

Interim report for 1 January - 30 June 2002

## Continued fair growth

### The period in brief

- Lending to households increased by 16.7 % to € 1,746.1 million on a year-on-year basis
- Sales of housing loans remained strong
- Saving by households increased by 2.3% to € 1,864.1 million\*
- Commission income increased by 9.3 % to € 16.3 million
- Net income from financial operations decreased by 7.9% to € 37.0 million
- Loan losses were again negligible
- Operating profit fell by 32.9% to € 12.4 million from the level a year ago
- Return on equity (ROE) was 9.9%
- Mikael Ingberg was appointed Managing Director from 15 September 2002

\* borrowing from the public plus investments in mutual funds managed by the Aktia Group

### Financial result

The Group's net operating profit for the first half of 2002 reached € 12.4 million, and the return on equity (ROE) was 9.9 per cent. Growth in volume continued. Lending to households continued to surpass market growth and saving increased slightly. Net income from financial operations went up during the second quarter. Compared with the corresponding period in 2001, other income and costs increased.

### Income

Total income fell by 3.9 per cent to € 56.3 million compared with the corresponding period in 2001. Net income from financial operations shrank by 7.9 per cent to € 37.0 million. The decrease was mainly due to market rates that were clearly lower than in 2001 but the trend was somewhat offset by an increase in volume and rise of market interest rates and the raise in the prime rate during the second quarter. Other income totalled € 19.3 million, up 4.8 per cent on 2001. The increase was primarily due to the 9.3 per cent increase in commission income resulting from a greater volume of payment transactions and higher insurance commissions.

### Expenses

Total expenditure rose by 7.4 per cent to € 44.1 million. This was partly due to investments in technology and personnel and partly to one-off reversals during the same period in 2001 that complicate comparison. Personnel expenditure increased by € 1.3 million, of which € 1.1 million is explained by the periodization of incentive bonuses and the rest by the recruitment of new staff for the new offices. Other administrative costs were € 12.7 million, showing a slight increase due to the investments in the restructuring of the private customer organisation and greater volume of business. Depreciation charges increased according to plan as a result of the investments made in new technology and the branch office network in 2001. Other operating costs rose by € 0.7 million to € 7.8 million because of the rents for the new offices.

### Lending and saving

The volume of business continued to grow in accordance with Aktia's strategy. Growth was greatest in lending, particularly housing loans, and less pronounced in saving. Despite the uncertainty prevailing on the capital market, the number of fund investors increased by 14.9 per cent.

Compared with the same period in 2001, total lending by the Group increased by 15.0 per cent to € 2,291.6 million. Loans extended to households grew by 16.7 per cent to € 1,746.1 million. The increase in new loans during the reporting period was 25.0 per cent and in new mortgages no less than 36.4 per cent. As a result of the growth in lending to households, Aktia's market share in housing loans went up from 4.6 per cent (6/2001) to 4.9 per cent (6/2002).

Saving - i.e. borrowing from the public and sales of units in mutual funds managed by Aktia - increased on a year-on-year basis by 3.0 percent to € 2,432.1 million. Group borrowing increased by 2.8 per cent to € 1,884.7 million and saving in mutual funds by 3,8 to € 547,4 million. Saving by households, i.e. deposits and mutual funds, increased by 2.3 per cent to € 1,864.1 million. At the same time, the market share in household loans remained stable at 3.5 per cent while the market share in mutual fund investments by households increased to 6.3 per cent.

## **Risk management**

### Loan losses and risks

Non-performing loans totalled € 13.3 million during the first half of 2002, showing an increase of € 1.1 million. However, together with non-interest-bearing loans, they only accounted for 0.6 percent of the total credit stock, including non-balance sheet commitments. At the corresponding time in 2001, the figure was 0.8 percent.

As in the past, total loan losses remained marginal thanks to the bank's low-risk policy. During the period, the Group posted loan losses of € 0.178 million and reversals of € 0.189 million. The total positive net effect on the financial result was € 0.011 million. During the same period in 2001, the total net effect was € 1.0 million, thanks to the sale of collectible credits.

### Interest risks

To hedge against falling interest rates and stabilise net income from financial operations, the bank has entered into interest rate swap agreements. At the end of the reporting period, the total value of the swap agreements was € 296.2 million. Additionally, interest rate option agreements were made to a total value of € 170.0 million.

## **Capital adequacy**

The Group's net capital on 30 June was € 226.3 million. Of this, € 166.6 million was Tier 1 capital and € 59.7 million Tier 2 capital. The capital adequacy ratio was 13.1 per cent, the proportion of Tier 1 capital being 9.6 per cent.

As part of its medium-term note program, Aktia issued in April a Tier 2 capital debenture of € 10 million which due to great demand was subsequently raised to € 20 million in May. Subscription period continues, and at the close of reporting period the debenture had been subscribed for € 15.8 million. Within the framework of the same note program, the bank issued in May a share index debenture that was subscribed for € 7.0 million.

## **Personnel**

At the end of the period, the number of personnel within in the Group stood at 925 (872 at the corresponding time in 2001) of which 875 (825/2001) were actual bank staff. The average number of staff during the reporting period was 871 (839/2001).

## **Significant events during the reporting period**

In April, Aktia assumed the duties of the institution offering custody services to savings and local co-operative banks from Oy Samlink Ab. This arrangement clarifies the service concept in view of future regulations requiring that responsibility for clearing and custody of securities should rest with the same organisation. Additionally, Aktia and the other banks will achieve cost savings through the concentration of activities and improved efficiency in the functions supporting securities transactions.

At its meeting on 15 May 2002, the Board of Supervisors of Aktia Savings Bank plc elected Henry Wiklund, Director of the Swedish Literature Society in Finland, chairman of the Board of Supervisors.

Managing Director Erik Anderson announced at the same meeting that he will retire in January 2003 upon reaching the age of 60. On June 4, Mikael Ingberg Ph.D. (Econ.), was appointed managing director for Aktia Savings Bank plc. Ingberg will assume his new position on 15 September. Erik Anderson's services will be available to the Board of Directors up until his retirement.

Sales of housing loans of the Aktia Real Estate Mortgage Bank Ltd that opened for business at the end of May have got off to a good start.

On 10 June, Aktia raised its prime rate from 3.50 to 3.75 per cent.

#### **The savings banks' security fund**

Aktia and all other savings banks belong to the voluntary security fund for savings banks. The purpose of this fund is to ensure stability in saving banks' operations. Under the rules of the fund, the savings banks are not mutually responsible for their debts or liabilities. The fund is free of debt and its assets at the end of the first half of 2002 stood at € 26.8 million.

#### **Prospects for 2002**

The measures taken in accordance with Aktia's strategy have secured growth according to plan but the financial result for the whole year is not expected to reach the 2001 level.

Profit and loss account (€ million)	Group			Parent Company		
	Jan-Jun 2002	Jan-Jun 2001	Jan-Dec 2001	Jan-Jun 2002	Jan-Jun 2001	Jan-Dec 2001
Interest income	70.6	82.8	161.5	71.2	83.8	163.1
Interest expenses	33.6	42.6	84.3	33.7	42.7	83.5
<b>Net income from financial operations</b>	<b>37.0</b>	<b>40.2</b>	<b>77.2</b>	<b>37.5</b>	<b>41.1</b>	<b>79.6</b>
Income from equity investments	0.4	0.4	0.4	0.9	0.8	0.8
Commissions receivable	16.3	14.9	31.2	13.7	13.2	26.2
Commissions payable	-2.1	-1.4	-4.0	-1.5	-1.4	-2.7
Net income from securities transactions and foreign exchange dealing	0.6	0.8	1.9	0.7	0.8	1.9
Other operating income	4.0	3.8	7.8	3.5	3.0	6.1
<b>Total other income</b>	<b>19.3</b>	<b>18.4</b>	<b>37.3</b>	<b>17.4</b>	<b>16.4</b>	<b>32.4</b>
<b>Total income</b>	<b>56.3</b>	<b>58.6</b>	<b>114.5</b>	<b>54.9</b>	<b>57.6</b>	<b>112.0</b>
Staff costs	18.6	17.3	33.0	17.7	16.5	32.3
Other administrative expenses	12.7	12.5	24.2	12.5	12.5	23.8
Depreciation and write-downs on tangible and intangible assets	4.9	4.2	9.9	4.2	3.5	8.5
Other operating expenses	7.8	7.1	15.1	8.2	7.5	16.2
<b>Total costs</b>	<b>44.1</b>	<b>41.1</b>	<b>82.2</b>	<b>42.6</b>	<b>40.0</b>	<b>80.8</b>
<b>Profit before loan losses</b>	<b>12.2</b>	<b>17.6</b>	<b>32.3</b>	<b>12.3</b>	<b>17.6</b>	<b>31.3</b>
Loan and guarantee losses	0.0	1.0	-0.2	0.0	1.0	-0.2
Write-downs on securities held as financial fixed assets	-	-	-	-	-	-
Share in associated undertakings	0.2	0.0	0.0	-	-	-
<b>Net operating profit</b>	<b>12.4</b>	<b>18.5</b>	<b>32.1</b>	<b>12.3</b>	<b>18.5</b>	<b>31.0</b>
Appropriations	-	-	-	-6.0	-6.1	-12.8
Taxes for the financial year and taxes brought forward	-2.2	-3.7	-6.2	-2.2	-3.7	-5.9
Changes in imputed tax claims	-1.7	-1.8	-3.7	-	-	-
Minority interest	0.0	-0.1	-0.1	-	-	-
<b>Profit for the period</b>	<b>8.5</b>	<b>13.0</b>	<b>22.0</b>	<b>4.1</b>	<b>8.8</b>	<b>12.3</b>

Balance sheet (€ million)	Group			Parent Company		
	Jun 2002	Jun 2001	Dec 2001	Jun 2002	Jun 2001	Dec 2001
<b>Assets</b>						
Liquid assets	221.5	316.7	294.0	221.5	316.7	294.0
Debt securities eligible for refinancing with central banks	580.8	589.3	563.6	579.8	589.3	562.7
Claims on credit institutions	9.4	39.9	103.4	19.0	39.7	103.3
Claims on the public and public sector entities	2,291.6	1,992.3	2,138.2	2,312.3	2,023.2	2,167.9
Debt securities	66.3	46.3	22.1	68.4	48.4	25.2
Shares and participations	3.6	4.1	3.6	2.1	2.0	2.0
Shares and participations in Group undertakings	2.6	2.7	2.7	11.7	6.7	11.7
Intangible assets	4.1	4.2	4.5	4.0	4.0	4.4
Tangible assets	126.0	131.7	129.6	92.9	96.1	95.0
Other assets	50.5	50.1	48.8	50.0	49.5	48.3
Accrued income	25.8	31.6	21.3	25.2	31.6	21.4
<b>Total assets</b>	<b>3,382.2</b>	<b>3,208.7</b>	<b>3,331.9</b>	<b>3,386.9</b>	<b>3,207.1</b>	<b>3,335.9</b>
<b>Liabilities</b>						
Liabilities to credit institutions and central banks	713.9	677.2	820.6	720.9	677.2	826.5
Liabilities to the public	1,884.7	1,833.4	1,857.5	1,887.2	1,835.0	1,859.5
Liabilities to public sector entities	176.7	126.1	118.1	176.8	127.0	119.1
Debt securities issued to the public	224.8	177.1	136.1	224.8	177.1	136.1
Other liabilities	86.1	117.0	126.7	85.6	116.6	125.3
Accrued expenses	21.5	33.7	15.8	20.7	32.8	15.9
Compulsory provisions	1.6	0.4	2.2	1.6	0.4	2.2
Subordinated liabilities	90.0	76.1	76.1	90.0	76.1	76.1
Appropriations	-	-	-	31.6	18.8	25.6
Imputed tax claims	9.2	5.5	7.4	-	-	-
Minority interest	0.4	0.3	0.4	-	-	-
Share capital	70.5	71.2	70.5	70.5	71.2	70.5
Share premium account	1.8	1.2	1.8	1.8	1.2	1.8
Reserve fund	8.1	8.1	8.1	8.1	8.1	8.1
Profit brought forward	84.4	68.4	68.4	63.2	56.9	56.9
Profit for the period	8.5	13.0	22.0	4.1	8.8	12.3
<b>Total liabilities</b>	<b>3,382.2</b>	<b>3,208.7</b>	<b>3,331.9</b>	<b>3,386.9</b>	<b>3,207.1</b>	<b>3,335.9</b>
<b>Off-balance sheet commitments</b>	<b>697.0</b>	<b>178.3</b>	<b>162.6</b>	<b>712.0</b>	<b>178.3</b>	<b>162.6</b>

## Result by quarter

(€ million)	2/2001	3/2001	4/2001	1/2002	2/2002
Net income from financial operations	19.9	19.2	17.8	17.8	19.2
Other income	9.2	8.7	10.2	9.8	9.5
<b>Total income</b>	<b>29.0</b>	<b>27.9</b>	<b>28.0</b>	<b>27.7</b>	<b>28.7</b>
Staff costs	-10.0	-7.7	-7.9	-9.1	-9.6
Other costs	-10.2	-8.0	-11.9	-9.5	-11.1
Depreciation and write-downs	-2.1	-3.2	-2.4	-2.5	-2.4
<b>Total costs</b>	<b>-22.3</b>	<b>-18.9</b>	<b>-22.2</b>	<b>-21.1</b>	<b>-23.1</b>
Loan losses	0.9	-0.6	-0.6	0.1	0.0
Participating interest	0.0	0.0	0.0	0.1	0.1
<b>Operating profit</b>	<b>7.6</b>	<b>8.4</b>	<b>5.1</b>	<b>6.8</b>	<b>5.7</b>

## Key ratios for the Group (million euro)

	30 June 2002	30 June 2001	31 December 2001
<b>Credit stock</b>			
Households	1,746	1,496	1,611
Corporate	344	305	339
Housing associations	148	137	138
Non-profit organisations	22	18	18
Public organisations	31	37	33
<b>Total</b>	<b>2,292</b>	<b>1,992</b>	<b>2,138</b>
<b>Risk commitments</b>			
Non-performing loans	13.3	12.2	11.2
Non-interest-bearing loans	1.2	1.4	1.3
Non-performing/credit stock incl. commitments (%)	0.6	0.8	0.6
<b>Key ratios</b>			
Turnover	92.0	102.6	202.5
Earnings/share	0.24	0.37	0.63
Equity/share	4.92	4.59	4.85
Return on equity, % ROE	9.9	16.4	13.5
Cost to income ratio	0.79	0.71	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 employees during the period	871	839	847
<b>Capital base</b>			
Tier 1 equity	166	155	161
Tier 2 equity	60	38	35
Tier 3 equity	-	2	1
<b>Net capital base</b>	<b>226</b>	<b>195</b>	<b>197</b>
Risk-weighted commitments	1,729	1,494	1,579
Capital adequacy, %	13.1	13.1	12.5
Tier 1 equity ratio	9.6	10.4	10.2

The profit for the period, from which the dividends from the previous year have been deducted, is included in Tier 1 equity.

Helsinki 19 August 2002

AKTIA SAVINGS BANK plc

Board of Directors

**Auditor's report**

We have reviewed the interim report of Aktia Savings Bank p.l.c. as of 30.6.2002. The interim report has in our opinion been prepared in accordance with applicable regulations. The group operating profit for the period 1.1.-30.6.2002 is 12,4 million euro.

Helsinki, August 12<sup>th</sup> 2002

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