas, Margareta Pietikäinen, Gunvor Sarelin-Sjöblom, Lars Wallin, Bo Gustav Wilson, Maj-Britt Vääriskoski and Ann-Mari Åberg, whose terms expired at the 2004 Annual General Meeting, were re-elected as members of the Board of Supervisors for a period of three years.

Patrik Lerche, managing director, M.Sc. (Econ.), *Clas Nyberg*, M.Sc. (Eng.) and *Carl Eric Stålberg*, chairman of the board of FöreningsSparbanken, M.Sc. (Econ.) were elected as new members of the Board of Supervisors. Nyberg and Stålberg were elected for a term of three years until the Annual General Meeting of Shareholders 2007. In order to even out the number of members of the Board of Supervisors to retire annually, Lerche's term is set to end at the 2005 Annual General Meeting.

Savings Banks' Security Fund

Aktia and all of the other savings banks belong to the voluntary security fund for savings banks. The purpose of this fund is to ensure that savings banks can operate in a stable manner. Under the rules of the fund, savings banks are not mutually responsible for each other's debts or liabilities. The fund is free of debt and its assets at the end of the year 2003 stood at EUR 29.6 million.

Deposit Guarantee Fund

Membership of the Deposit Guarantee Fund, which was established in 1998 and safeguards deposits by private

investors up to EUR 25,000, is obligatory for all banks. At the end of 2003, the total assets of the fund stood at EUR 285.4 million.

Investors' Compensation Fund

Banks and brokerage firms are members of the Investors' Compensation Fund. The purpose of the fund is to safeguard the interests of small investors in the event that a bank or brokerage firm becomes insolvent. Individual investors may receive compensation up to EUR 20,000. At the start of the year 2004, the total assets of the fund amounted to EUR 4.5 million.

Prospects for 2004

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Profit and loss account (EUR million)	Group			Bank		
	1-3/2004	1-3/2003	1-12/2003	1-3/2004	1-3/2003	1-12/2003
Interest income	27.8	34.1	123.0	27.2	33.9	121.8
Interest expenses	10.3	15.5	49.1	10.3	15.6	49.2
Net income from financial operations	17.6	18.6	73.9	16.9	18.4	72.6
Income from equity investments	1.4	0.0	0.9	3.3	0.6	1.4
Commissions receivable	9.6	7.7	33.0	8.2	6.8	28.8
Commissions payable	-0.9	-0.9	-3.4	-0.6	-0.6	-2.5
Net income from securities transactions	1.2	0.2	2.0	1.1	0.3	1.9
Other operating income	1.4	1.6	8.0	1.1	1.3	6.8
Total other income	12.6	8.6	40.6	13.1	8.3	36.4
Total income	30.2	27.2	114.5	30.1	26.7	109.0
Staff costs	9.0	9.3	35.9	8.5	8.8	34.2
Other administrative expenses	5.7	5.4	22.5	5.4	5.3	21.2
Depreciation and write-downs on tangible and intangible assets	1.9	2.1	9.3	1.6	1.8	8.0
Other operating expenses	3.6	3.5	15.3	3.9	3.7	16.3
Total costs	20.3	20.3	83.1	19.4	19.6	79.7
Income before loan losses	9.9	6.9	31.5	10.6	7.1	29.3
Loan and guarantee losses	-0.1	-0.5	-2.3	-0.1	-0.5	-2.3
Write-downs on securities held as fixed assets	-	-	-	-	-	-
Share of the profit in associated companies	0.0	0.2	1.0	-	-	-
Operating profit	9.7	6.5	30.2	10.5	6.6	27.0
Appropriations	-	-	-	-3.3	-4.4	-13.2
Taxes for the current period and for previous reporting periods	-1.9	-0.5	-5.5	-2.2	-0.6	-5.2
Changes in imputed tax claims	-1.0	-1.3	-4.1	-	-	-
Minority interest	0.0	0.0	-0.1	-	-	-
Profit for the reporting period	6.7	4.8	20.5	5.0	1.6	8.6

Balance sheet (EUR million)	Group			Bank		
	31.3.2004	31.3.2003	31.12.2003	31.3.2004	31.3.2003	31.12.2003
Assets						
Liquid assets	239.4	173.9	209.3	239.4	173.9	209.3
Debt securities eligible for refinancing with central banks	415.8	442.0	457.2	412.6	439.8	454.6
Claims on credit institutions	17.7	63.5	16.2	281.9	187.1	245.8
Claims on the public and public sector entities	2,668.4	2,466.9	2,595.0	2,411.8	2,356.9	2,381.5
Debt securities	74.7	136.1	41.6	77.3	139.7	45.2
Shares and participations	21.8	4.3	24.1	20.0	2.8	22.4
Shares and participations in associated companies	7.6	2.7	3.6	28.0	21.7	21.7
Intangible assets	2.5	3.5	2.7	2.5	3.5	2.7
Tangible assets	104.4	116.2	105.8	74.2	84.6	75.3
Other assets	36.0	52.9	37.8	35.5	52.3	37.3
Accrued income	18.1	19.1	18.7	17.6	19.1	20.1
Total assets	3 606,5	3,481.2	3,511.9	3,600.9	3,481.5	3,515.9
Liabilities						
Liabilities to credit institutions and central banks	790.6	750.0	803.4	792.8	752.9	812.5
Deposits from the public	1,984.2	1,928.4	2,001.8	1,988.7	1,930.8	2,005.1
Liabilities to public sector entities	98.7	145.7	100.9	98.7	146.4	101.5
Debt securities issued to the public	288.1	227.0	192.3	288.1	227.0	192.3
Other liabilities	89.8	134.4	98.3	88.2	133.8	97.4
Accrued income	22.2	19.8	18.9	21.1	18.9	17.8
Compulsory provisions	1.0	1.9	1.3	1.0	1.9	1.3
Subordinated liabilities	116.2	78.6	87.0	113.0	78.6	87.0
Appropriations	-	-	-	56.0	43.8	52.7
Deferred tax liabilities	16.6	12.7	15.6	-	-	-
Minority interest	0.5	0.4	0.5	-	-	-
Share capital	70.5	70.5	70.5	70.5	70.5	70.5
Share premium account	1.8	1.8	1.8	1.8	1.8	1.8
Ordinary reserve	8.1	8.1	8.1	8.1	8.1	8.1
Profit bought forward	111.5	97.0	91.0	67.9	65.3	59.3
Profit for the financial year	6.7	4.8	20.5	5.0	1.6	8.6
Total liabilities	3,606,5	3,481.2	3,511.9	3,600.9	3,481.5	3,515.9

Off-balance sheet commitments (EUR million)	Group			Bank		
	31.3.2004	31.3.2003	31.12.2003	31.3.2004	31.3.2003	31.12.2003
Guarantees	39.5	37.5	38.3	39.5	37.5	38.3
Other commitments given to a third party on behalf of a customer	21.8	19.4	21.0	21.8	19.4	21.0
Unused credit arrangements	201.2	149.0	168.8	210.3	160.3	181.6
Other irrevocable commitments	26.6	12.0	18.1	29.0	12.4	19.3
Total off-balance sheet commitments	289.0	217.9	246.2	300.6	229.6	260.3

Derivative contracts

Interest related	1,913.9	1,644.5	2,444.7	2,139.5	1,680.9	2,516.0
Forward rate agreements	200.0	10.0	300.0	355.0	20.0	310.0
Interest rate swaps	304.7	294.5	404.7	375.3	320.9	466.0
Interest rate option agreements	1,409.2	1,340.0	1,740.0	1,409.2	1,340.0	1,740.0
<i>Purchased</i>	704.6	670.0	870.0	704.6	670.0	870.0
<i>Written</i>	704.6	670.0	870.0	704.6	670.0	870.0
Currency-related	51.5	24.6	35.9	51.5	24.6	35.9
Forward rate agreements	51.5	24.6	35.9	51.5	24.6	35.9
Share-related	120.7	31.6	94.0	120.7	31.6	94.0
Forward rate agreements	0.0	0.0	3.3	0.0	0.0	3.3
Share options	120.7	31.6	90.7	120.7	31.6	90.7
<i>Purchased</i>	60.3	15.8	45.3	60.3	15.8	45.3
<i>Written</i>	60.3	15.8	45.3	60.3	15.8	45.3

Equivalent credit values

Interest rate related	17.9	9.7	13.5	20.3	10.5	14.7
Currency-related	-0.1	0.3	-0.6	-0.1	0.3	-0.6
Share-related	7.9	1.5	5.3	7.9	1.5	5.3
Total derivatives	25.7	11.6	18.1	28.1	12.4	19.3

All derivatives, with the exception of interest-related forward rate agreements of EUR 4.6m and the issued share options, were made in order to hedge risks.

Result by quarter

(EUR million)	1/2004	4/2003	3/2003	2/2003	1/2003
Net income from financial operations	17.6	18.3	18.2	18.8	18.6
Other income	12.6	11.3	10.7	10.0	8.6
Total income	30,2	29.6	29.0	28.7	27.2
Staff costs	-9.0	-9.9	-7.9	-8.8	-9.3
Other expenses	-9.4	-11.5	-8.3	-9.1	-8.9
Depreciation and write-downs	-1.9	-2.1	-3.0	-2.1	-2.1
Total costs	-20,3	-23.6	-19.2	-20.0	-20.3
Loan losses	-0.1	-0.4	-0.9	-0.5	-0.5
Share of the profit in associated companies	0.0	0.1	0.4	0.3	0.2
Net operating profit	9.7	5.7	9.4	8.5	6.5

Key figures for the Group**(EUR million)**

	31.3.2004	31.3.2003	31.12.2003
Specification of outstanding credit			
Households	2,123	1,911	2,059
Corporations	348	350	341
Housing associations	145	149	144
Non-profit organisations	38	29	38
Public sector entities	14	28	15
Total	2,668	2,467	2,596

Risk commitments

Non-performing loans	15.5	13.0	12.7
Non-interest-bearing loans	1.0	1.2	1.1
Non-performing/credit stock incl. commitments (%)	0.6	0.6	0.5

Key figures

Turnover ⁽¹⁾	41.3	43.6	167.0
Earnings/share ⁽²⁾	0.19	0.13	0.58
Equity/share p.a. ⁽³⁾	5.63	5.17	5.44
Return on equity ROE (%) ⁽⁴⁾	13.9	10.6	11.1
Cost-to-income ratio ⁽⁵⁾	0.68	0.75	0.73
Number of shares	35,258,050	35,258,050	35,258,050
Average number of shares during the period	35,258,050	35,258,050	35,258,050
Average number of staff during the period	809	871	838

- 1) Total interest income from financial operations, income from equity investments, commission income, net income from securities trading and currency dealing and other income.
- 2) Operating profit minus the minority interest of the fiscal period's profit minus taxes divided by the average number of shares during the period
- 3) Tier 1 equity and reserves minus the deferred tax liability divided by the number of shares at the end of the period
- 4) Operating profit minus taxes divided by the sum of the year's average Tier 1 equity, the minority interest and the voluntary reserves (the average of the opening and closing balance sheet for the period)
- 5) Commission costs, administrative costs, depreciations and other operating expenses divided by the sum of the total net income from financial operations, the income from equity investments, commission income, net income from securities trading and currency dealing and other income

Capital adequacy**(EUR million)**

	31.3.2004	31.3.2003	31.12.2003
Tier 1 equity	187	172	183
Tier 2 equity	94	67	77
Tier 3 equity	-	-	-
Capital base	281	239	260
Risk-weighted commitments	1,957	1,893	1,873
Capital adequacy, %	14.4	12.6	13.9
Tier 1 equity ratio, %	9.6	9.1	9.7

The profit for the reporting period, from which calculated dividends have been deducted, is included in Tier 1 capital.

Helsinki, 4 May 2004

AKTIA SAVINGS BANK PLC

Board of Directors

Auditors' statement

We have reviewed the interim report of Aktia Savings Bank p.l.c. as of 31 March 2004. The interim report has in our opinion been prepared in accordance with applicable

regulations. The group operating profit for the period 1.1. - 31.3.2004 is EUR 9.7 million.

Helsinki, 4 May 2004

OY JOE SUNDHOLM & CO AB
Authorised Public Accountants

Jan Holmberg, Authorised public accountant