

# AKTIA BANK PLC

INTERIM REPORT 1-6/2014

Aktia



## 4-6/2014: Improved net commission income and lower expenses compensated for weaker NII

- Operating profit was EUR 22.0 (15.1) million.
- Net commission income was up 5% to EUR 19.6 (18.6) million but NII decreased by 8% to EUR 25.9 (28.3) million.
- Operating expenses decreased to EUR 36.2 (39.2) million.
- Positive result effect from associated company, EUR 1.5 (-0.3) million
- Profit amounted to EUR 17.9 (11.0) million. Earnings per share (EPS) was EUR 0.27 (0.16).
- Write-downs on credits and other commitments increased to EUR 0.8 (0.4) million.

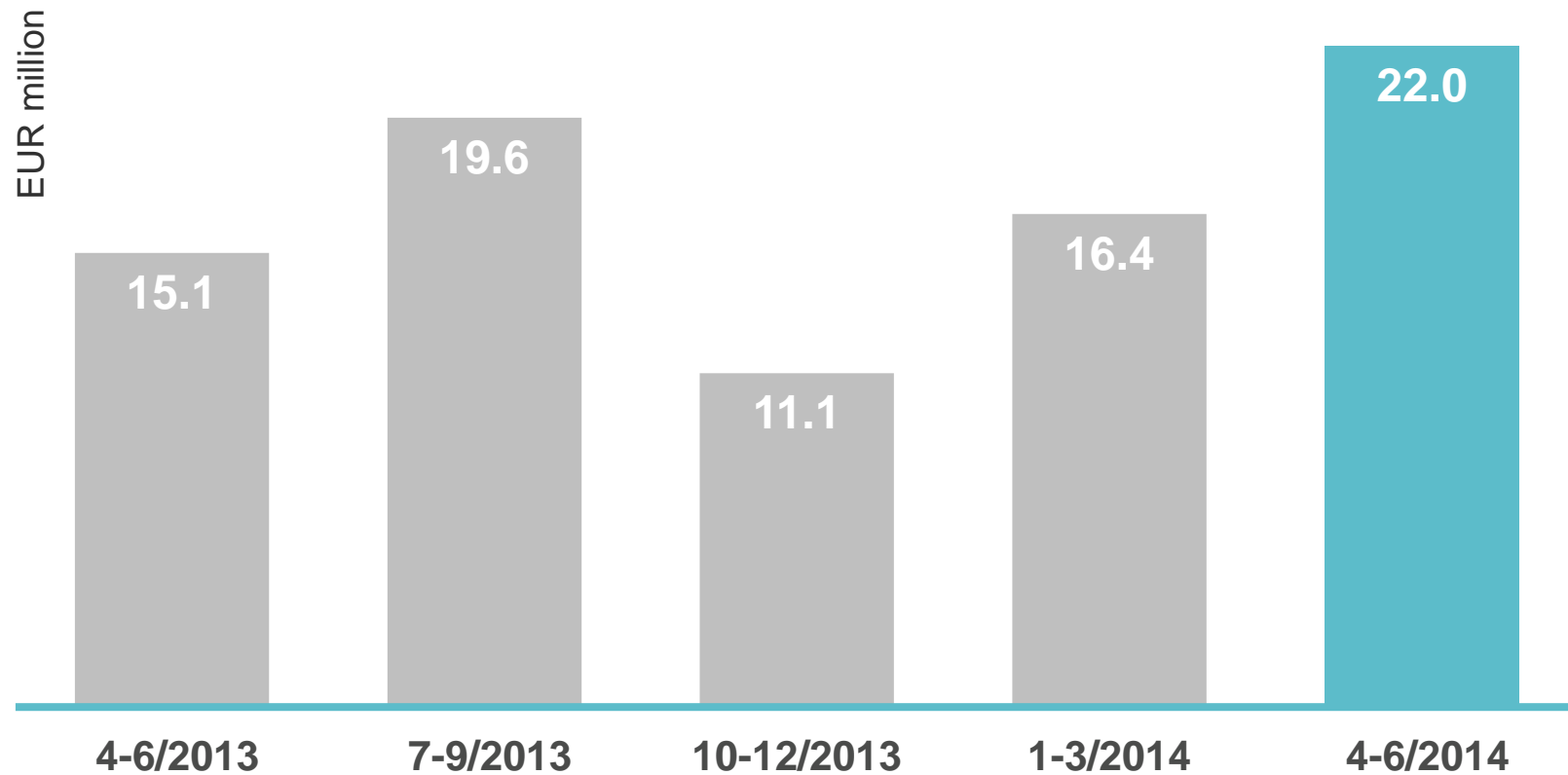
# 1-6/2014: Strong net commission income, Aktia expenses down 6%

- Operating profit was EUR 38.4 (34.6) million.
- Net commission income was up 8% but NII decreased by 12% to EUR 51.4 (58.4) million.
- Operating expenses was EUR 72.3 (76.8) million.
- Profit amounted to EUR 31.0 (25.8) million. Earnings per share (EPS) was EUR 0.46 (0.38).
- Write-downs on credits and other commitments decreased to EUR 1.2 (1.5) million.
- Outlook for 2014 (unchanged): **Despite the persistent low interest rate level, the Group's operating profit for 2014 is expected to reach approximately the 2013 level.**

## Interim report 1 January - 30 June 2014

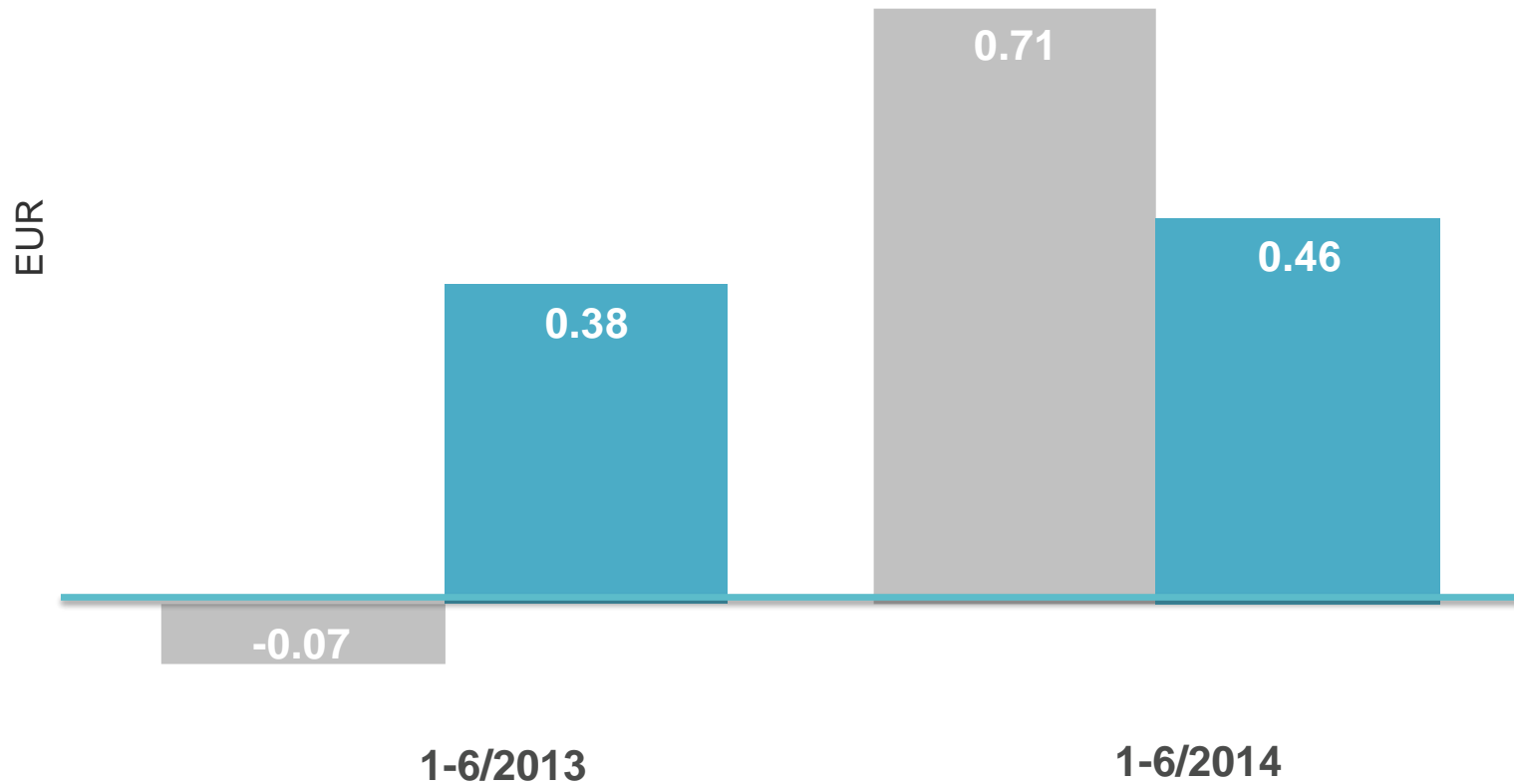
1	Financial performance
2	Capital adequacy
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# Operating profit for the quarter



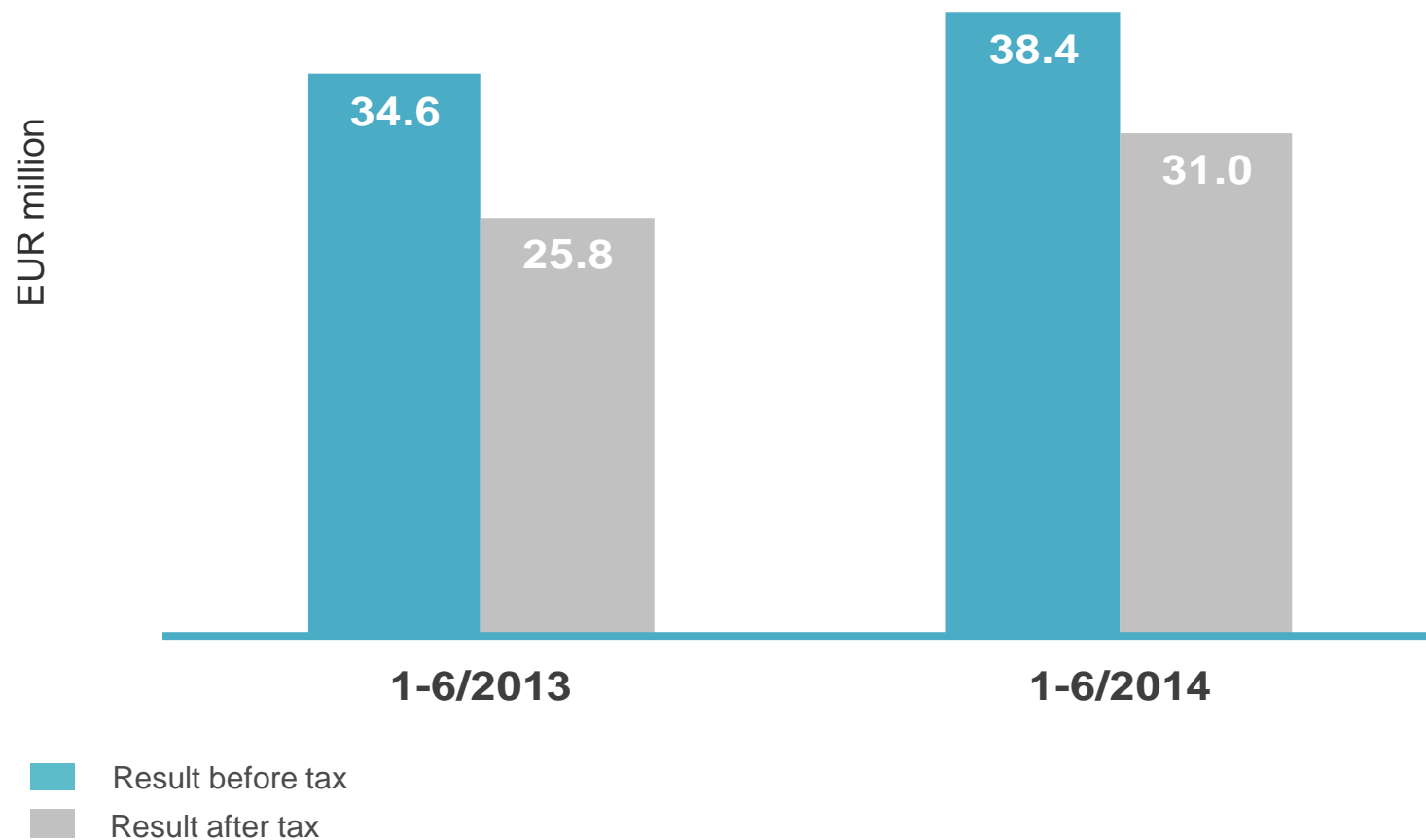
# Earnings per share 1-6/2014

Aktia

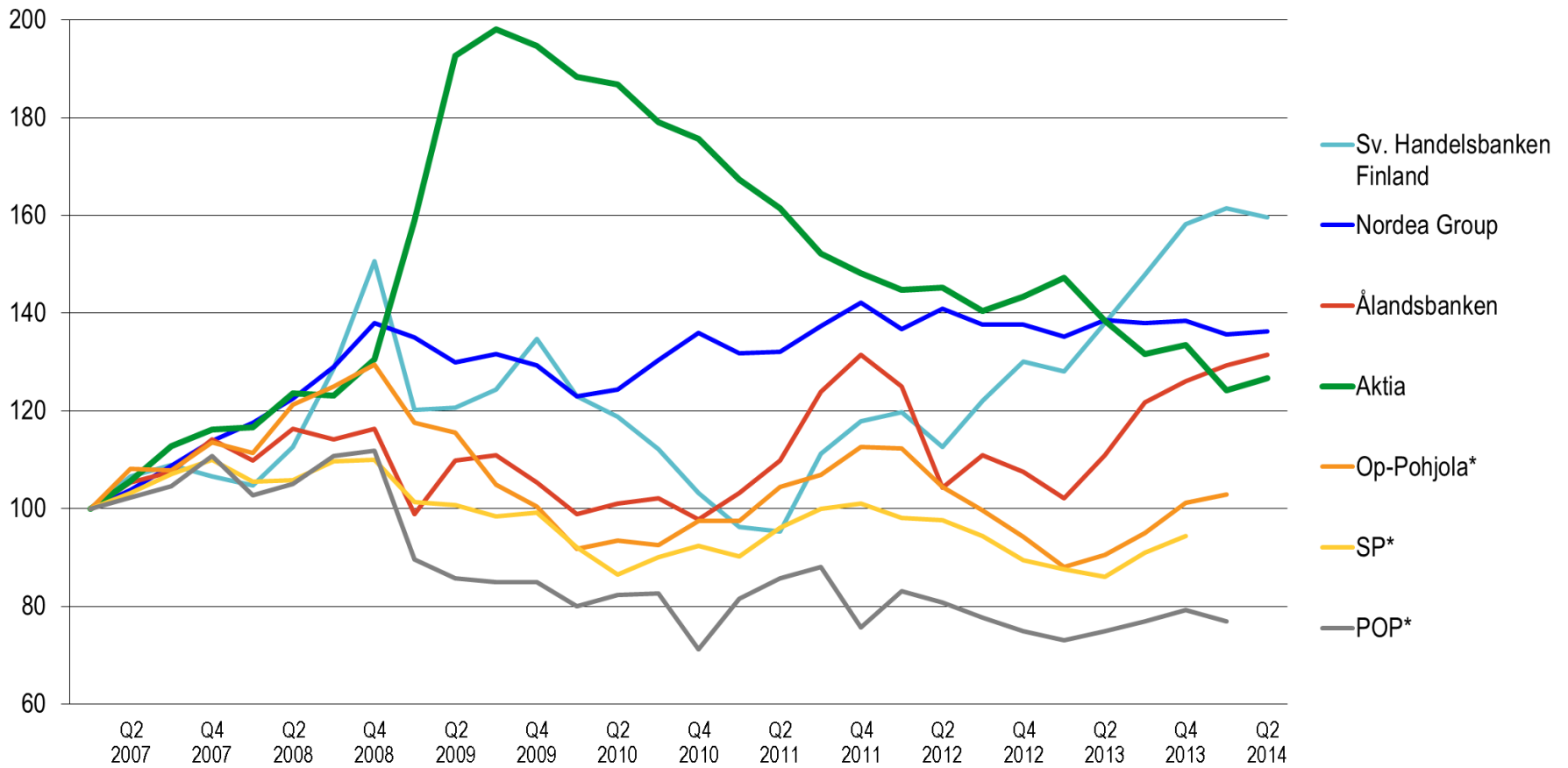


 Earnings per share, EPS  
 Total earnings per share

# Result before and after tax



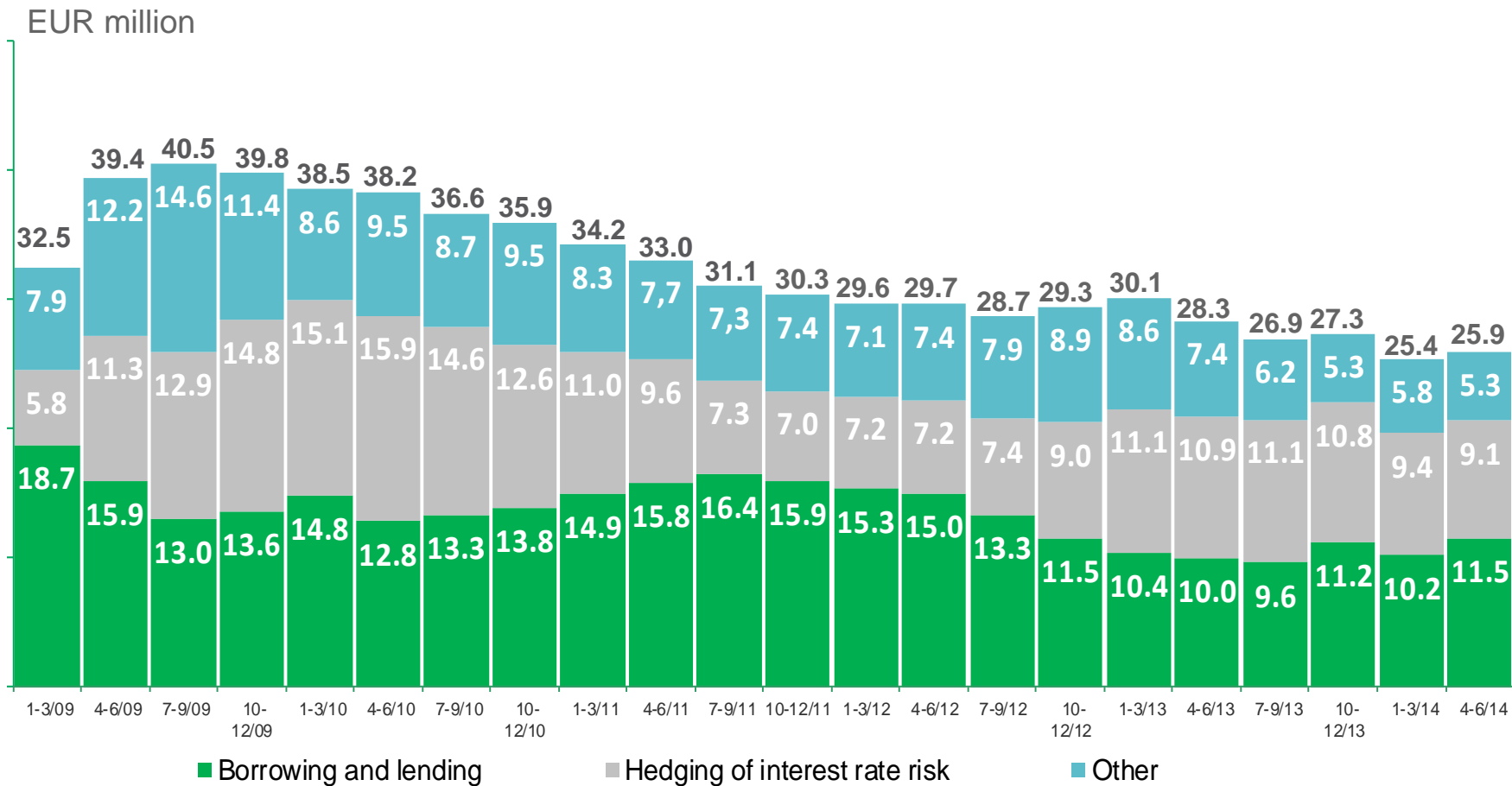
## Net interest income (1/2007 = 100) Finnish Banks



\*2Q/2014 not published

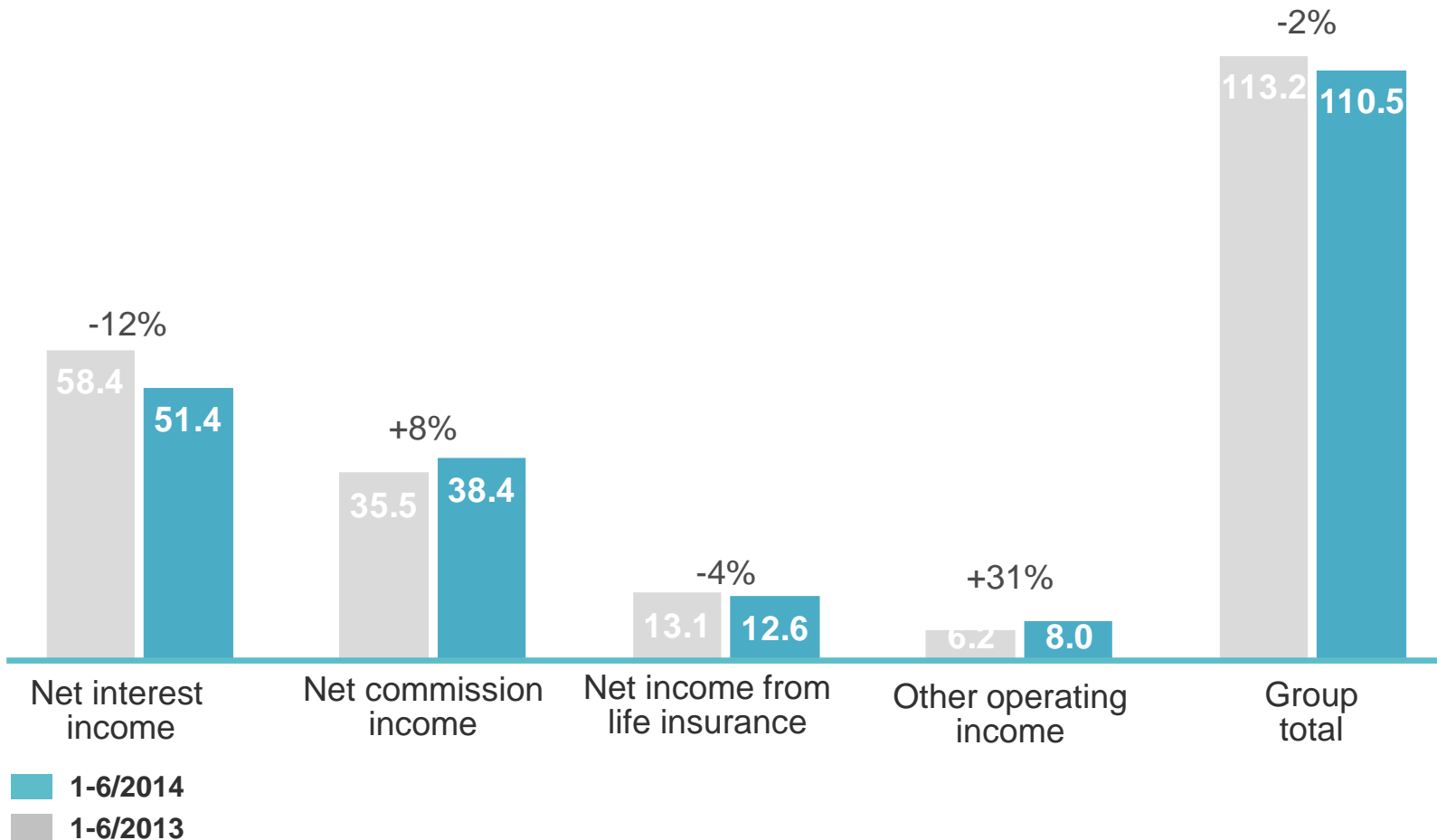


# Net interest income

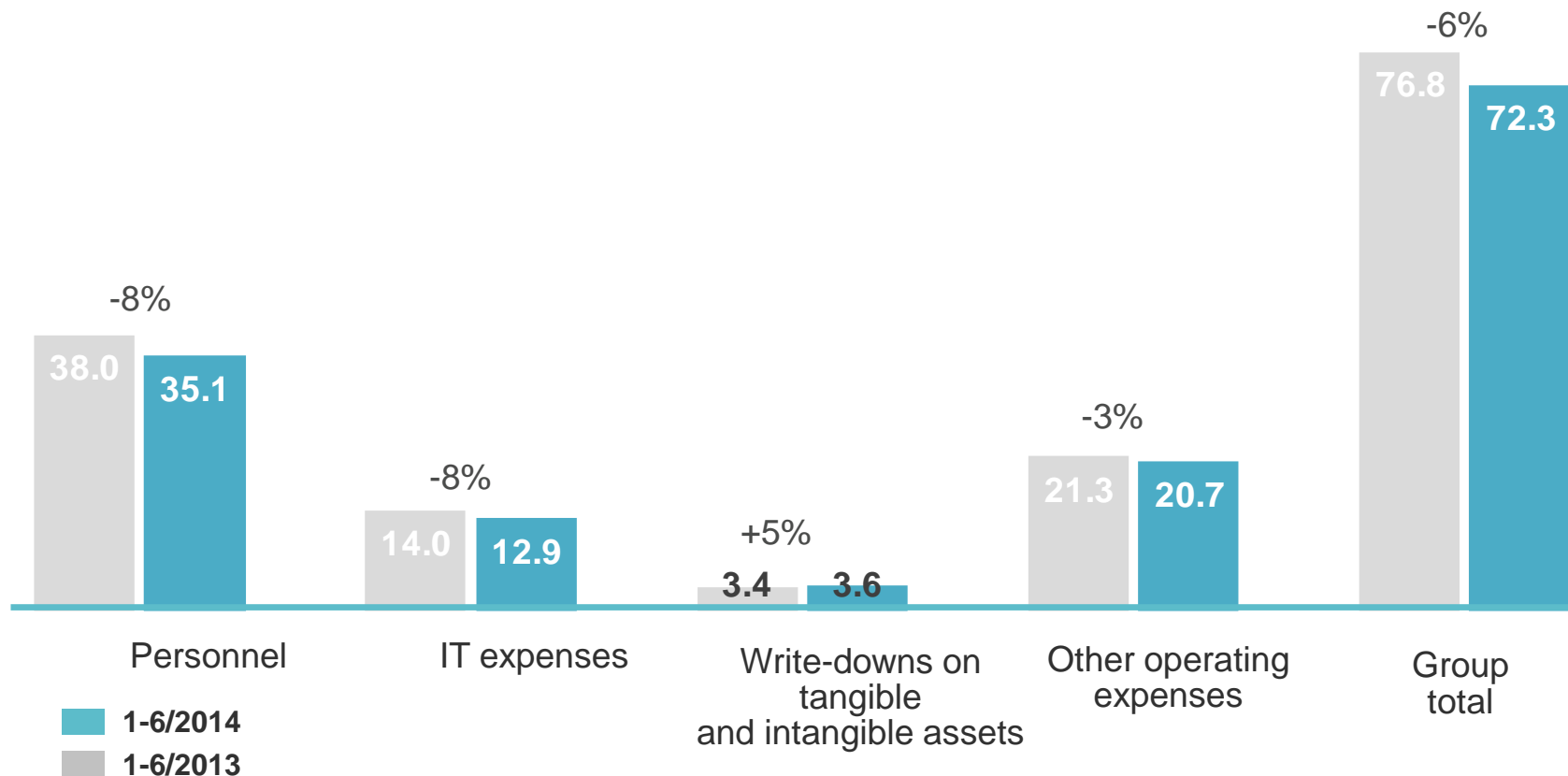


## Income (EUR million)

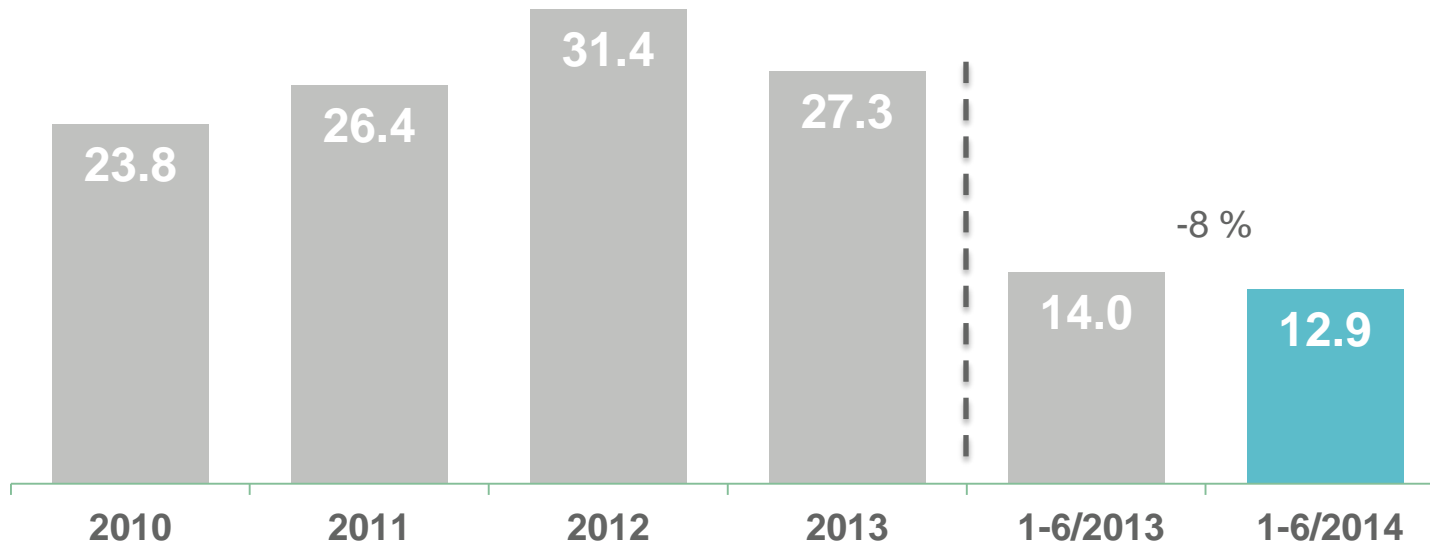
## Maintained growth in net commission income



## Expenses down by 6% (EUR million)



## Lower IT expenses (EUR million)



- In 2012 a larger one-off cost/provision for change of IT provider
- During 1-6/2014 a provision utilised against IT expenses of EUR 1.3 million (reservation 30 June; EUR 5 million)
- As of Q2 2014 somewhat lower running costs from IT provider Samlink

### Core banking project:

- Investment approx. EUR 30 million, annual cost savings EUR -5 million
- Cumulative investment 30 June 2013; EUR 14.4 million
- Impact on result through writedowns as of implementation in 2015 →

## Targets

- **Resources focused on core business**
- **Utilise credit capacity to own customers rather than to the cooperation with the local banks**
- **Simplified group structure and modern systems allow for lower costs**
- **Minimise costs from Basel III**

# Action Plan 2015

## Achievements

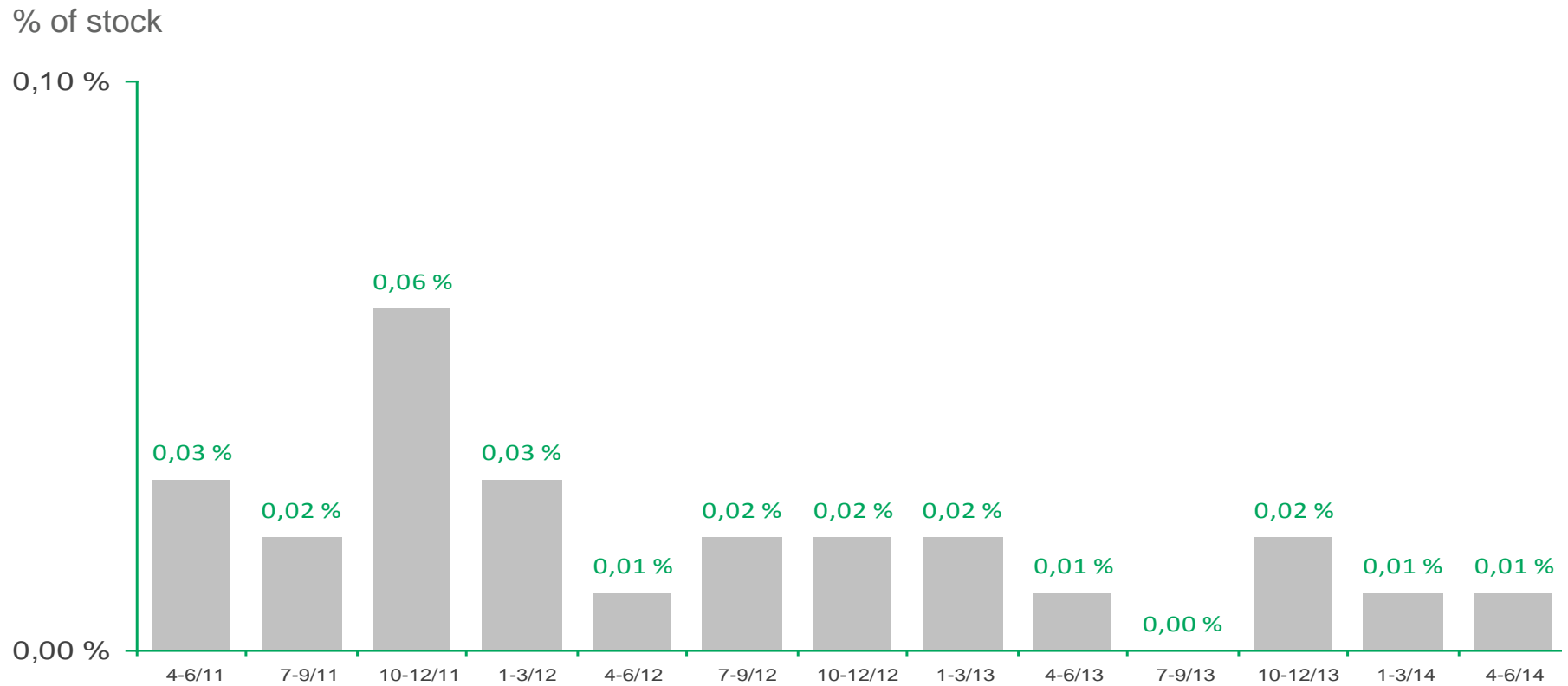
- **New core banking system 2015**
  - Core banking system providers chosen, agreement with Samlink renegotiated
  - Renewal of core banking system proceeds according to plan
- **End services as central financial institution 2015**
- **Aktia Bank granted concession as Mortgage Bank**
  - First CB issue in June 2013, second in April 2014
- **Group structure has been simplified**
  - New segment division
  - Merger with Aktia plc 1 July 2013
  - Asset Management reorganised
  - Merger with Saaristosäästöpankki completed
- **Card business renewed**
  - New technical platform
  - The card stock acquired December 2013
- **Measures to enhance effectivity started**
  - Staff reduction of approx. 50
  - Branch network reduced by 8
  - HQ offices rationalised
- **One Net finalised**
  - Group IT-workstations in one network

# Cost-Income ratio

Aktia

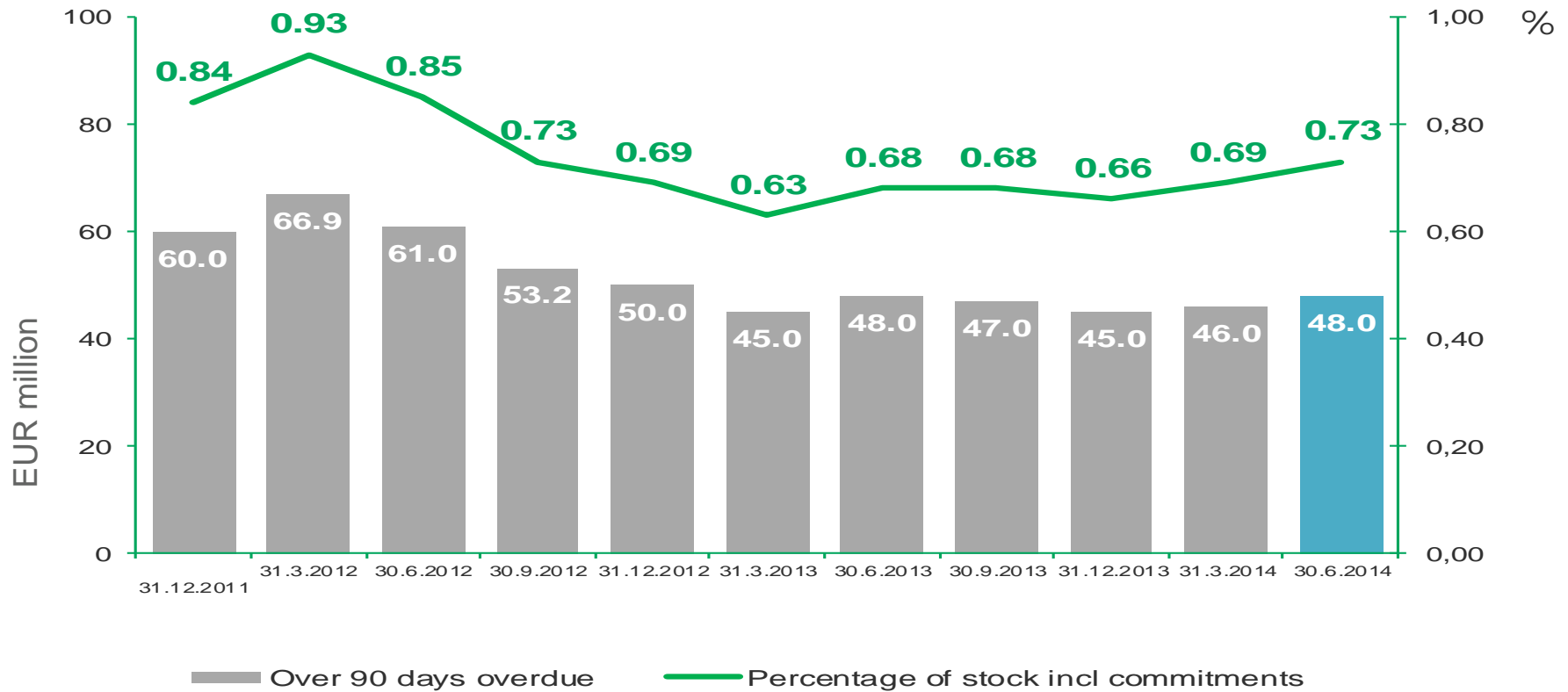


# Write-downs on credits (per quarter)





# Non-performing loans more than 90 days overdue



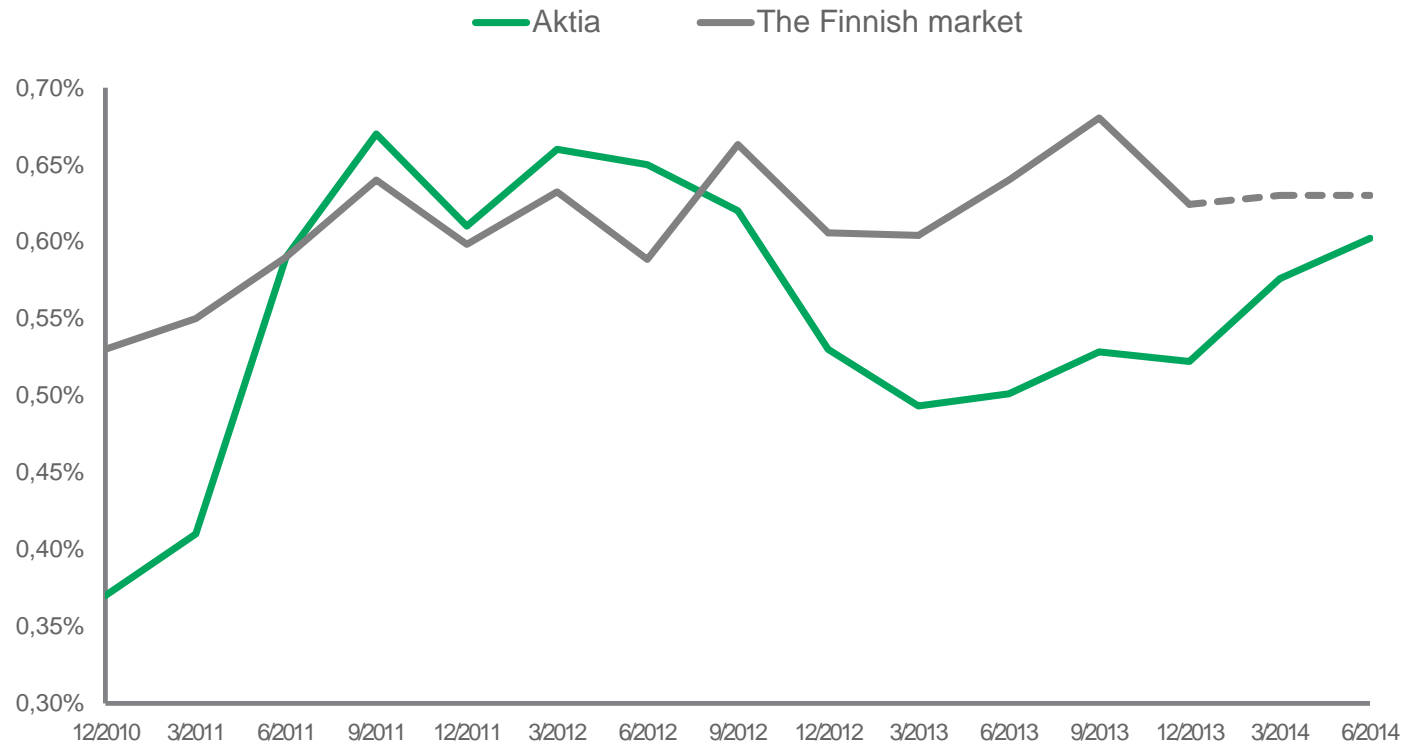
# Non-performing loans by days overdue

Aktia

Days	30.6.2014	% of credit stock	31.12.2013	% of credit stock
<b>3-30</b>	<b>126</b>	<b>1.89</b>	<b>114</b>	<b>1.66</b>
of which households	112	1.69	106	1.55
<b>31-89</b>	<b>38</b>	<b>0.57</b>	<b>34</b>	<b>0.49</b>
of which households	35	0.53	28	0.42
<b>90-</b>	<b>48</b>	<b>0.73</b>	<b>45</b>	<b>0.66</b>
of which households	35	0.53	31	0.46

# Non-performing loans (>90 days) - share of loans to households

Aktia

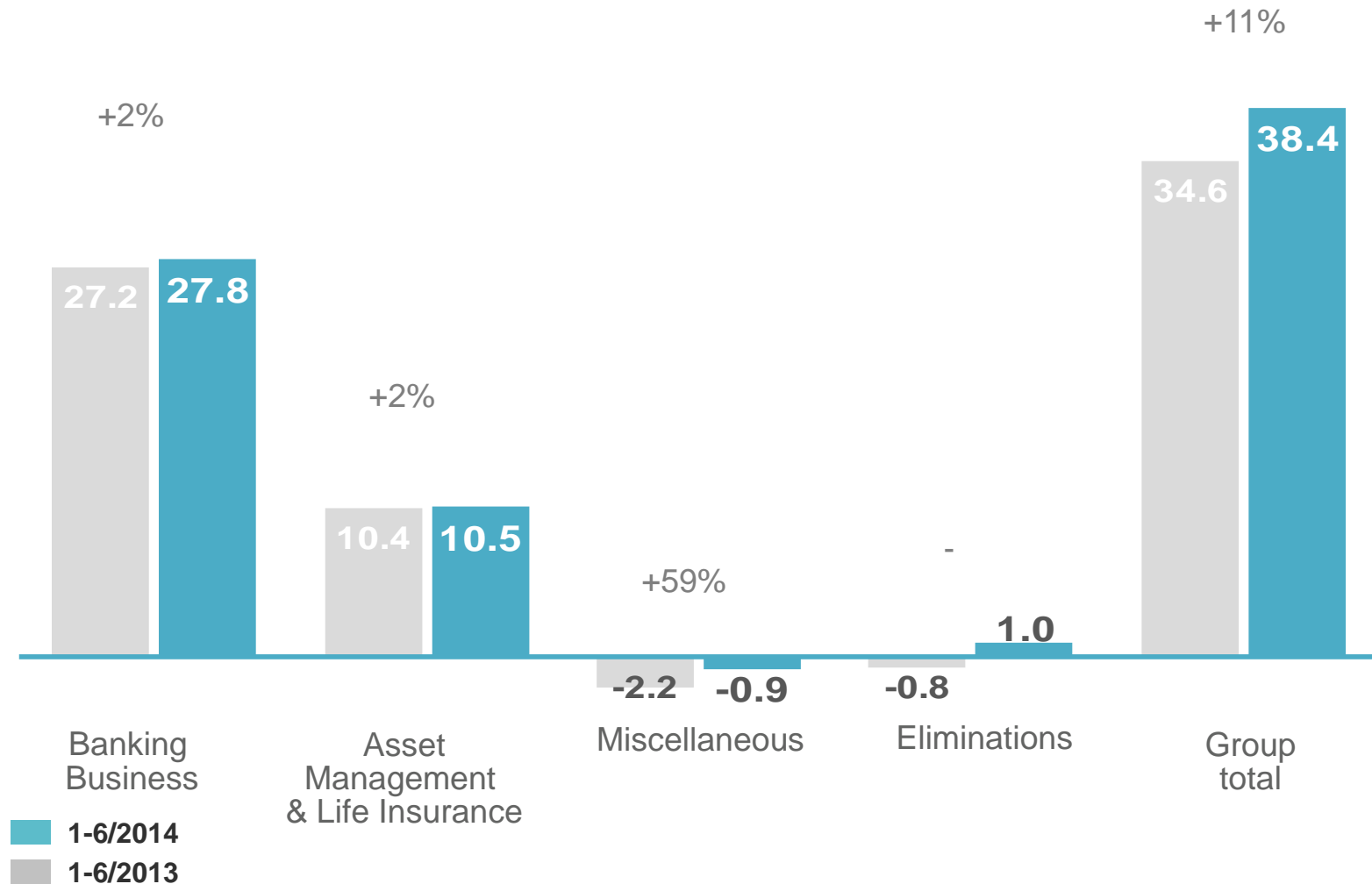


Source: Publication from Finnish Financial Supervisory Authority about the credit market

## Write-downs on credits and other commitments

- Total write-downs on credits and other commitments stood at EUR 1.2 (1.5) million.
- Of these write-downs, EUR 0.8 (0.3) million could be attributed to households and EUR 0.4 (1.2) to companies.

# The segments' contribution to the operating profit



# Asset Management & Life Insurance Assets Under Management

Aktia

(EUR million)	30.6.2014	31.12.2013	Change %
Aktia Fund Management	3,281	3,053	7%
Aktia Invest	2,655	2,452	8%
Aktia Asset Management	4,900	4,843	1%
Aktia Life Insurance	500	451	11%
Eliminations	-5,737	-5,608	2%
<b>Total</b>	<b>5,599</b>	<b>5,192</b>	<b>8%</b>

## **Aktia's asset management in shared first place for the second year on a row (SFR)**

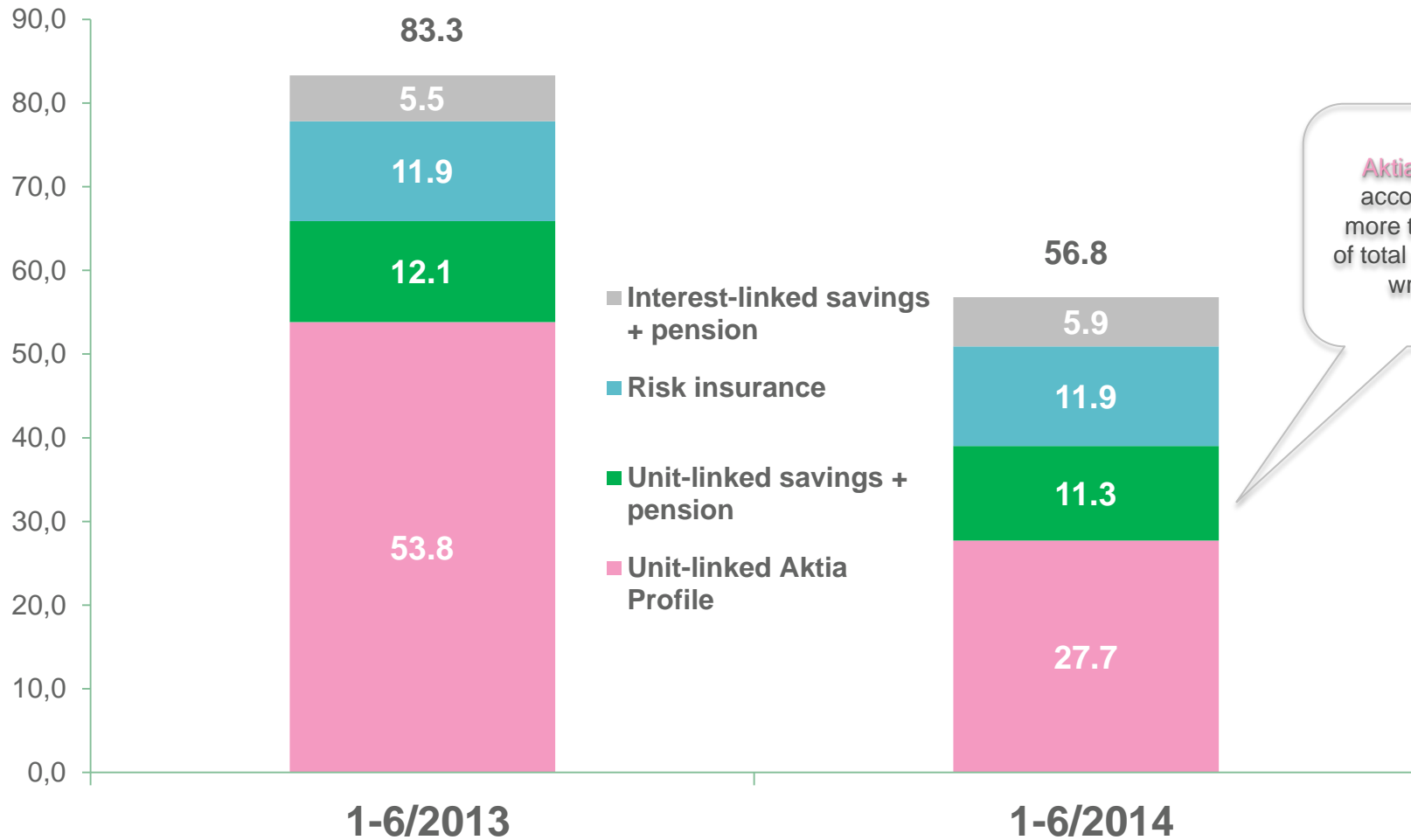
**Aktia**

- **Highest marks for transparent investment philosophy**
- **Best understanding of the customer's needs**
- **Aktia Invest's fund analysis among the best**
- **For the third year in a row we received the highest mark for Quality of Administration**
- **Highest marks for good reputation and stable organisation**

# Life Insurance, premiums written

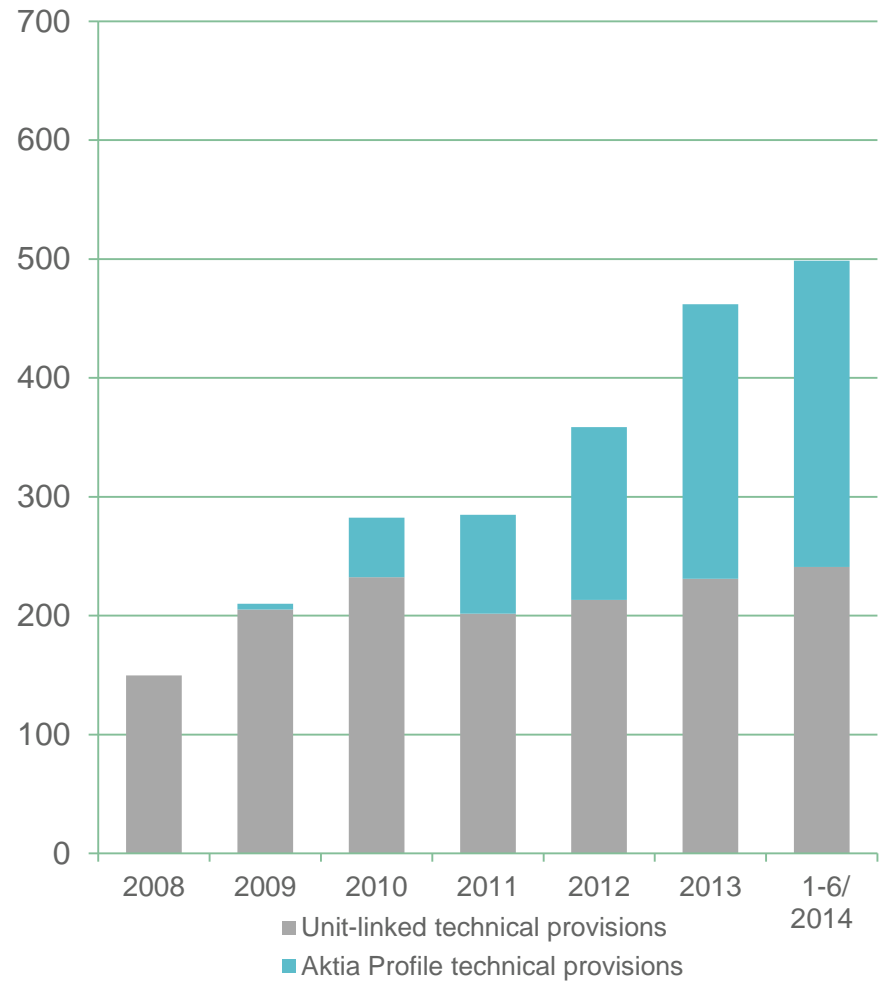
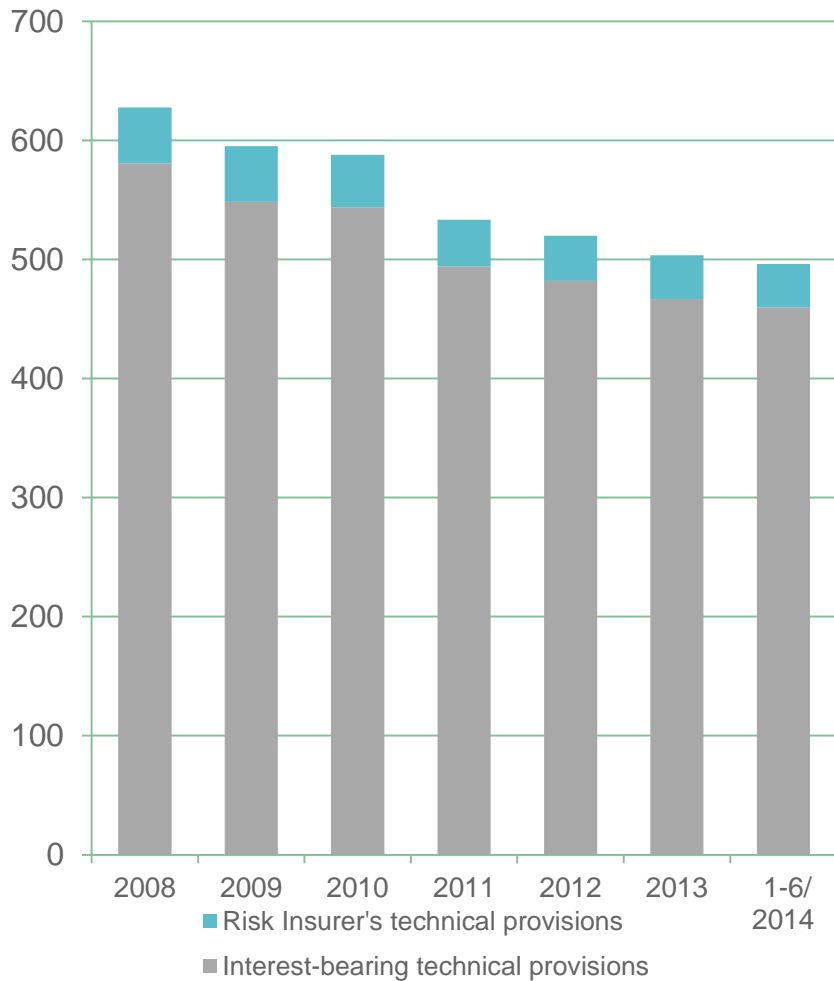
Aktia

EUR million



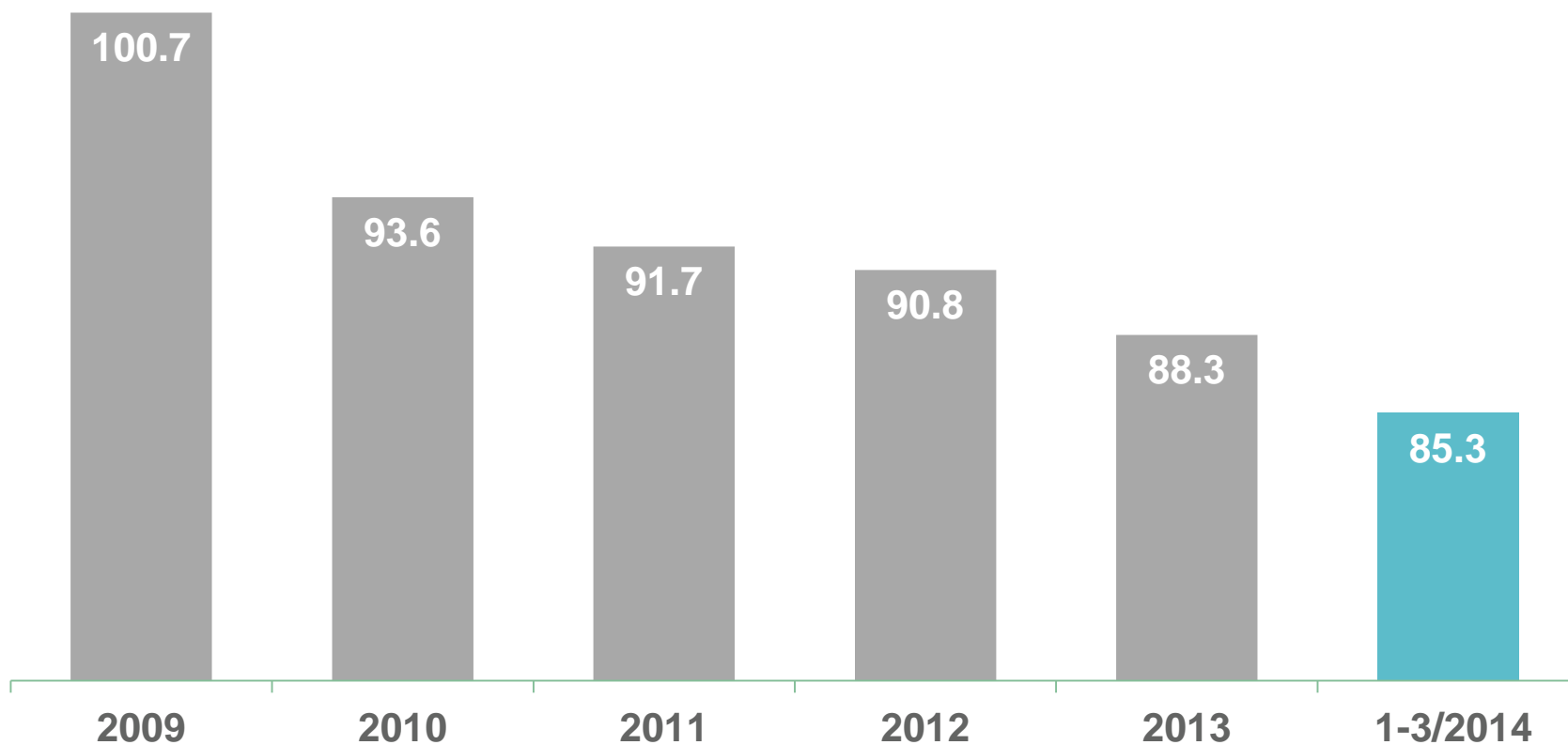


# Decreased stock of interest-linked insurance, Aktia increase in unit-linked products (EUR million)



# Expense ratio for life insurance, %

Aktia



# Summary:

## Operating profit January–June 2014

Aktia

### Profit

Operating profit amounted to EUR 38.4 (34.6) million.

Profit for the period amounted to EUR 31.0 (25.8) million.

### Income

Income totalled EUR 110.5 (113.2) million.

Net interest income decreased to EUR 51.4 (58.4) million.

### Expenses

The Group's operating expenses decreased by 6% to EUR 72.3 (76.8) million.

### Write-downs

The Group's write-downs on credits and other commitments decreased by 23% to EUR 1.2 (1.5) million.

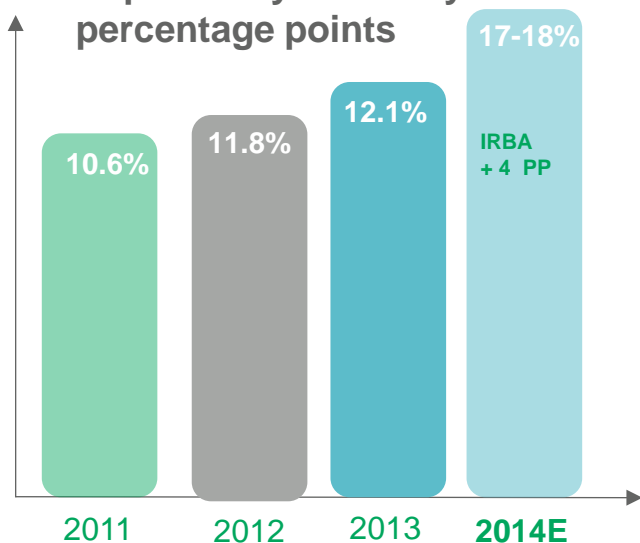
# Interim report 1 January - 30 June 2014

Aktia

1	Financial performance
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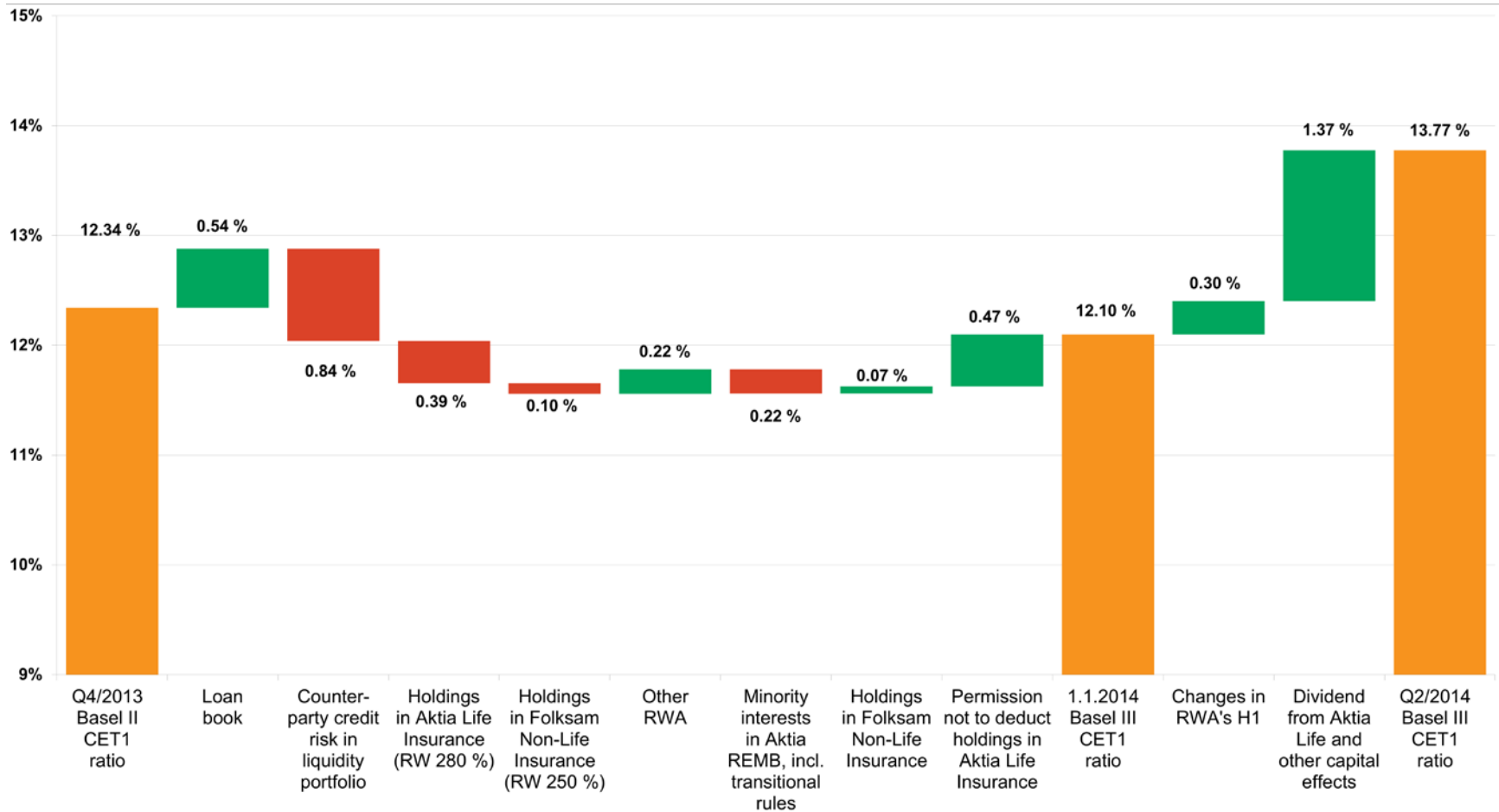
# The Bank's capital adequacy

- **Basel III regulatory framework in effect as of 1 January 2014**
  - Effect on Core Tier 1 limited, -0.2 %
  - Larger negative effect on capital adequacy, -3.9% mainly due to stricter demands on maturity on issued debentures
  - Temporary exemption 2014 concerning holdings in Aktia Life Insurance, risk weight 280%
- **Stronger capital adequacy due to positive result and a dividend from Aktia Life Insurance; 17.8 %**
- **IRBA application was submitted in August 2011 and is reviewed by the Financial Supervisory Authority. IRBA is expected to increase Tier 1 capital ratio by at least 4 percentage points**



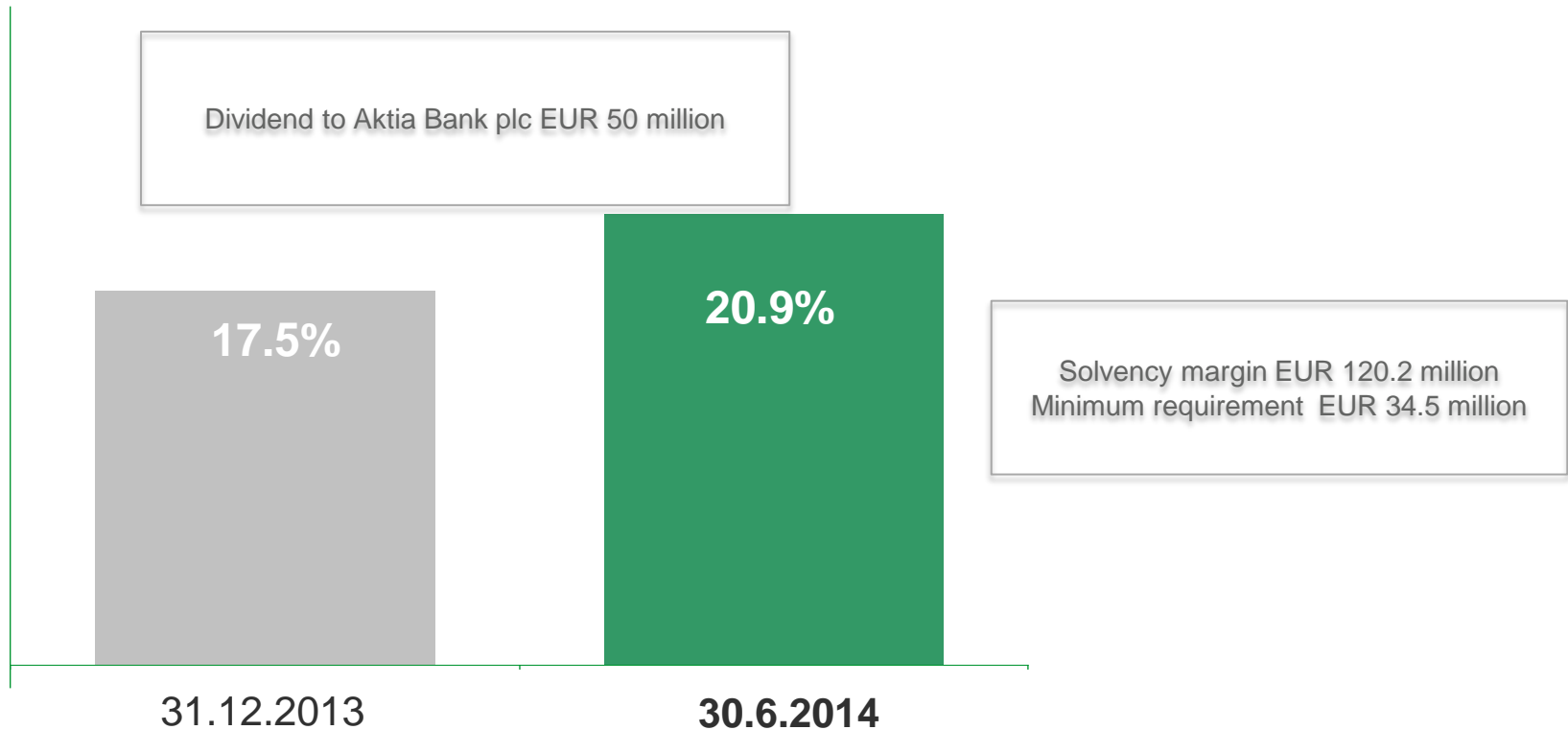
	30.6.2014 Basel III	31.3.2014 Basel III	31.12.2013 Basel III
Core Tier 1 ratio	13.8 %	13.6 %	12.1 %
Tier 1 capital ratio	13.8 %	13.6 %	12.1 %
Capital Adequacy	17.8 %	17.3 %	15.5 %

# Effects of new regulation Basel II to Basel III



# Life insurance Solvency ratio

Aktia

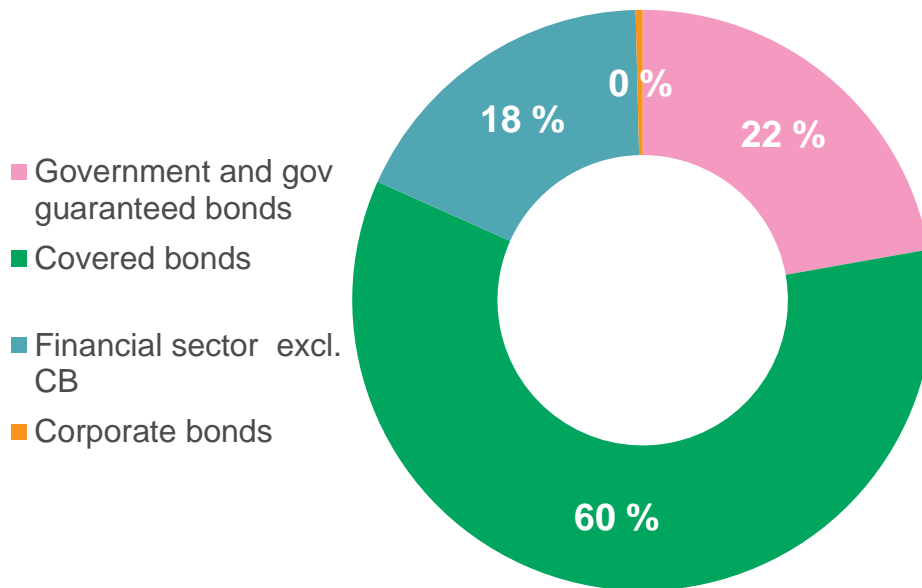


# The Bank Group's liquidity portfolio and other interest-bearing investments

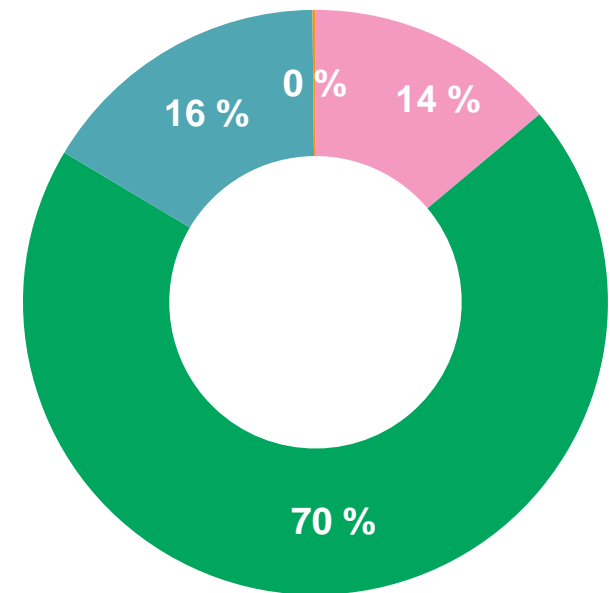
Aktia

EUR 2,569 million

EUR 2,428 million



30.6.2014



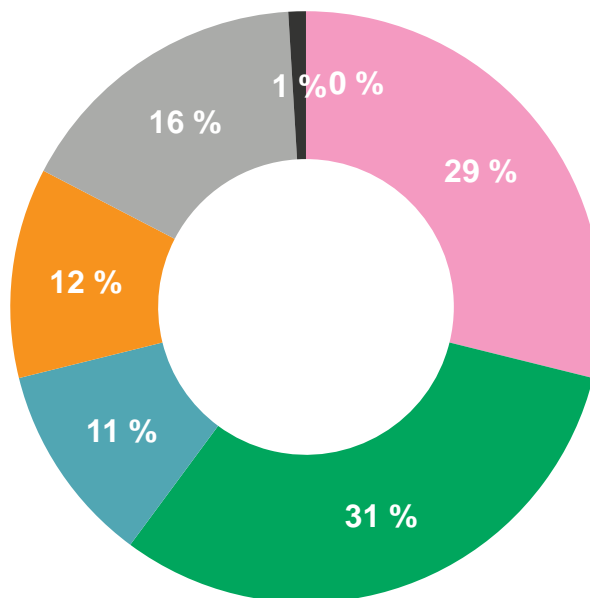
31.12.2013



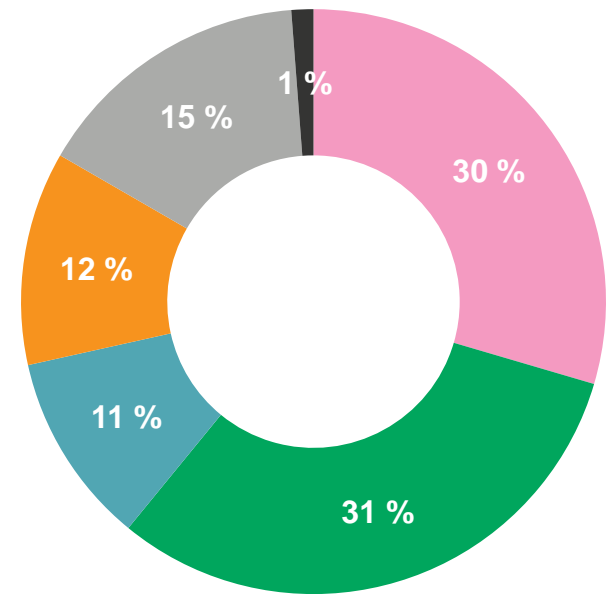
# Continued convergence towards Solvency II Aktia Life Insurance Company

Return on investments 4.9 (0.4)%  
Duration 5.6 (5.5) years

- Government and gov guaranteed bonds
- Covered bonds
- Financial sector excl. CB
- Corporate bonds
- Real estate
- Alternative investments
- Equity

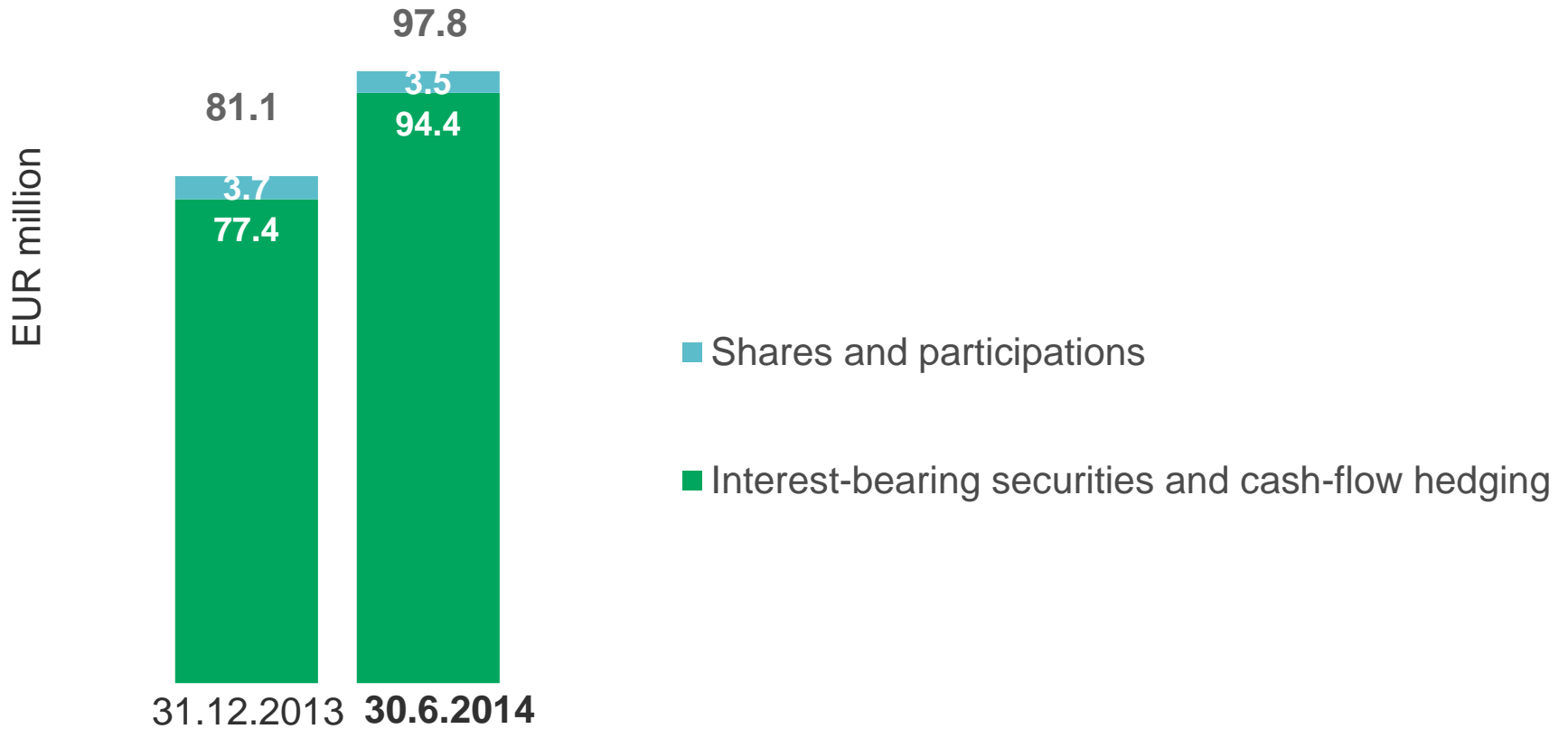


30.6.2014



31.12.2013

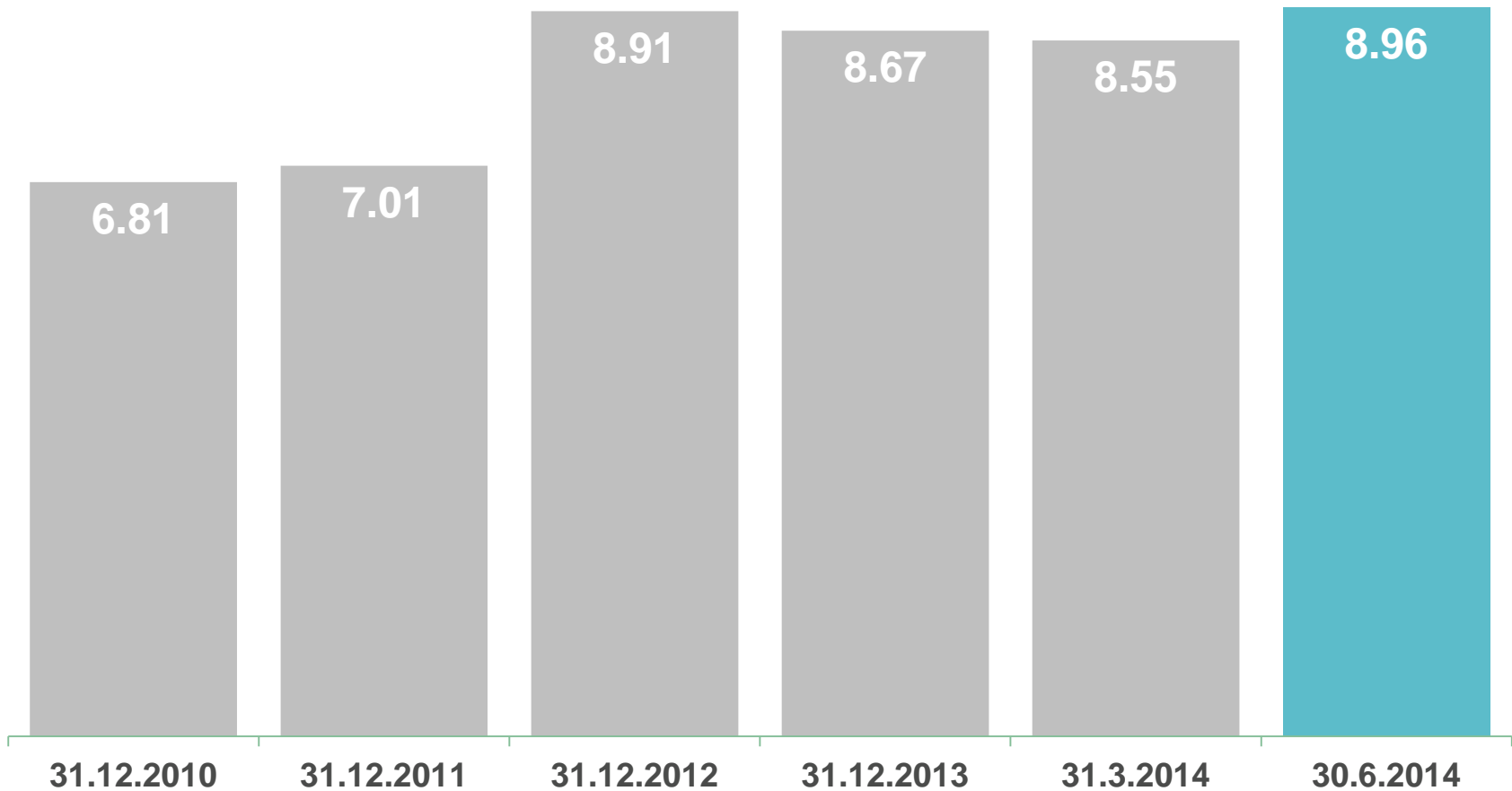
# Fund at fair value



# Equity per share (NAV)

Aktia

EUR/share



# Interim report 1 January - 30 June 2014

Aktia

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# Balance sheet 30.6.2014

Aktia

The Group's balance sheet total was unchanged and amounted to EUR **10,910** (10,934) million.

Borrowing amounted to EUR **3,978** (3,797) million.

Lending to the public amounted to EUR **6,598** (6,802) million.  
Loans to **private households** amounted to EUR 5,843 million or **88.5%** of the credit stock.

The housing loan stock amounted to EUR **5,371** (5,521) million

**Corporate lending** continued to be moderate  
The credit stock amounted to EUR **446** (541) million, corresponding to **6.8%**

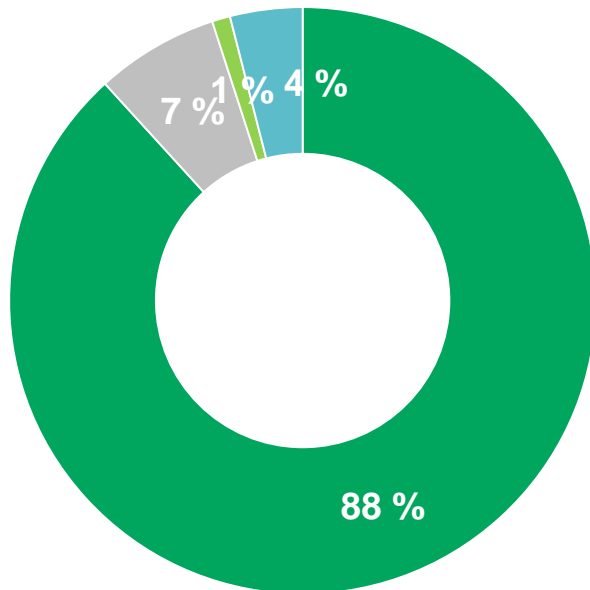
# Credit and deposit stocks

## 30 June 2014

Aktia

### Credits

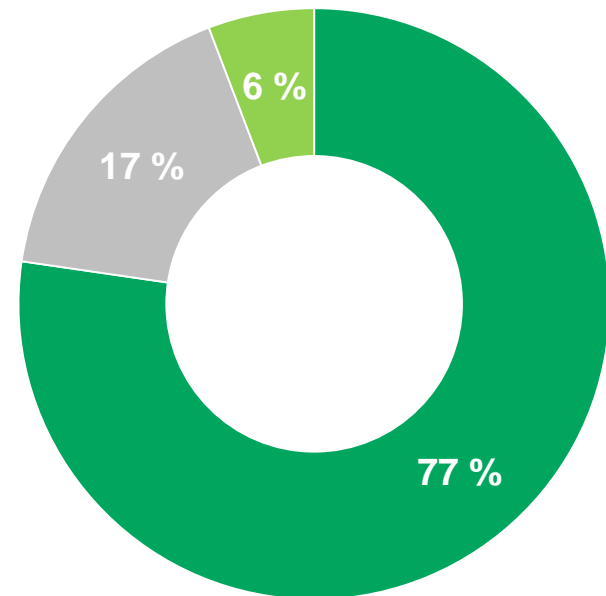
EUR 6,598 (6,802) million



- Households
- SME
- Non-profit and public organisations
- Housing associations

### Deposits

EUR 3,978 (3,797) million



# Share capital and ownership

## 31 July 2014

Aktia

The 20 largest shareholders	Series A shares	Series R shares	Shares total	Shares %	Votes, %
Stiftelsen Tre Smeder	2,571,925	4,280,216	6,852,141	10.29	19.85
Veritas Pension Insurance Company Ltd.	4,027,469	2,134,397	6,161,866	9.25	10.52
Svenska litteratursällskapet i Finland r.f.	4,463,889	789,229	5,253,118	7.89	4.56
Sampo Plc	3,814,057	-	3,814,057	5.73	0.86
Oy Hammaren & Co AB	1,905,000	950,000	2,855,000	4.29	4.71
Åbo Akademi University Foundation	1,595,640	751,000	2,346,640	3.52	3.74
Livränteanstalten Hereditas	-	2,066,106	2,066,106	3.1	9.3
Sparbanksstiftelsen I Borgå	1,303,370	651,525	1,954,895	2.94	3.23
Aktiaastiftelsen I Vasa	978,525	547,262	1,525,787	2.29	2.68
Aktiaastiftelsen i Esbo-Grankulla	-	1,338,708	1,338,708	2.01	6.03
Sparbanksstiftelsen I Kyrkslätt	876,529	441,733	1,318,262	1.98	2.19
Sparbanksstiftelsen I Karis-Pojo	787,350	393,675	1,181,025	1.77	1.95
Föreningen Konstsamfundet rf	1,176,173	-	1,176,173	1.77	0.26
Varma Mutual Pension Insurance Company	1,175,000	-	1,175,000	1.76	0.26
Aktiaastiftelsen i Vanda	28,541	1,138,588	1,167,129	1.75	5.13
Ab Kelonia Oy	549,417	308,662	858,079	1.29	1.51
Sparbanksstiftelsen I Ingå	479,001	336,818	815,819	1.23	1.62
Sparbanksstiftelsen I Sibbo	462,002	232,001	694,003	1.04	1.15
Nordea Fennia Fund	568,000	-	568,000	0.85	0.13
Nordea Bank Finland Plc	545,995	-	545,995	0.82	0.12
<b>The 20 largest shareholders</b>	<b>27,307,883</b>	<b>16,359,920</b>	<b>43,667,803</b>	<b>65.57</b>	<b>79.80</b>
Other	19,398,840	3,512,168	22,911,008	34.43	20.20
<b>Total</b>	<b>46,706,723</b>	<b>19,872,088</b>	<b>66,578,811</b>	<b>100.00</b>	<b>100.00</b>

# Interim report 1 January - 30 June 2014

Aktia

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Aktia is striving to grow slightly more than the market in the sectors focusing on private customers and small companies.

Aktia's Action Plan 2015 includes several individual measures and will be realised in steps with the aim of reaching the financial objectives for 2015.

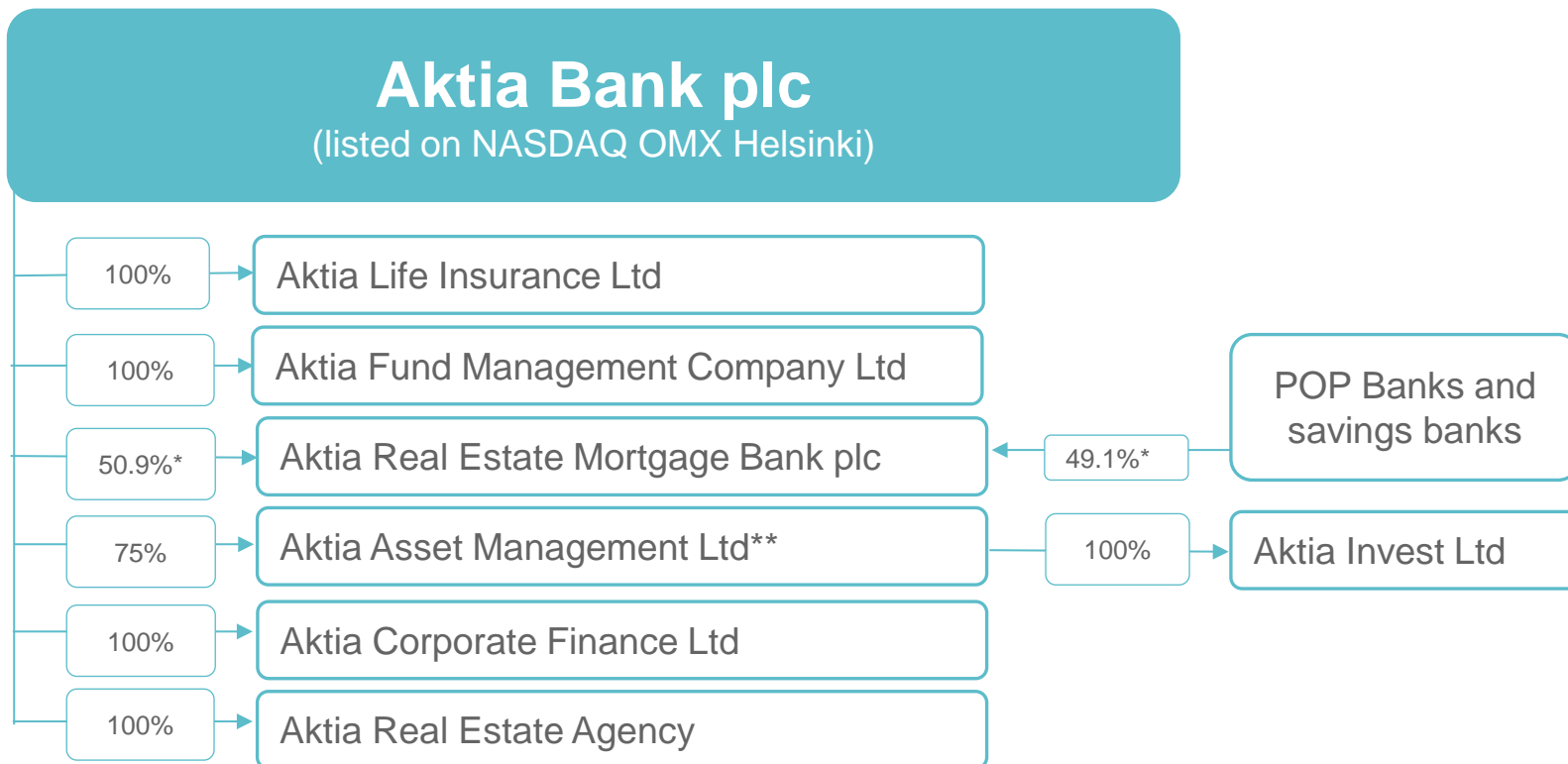
Aktia's aim is to improve competitiveness and to become the Finnish champion of customer services in selected customer segments. Aktia will continue to strive for efficient and customer-friendly service, and to provide financial solutions for households, business owners, small companies and institutions.

**OUTLOOK (unchanged): Write-downs on credits are expected to be on the same level as in 2013.**

**Despite the persistent low interest rate level the Group's operating profit for 2014 is expected to reach approximately the 2013 level.**

# Group structure 1.7.2014-

# Aktia



\*of share capital Aktia Bank holds 70% of votes.

\*\*Minority shares used as incentives for key personnel

# Objectives for 2014–2015

**Aktia**

## Growth

Increase the cross-selling index by 20%  
Increase commission income by 5% p.a.

## Profitability

Expenses -5 % p.a.

## Capital adequacy

Tier 1 capital ratio at least 13 % over an economic cycle (post-IRBA)

## Dividend pay-out

Dividend pay-out 40–60% of profit after taxes

## Best customer service in Finland

Increased customer proximity and further improved customer service

# Outcome 1-6/2014 and 1-6/2013

Aktia

	1-6/2014	1-6/2013	Change, %	New objectives for 2015
Commission income	42.8	40.2	+6 %	+5% p.a.
<b>Expenses</b>				
Staff costs	35.1	38.0	-8%	-5% p.a.
IT costs	12.9	14.0	-8%	
Other	24.3	24.7	-2%	

# Balance sheet, assets

Aktia

(EUR 1 million)	30.6.2014	31.12.2013	Δ	30.6.2013
<b>Assets</b>				
Cash and balances with central banks	358.0	414.3	-14 %	448.5
Financial assets reported at fair value via income statement	-	0.1	-	0.0
Interest-bearing securities	2,357.1	2,157.0	9 %	2,549.3
Shares and participations	83.9	99.5	-16 %	98.3
Financial assets available for sale	2,441.0	2,256.5	8 %	2,647.6
Financial assets held until maturity	495.7	499.3	-1 %	355.7
Derivative instruments	207.2	197.6	5 %	210.5
Lending to Bank of Finland and other credit institutions	89.2	95.1	-6 %	109.6
Lending to the public and public sector entities	6,598.3	6,802.2	-3 %	6,984.9
Loans and other receivables	6,687.4	6,897.3	-3 %	7,094.5
Investments for unit-linked provisions	500.5	465.9	7 %	412.7
Investments in associated companies	21.9	19.3	14 %	18.4
Intangible assets	27.2	20.3	34 %	15.0
Investment properties	60.4	60.6	0 %	51.0
Other tangible assets	7.3	6.4	13 %	5.3
Accrued income and advance payments	65.0	66.2	-2 %	70.5
Other assets	18.0	8.8	104 %	4.4
Total other assets	83.0	75.0	11 %	74.9
Income tax receivables	5.1	3.7	39 %	2.0
Deferred tax receivables	14.7	16.2	-9 %	21.8
Tax receivables	19.8	19.9	0 %	23.8
Assets classified as held for sale	1.2	1.2	-2 %	1.2
<b>Total assets</b>	<b>10,910.4</b>	<b>10,933.8</b>	<b>0 %</b>	<b>11,359.2</b>

# Balance sheet, liabilities

Aktia

(EUR 1 million)	30.6.2014	31.12.2013	Δ	30.6.2013
<b>Liabilities</b>				
Liabilities to credit institutions	1,012.7	1,095.5	-8 %	1,051.5
Liabilities to the public and public sector entities	3,978.5	3,797.5	5 %	3,807.2
Deposits	4,991.1	4,893.0	2 %	4,858.7
Derivative instruments	123.6	128.6	-4 %	145.4
Debt securities issued	3,547.7	3,657.9	-3 %	4,065.9
Subordinated liabilities	218.0	232.2	-6 %	269.7
Other liabilities to credit institutions	116.3	123.5	-6 %	141.5
Liabilities to the public and public sector entities	84.0	92.4	-9 %	51.1
Other financial liabilities	3,966.0	4,106.0	-3 %	4,528.2
Technical provisions for interest-related insurances	496.3	503.5	-1 %	512.2
Technical provisions for unit-linked insurances	498.0	461.9	8 %	410.3
Technical provisions	994.3	965.4	3 %	922.5
Accrued expenses and income received in advance	73.4	96.5	-24 %	73.2
Other liabilities	37.2	40.5	-8 %	142.7
Total other liabilities	110.5	137.0	-19 %	215.8
Provisions	5.0	6.4	-21 %	6.9
Income tax liabilities	2.2	5.2	-58 %	1.0
Deferred tax liabilities	56.3	50.4	12 %	60.5
Tax liabilities	58.5	55.6	5 %	61.5
Liabilities for assets classified as held for sale	0.2	0.2	-1 %	0.2
<b>Total liabilities</b>	<b>10,249.3</b>	<b>10,292.1</b>	<b>0 %</b>	<b>10,739.1</b>
<b>Equity</b>				
Restricted equity	261.1	244.5	7 %	190.0
Unrestricted equity	335.4	332.7	1 %	365.1
Shareholders' share of equity	596.5	577.1	3 %	555.1
Non-controlling interest's share of equity	64.6	64.6	0 %	64.9
<b>Equity</b>	<b>661.0</b>	<b>641.7</b>	<b>3 %</b>	<b>620.0</b>
<b>Total liabilities and equity</b>	<b>10,910.4</b>	<b>10,933.8</b>	<b>0 %</b>	<b>11,359.2</b>

Aktia

Aktia

We see a person in every customer.

