Aktia Savings Bank plc

Interim report
1 January – 30 June 2003

Aktia
Savings Bank

Aktia's profitability improved: net operating profit increased by over 20%

Aktia Savings Bank's profitability improved considerably during the second quarter of 2003. Net operating profit increased by 21.1% compared with the corresponding period the previous year and return on equity rose to 12.0%. Expenses fell by 8.6% and the cost/income ratio improved considerably to 0.73. Lending to households continued to increase and, in particular, the sales of new housing loans were brisk in spite of continued intense competition.

The financial performance of the Aktia Group improved considerably compared with the previous year. Net operating income for the first six months of 2003 increased by 21.1% to EUR 15.1 million compared with the corresponding period the previous year. Return on equity rose to 12.0% and the cost/income ratio improved considerably to 0.73. Expenses went down by 8.6% to EUR 40.3 million, mainly as a consequence of measures that were taken to improve efficiency.

We have every reason to be satisfied with Aktia's improved financial performance, says Managing Director Mikael Ingberg. Improved efficiency, which is now clearly reflected in the financial result, has been achieved through hard work and sheer determination.

Increased business volume – great demand for housing loans

Aktia's volume of business continued to grow. Lending by the entire banking sector to the public continued to grow and, in particular, the demand for housing loans was strong. Aktia's market share of the housing loan stock is now 4.8%.

The general uncertainty about the economic outlook receded during the second quarter and investments in mutual funds increased notably. Saving by households increased by 5.9% and investments by households in Aktia's bonds increased by 31.3% compared with the corresponding period in 2002. Aktia's market share of household savings developed steadily. Borrowing had a market share of 3.5% and assets in mutual funds a market share of 5.5%.

Aktia and Bank of Åland signed a letter of intent

One of the most significant events of the period was the letter of intent signed by Aktia and the Bank of Åland on 26 May on founding a joint resource company to which the two banks intend to transfer parts of their administrative and capital market functions. In addition, they aim to enter into an agreement before the end of 2003 on supplying Aktia with the Bank of Åland's banking IT system. In order to strengthen the economic ties between the two banks, Aktia has increased its holdings of shares in the Bank of Åland to 105,000 A shares and 877,100 B shares, corresponding to 9.66% of the total share capital and 2.74% of the total number of votes in the Bank of Åland.

Prospects for 2003

Aktia's profitability has been enhanced thanks to the measures that were taken to improve efficiency. Despite low interest rates, the intensifying competition and the economic outlook remaining uncertain, the Group profit for the entire year is expected to exceed that of 2002.

A report on financial performance can be downloaded from www.aktia.com/en/index.html under the header Financial information.

AKTIA SAVINGS BANK PLC

Improved profitability

The period in brief

- Net operating profit increased by 21.1% to EUR 15.1 million compared with the corresponding period the previous year
- Return on equity (ROE) rose to 12.0% (9.9% in June 2002)
- Total expenditure decreased by 8.6% to EUR 40.3 million
- Cost/income ratio was 0.73 (0.81 in June 2002)
- Lending to households increased by 12.3% to EUR 1,960.1 million on a year-on-year basis
- Sales of new housing loans continued to be brisk and competition sharpened
- Savings by households* rose by 5.9% to EUR 1,975.0 million
- Net income from financial operations increased by 0.8% to EUR 37.3 million compared with the corresponding period the previous year
- Commission income decreased by 2.5% to EUR 15.9 million
- Aktia entered into co-operation with the Bank of Åland

* Borrowing from the public and capital in mutual funds managed by the Aktia Group

Financial result

The Group's net operating profit for the first six months of 2003 was EUR 15.1 million, showing an increase of EUR 2.7 million (21.1%) compared with the corresponding period the previous year. Despite lower interest rates, intense competition, the volatility prevailing on the capital market and the generally bleaker economic situation, the total income fell by only 0.8% to EUR 55.9 million. At the same time, total expenditure fell by 8.6% to EUR 40.3 million, mainly as a result of measures that were taken to improve efficiency. During the first six months, a total of EUR 1.0 million were booked in loan losses and loan loss provisions, whereas there were no loan losses in the corresponding period the previous year. The Group's profitability increased compared with the previous year and the return on equity rose to 12.0%. The cost/income ratio improved considerably, amounting to 0.73.

Income

Total income fell by 0.8% to EUR 55.9 million compared with the corresponding period in 2002.

Net income from financial operations increased by 0.8% to EUR 37.3 million. Both lending and borrowing continued to grow. This, together with derivative contracts with hedging effect, led to an increase in net income from financial operations in spite of the continually falling interest rates and the decrease in customer margins due to competition.

Income from commissions decreased by 2.5% to EUR 15.9 million. The development in income from commissions consisted, as previously, of two different trends. Commission income from payment transactions, lending and insurance sales continued to increase. However, mutual fund commissions and commissions from stock exchange transactions continued to decrease with the falling share prices in spite of a clear increase in fund subscriptions.

Net income from securities trading and currency dealing increased by 2.7% to EUR 0.7 million. Other operating income fell by 15.3% to EUR 3.4 million. This was mainly due to one-off earnings during the previous year and to income from real estate declining as the Group continued to reduce its real-estate holdings.

Expenses

Total expenditure fell by 8.6% to EUR 40.3 million in comparison to the previous year.

Personnel costs decreased by 2.8% to EUR 18.1 million. The increase in the total number of personnel was reversed during the first quarter and the number continued to reduce during the second quarter.

Other administrative expenses fell by 10.4% to EUR 11.4 million. As a result of measures to improve efficiency, costs were reduced in all fields.

Planned depreciations decreased by 14.0% to EUR 4.2 million in comparison to the previous year. The decrease stems from the lower level of new investments and from the quicker depreciation practice that was introduced in 2002 and resulted in greater on-off depreciations at the end of the previous year. The investments in the modernised network of branch offices were, for the most part, completed during the previous year.

Other operating expenses totalled EUR 6.5 million, showing a fall of 16.5% when compared with the previous year. The decrease is mainly due to lower real-estate expenses resulting from the sale of real-estate holdings and to lower consulting and development costs.

Lending and saving

The volume of business continued to grow. Lending by the entire banking sector to the public continued to grow and, in particular, the demand for housing loans was strong. The long-term profitability will be influenced by the intensifying competition and the resulting smaller margins.

On a year-on-year basis, the total lending by the Group increased by 9.3% to EUR 2,504.4 million. The credit stock of households increased by 12.3% to EUR 1,960.1 million and the stock of housing loans increased by 13.6% to EUR 1,597.7 million. The increase in the stock of housing loans was slightly less than the average growth rate of the market. At the end of June, Aktia's market share of the stock of housing loans was 4.8%.

The general uncertainty about the economic outlook receded during the second quarter and there was a slight upward trend in the share prices. Investments in mutual funds grew considerably during the second quarter, profiting especially the interest funds. Traditional bank deposits still accounted for the main part of saving.

Saving by customers, i.e. deposits and shares in mutual funds managed by the Aktia Group, increased by 5.0%
to EUR 2,552.9 million on a year-on-year basis. Group borrowing increased by 4.1% to EUR 1,961.8 million and the total assets in mutual funds rose by 8.0% to EUR 591.1 million.

Saving by households increased by 5.9% to EUR 1,975.0 million. Lending to households increased by 4.5% to EUR 1,592.6 million and savings in mutual funds rose by 12.3% to EUR 382.4 million from last year. In addition, investments by households in Aktia's bonds increased by 31.3% to EUR 60.9 million compared with 2002.

Aktia's market share of household savings has developed steadily. Borrowing had a market share of 3.5% and assets in mutual funds a market share of 5.5%.

Risk management

Loan losses and risks
As previously, the development of the Group's non-performing loans was under control. The non-performing and non-interest-bearing loans totalled EUR 14.8 million at the end of the period. The share of the non-performing loans of the total credit stock, including off-balance sheet commitments, remained unchanged at 0.6%.

As in the past, the Group's loan losses remained marginal. During the period, the Group posted EUR 0.6 million in loan losses and EUR 0.1 million in reversals of previous loan losses. The sector-specific credit loss provisions were specified and their net volume was increased by EUR 0.5 million. Thus, the total negative net effect was EUR 1.0 million. During the corresponding period in 2002, the reversals of previous loan losses covered the new loan losses, resulting in no loan losses being posted.

Interest risks
The Group increased hedging against falling market interest rates during the first quarter of the year. During the second quarter, no derivative contracts were concluded in order to hedge risks. In order to stabilise the development of net income from financial operations, Aktia entered into collar option contracts with underlying assets of EUR 870 million and into interest-related swap contracts for EUR 291.3 million. If the market interest rates decrease the net income from financial operations will not be adversely affected to any considerable extent due to the existing hedging against risk exposure.

Capital Base

On a year-on-year basis the capital base remained nearly unchanged. On 30 June, the Group's capital base was EUR 237.5 million. Of this, EUR 175.2 million was Tier 1 equity and EUR 62.3 million was Tier 2 equity. The risk-weighted receivables were on the same level as at the end of 2002, EUR 1,853.8 million. The capital adequacy ratio was 12.8%, and the Tier 1 equity ratio was 9.5%.

Personnel

The number of personnel in the Group (valid employment contracts) has been reduced by 55 employees from the beginning of the current year and stood at 841 at the end of the period (925 at the end of the same period in 2002). The number of actual bank staff has been reduced by 67 employees from the beginning of the year and stood at 784 at the end of the period (875/2002). The number of actual bank staff corresponded to 744 full-time human resources (793/2002). The average number of staff during the reporting period was 858 (871/2002). The declining number of personnel is mainly a consequence of normal mobility and pension arrangements as efficiency has been improved.

Significant events during the second quarter

On 13 May, Mr **Sven Åström**, M.Sc. (Econ.), was appointed General Manager and member of Aktia’s Executive Committee. Åström succeeds General Manager **Tom Anderzén** who left Aktia on 5 May. Åström is responsible for Aktia’s IT and digital business development.

General Manager **Stefan Tötterman** who was responsible for Aktia’s asset management left Aktia at the end of May. This area of responsibility was taken over by Deputy Managing Director **Robert Sergelius** who assumed his position on 1 August.

On 26 May, Aktia and the Bank of Åland plc signed a letter of intent on founding a joint resource company to which both banks intend to transfer parts of their administrative functions and capital market functions. In addition, they aim to enter into an agreement before the end of 2003 on supplying Aktia with the Bank of Åland’s banking IT system. In order to strengthen the economic ties between the two banks, Aktia submitted a bid for the Bank of Åland’s stock options for its personnel. At the end of the bidding period, Aktia had received 772,100 options for subscribing B shares in the Bank of Åland. After subscription of shares by virtue of these stock options and taking into consideration former purchases, Aktia’s share holdings will amount to 105,000 A shares and 877,100 B shares, corresponding to 9.66% of the total share capital and 2.74% of the total number of votes in the Bank of Åland (calculated according to the Financial Supervision Authority’s statement K/43/2002/PMO). The acquisition price for the shares and stock options, including the subscription price for those shares that were subscribed by virtue of the stock options, was EUR 16.7 million. In addition to the compensation already paid for the stock options, Aktia has an obligation to pay an additional compensation that will be the difference between the highest 20-day average share price during the period 3 June – 31 December 2003 as specified in the bidding terms and EUR 16.35, but no more than EUR 8 per option. This would result in the additional compensation amounting to up to EUR 6.2 million.

On 1 April, Aktia lowered its prime rate from 3.00 to 2.75% and again on 1 July from 2.75 to 2.25%.

Savings Banks' Security Fund

Aktia and all of the other savings banks belong to the voluntary security fund for savings banks. 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 stood at EUR 28.7 million on 30 June 2003.

Deposit Guarantee Fund

Membership in the Deposit Guarantee Fund, which was established in 1998, is obligatory for all banks. The Fund safeguards deposits up to EUR 25,000. At the end of 2002, the total assets of the fund stood at EUR 243.3 million.

Investors' Compensation Fund

Banks and brokerage firms are members of the Investors' Compensation Fund, whose purpose is to safeguard the interests of small investors in the event that a bank or brokerage firm fails. Individual investors may be compensated up to EUR 20,000. On 30 June 2003, the total assets of the fund amounted to EUR 4.3 million.

Prospects for 2003

Aktia's profitability has been enhanced thanks to the measures that were taken to improve efficiency. Despite low interest rates, the intensifying competition and the economic outlook remaining uncertain, the Group profit for the entire year is expected to exceed that of 2002.

Profit and loss account	**Group**			**Bank**		
(EUR millions)	**1 - 6/2003**	**1 - 6/2002**	**1 - 12/2002**	**1 -6/2003**	**1 - 6/2002**	**1 - 12/2002**
Interest income	65.6	70.6	144.0	65.1	71.2	144.7
Interest expenses	28.3	33.6	68.7	28.3	33.7	68.9
Net income from financial operations	**37.3**	**37.0**	**75.2**	**36.8**	**37.5**	**75.8**
Income from equity investments	0.4	0.4	0.4	0.9	0.9	0.9
Commission income	15.9	16.3	31.5	13.9	13.7	26.9
Commission expenses	-1.8	-2.1	-3.7	-1.2	-1.5	-2.9
Net income from securities transactions and foreign exchange dealing	0.7	0.6	1.6	0.7	0.7	1.8
Other operating income	3.4	4.0	7.3	2.8	3.5	6.3
Total other income	**18.6**	**19.3**	**37.2**	**17.1**	**17.4**	**33.1**
Total income	**55.9**	**56.3**	**112.4**	**53.9**	**54.9**	**108.9**
Personnel expenses	18.1	18.6	37.9	17.2	17.7	36.2
Other administrative expenses	11.4	12.7	26.5	10.9	12.5	25.8
Depreciations and write-downs on tangible and intangible assets	4.2	4.9	10.4	3.6	4.2	9.0
Other operating expenses	6.5	7.8	15.4	7.2	8.2	16.2
Total costs	**40.3**	**44.1**	**90.1**	**38.8**	**42.6**	**87.1**
Profit before loan losses	**15.6**	**12.2**	**22.3**	**15.1**	**12.3**	**21.8**
Loan and guarantee losses	-1.0	0.0	-3.0	-1.0	0.0	-3.0
Write-downs on securities held as fixed assets	-	-	0.0	-	-	0.0
Share of the profit in associated undertakings	0.5	0.2	0.4	-	-	-
Operating profit	**15.1**	**12.4**	**19.7**	**14.0**	**12.3**	**18.8**
Appropriations	-	-	-	-7.1	-6.0	-13.9
Taxes for the reporting period and for previous reporting periods	-2.2	-2.2	-3.0	-2.1	-2.2	-2.9
Changes in the imputed tax claims	-2.0	-1.7	-4.0	-	-	-
Minority interest	0.0	0.0	-0.1	-	-	-
Profit for the period	**10.8**	**8.5**	**12.6**	**4.9**	**4.1**	**2.1**

Balance sheet (EUR millions)	Group			Bank		
	30 Jun 2003	30 Jun 2002	31 Dec 2002	30 Jun 2003	30 Jun 2002	31 Dec 2002
Assets						
Liquid assets	242.7	221.5	175.7	242.7	221.5	175.7
Debt securities eligible for refinancing with central banks	492.8	580.8	536.9	490.5	579.8	534.5
Claims on credit institutions	11.2	9.4	72.7	168.8	19.0	158.4
Claims on the public and public organisations	2,504.4	2,291.6	2,412.1	2,356.1	2,312.3	2,341.9
Debt securities	67.1	66.3	99.1	70.8	68.4	102.8
Shares and participations	21.1	3.6	4.2	19.5	4.0	2.7
Shares and participations in Group undertakings	3.0	2.6	2.8	21.7	9.8	21.7
Intangible assets	4.4	4.1	3.7	4.4	4.0	3.7
Tangible assets	114.5	126.0	122.6	83.4	92.9	90.5
Other assets	51.1	50.5	57.5	50.5	50.0	57.0
Accrued income	19.8	25.8	26.5	20.8	25.2	26.2
Total assets	**3,532.1**	**3,382.2**	**3,513.8**	**3,529.2**	**3,386.9**	**3,515.2**
Liabilities						
Liabilities to credit institutions and central banks	787.6	713.9	802.8	787.8	720.9	807.1
Deposits from the public	1,961.8	1,884.7	1,926.3	1,964.8	1,887.2	1,928.1
Liabilities to public sector entities	174.6	176.7	146.7	175.3	176.8	147.3
Debt securities issued to the public	215.9	224.8	246.7	215.9	224.8	246.7
Other liabilities	102.2	86.1	96.7	101.5	85.6	96.4
Accrued expenses	22.3	21.5	16.6	21.2	20.7	15.7
Compulsory provisions	1.6	1.6	2.2	1.6	1.6	2.2
Subordinated liabilities	69.9	90.0	86.6	69.9	90.0	86.6
Appropriations	-	-	-	46.5	31.6	39.5
Imputed tax claims	13.5	9.2	11.5	-	-	-
Minority interest	0.4	0.4	0.4	-	-	-
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
Reserve fund	8.1	8.1	8.1	8.1	8.1	8.1
Profit brought forward	90.9	84.4	84.4	59.3	63.2	63.2
Profit for the period	10.8	8.5	12.6	4.9	4.1	2.1
Total liabilities	**3,532.1**	**3,382.2**	**3,513.8**	**3,529.2**	**3,386.9**	**3,515.2**
Off-balance sheet commitments						
Guarantees and pledges	35.1	43.1	38.9	35.1	43.1	38.9
Other off-balance sheet commitments	190.3	176.8	179.3	202.4	192.3	192.3
	225.4	**219.9**	**218.2**	**237.6**	**235.4**	**231.2**

Derivative contracts (EUR millions)	Group			Bank		
	30 Jun 2003	30 Jun 2002	31 Dec 2002	30 Jun 2003	30 Jun 2002	31 Dec 2002
Interest-related	**2,031.3**	**636.2**	**634.5**	**2,075.7**	**636.2**	**649.9**
Forward rate agreements	0.0	0.0	0.0	0.0	0.0	0.0
Interest rate swaps	291.3	296.2	294.5	335.7	296.2	309.9
Interest rate option agreements	1,740.0	340.0	340.0	1,740.0	340.0	340.0
Bought	870.0	170.0	170.0	870.0	170.0	170.0
Issued	870.0	170.0	170.0	870.0	170.0	170.0
Currency-related	**34.6**	**17.5**	**16.7**	**34.6**	**17.5**	**16.7**
Currency futures	34.6	17.5	16.7	34.6	17.5	16.7
Share-related	**40.5**	**14.1**	**31.6**	**40.5**	**14.1**	**31.6**
Share options	40.5	14.1	31.6	40.5	14.1	31.6
Bought	20.3	7.0	15.8	20.3	7.0	15.8
Issued	20.3	7.0	15.8	20.3	7.0	15.8
Credit equivalent						
Interest-related	18.6	6.8	10.8	20.1	6.8	11.2
Currency-related	0.7	0.5	0.4	0.7	0.5	0.4
Share-related	2.2	0.6	1.9	2.2	0.6	1.9
Total derivatives	**21.5**	**7.9**	**13.0**	**22.9**	**7.9**	**13.4**

Result by quarter

(EUR millions)	2/2002	3/2002	4/2002	1/2003	2/2003
Net income from financial operations	19.2	19.1	19.1	**18.6**	**18.8**
Other income	9.5	8.2	9.7	**8.6**	**10.0**
Total income	28.6	27.3	28.9	**27.2**	**28.7**
Staff costs	-9.5	-8.5	-10.8	**-9.3**	**-8.8**
Other costs	-11.2	-9.9	-11.4	**-8.9**	**-9.1**
Depreciation and write-downs	-2.4	-2.4	-3.0	**-2.1**	**-2.1**
Total costs	-23.1	-20.8	-25.2	**-20.3**	**-20.0**
Loan losses	-0.1	-0.1	-2.9	**-0.5**	**-0.5**
Participating interest	0.1	0.2	0.0	**0.2**	**0.3**
Operating profit	5.6	6.6	0.7	**6.5**	**8.5**

Key ratios for the Group (EUR millions)	30 Jun 2003	30 Jun 2002	31 Dec 2002
Breakdown of outstanding credit			
Households	1,960	1,746	1,872
Corporate	338	344	339
Housing associations	153	148	151
Non-profit organisations	27	22	22
Public organisations	26	31	29
Total	**2,504**	**2,292**	**2,412**
Risk commitments			
Non-performing loans	13.7	13.3	12.9
Non-interest-bearing loans	1.1	1.2	1.1
Non-performing/credit stock incl. commitments (%)	0.6	0.6	0.6
Key ratios			
Turnover [1]	85.9	92.0	184.9
Earnings/share[2]	0.31	0.24	0.36
Equity/share[3]	5.17	4.92	5.03
Return on equity, % ROE [4]	12.0	9.9	7.2
Cost/income[5]	0.73	0.79	0.81
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	858	838	885

1) Total net income from interest income, income from equity investments, commission income, net income from securities trading and currency dealing and other income

2) Operating profit minus the minority interest minus taxes divided by the average number of shares for the period

3) Total 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 periods average Tier 1 equity, the minority interest and the voluntary reserves (the average of the opening and closing balance sheet for the period)

5) Total 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 Base	30 Jun 2003	30 Jun 2002	31 Dec 2002
Tier 1 equity	175	166	168
Tier 2 equity	62	60	75
Tier 3 equity		-	-
Net capital base	238	226	243
Risk-weighted commitments	1,854	1,729	1,860
Capital adequacy (%)	12.8	13.1	13.1
Tier 1 equity ratio (%)	9.5	9.6	9.0

The profit for the reporting period, from which the calculated dividends corresponding to the dividend level of the preceding year, have been deducted, is included in Tier 1 equity.

Helsinki, 18 August 2003

AKTIA SAVINGS BANK PLC
Board of Directors

Auditors' statement

We have reviewed the interim report of Aktia Savings Bank plc as of 30.6.2003. The interim report has in our opinion been prepared in accordance with applicable regulations. The group operating profit for the period 1.1.-30.6.2003 is 15,1 million euro.

Helsinki, August 18 2003

OY JOE SUNDHOLM & CO AB
Authorised Public Accountants

Jan Holmberg
Authorised public accountant