ETELÄ-KARJALA SAVINGS BANK

BALANCE SHEET 2013

Business ID: 0162211-9
Postal address: Valtakatu 32,
FI-53100 Lappeenranta
Street address: Valtakatu 32,
Lappeenranta
Domicile: Lappeenranta

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Etelä-Karjala Savings Bank is an independent Savings Bank established in 1875. The year 2013 was the bank's 138th year of operation. The bank operates in the South Karelia, Kymenlaakso and South Savonia regions. The bank's customer base primarily consist of private customers and small businesses.

At the end of the accounting period, the bank had over 50,000 customers. The bank has a total of 12 offices. In addition to utilising the services of the offices, the customers use the online bank, self-service machines and cash machines. In 2013, the proportion of self-service of all basic service transactions was 95.1%.

Bank's business operations

The growth and result development of Etelä-Karjala Savings Bank's business operations continued as expected over the course of the accounting period.

Etelä-Karjala Savings Bank engages in basic bank operations and provides its customers with diverse banking services through its own balance, in addition to supplying products provided by its partners. The intermediated products include credit, investment and insurance products.

The intermediated credit consists of Aktia Real Estate Mortgage Bank Plc's mortgage credit, which amounted to MEUR 52.1 at the end of 2013. Aktia Real Estate Mortgage Bank has not granted new housing credit during the accounting period; new credit has been provided from the own balances of the banks. The bank has a refinancing obligation with regard to the intermediated mortgage credit it provides. The refinancing obligation is implemented as an unsecured long-term senior credit to Aktia Real Estate Mortgage Bank. The amount of the credit is tied to the amount of the intermediated credit provided. The amount is reviewed twice a year.

Sp-Fund Management Company Ltd's funds as well as SEB's funds and index loans are included in the bank's product selection as investment products. In addition, the bank provides its customers with share broking services.

At the end of the year, the customers had MEUR 65.2 in fund and insurance savings intermediated by the bank.

The intermediated pension and life insurance products provided by the bank is produced by Life Insurance Company Duo, which is owned by the Savings Banks. Life Insurance Company Duo, which was previously owned half and half by the Savings Banks and Lähivakuutus, was transferred into the full ownership of the Savings Banks in February 2013. At the end of January 2013, the Savings Bank Group and the LähiTapiola Group signed an agreement on the ending of the cooperation agreement. At the turn of June and July, Duo turned the entire risk-based life insurance over to the LähiTapiola Group. The arrangements do not significantly affect Duo's operations.

In payment intermediation, the bank utilises Bonum Bank Ltd's (Former ACH Finland Ltd) payment intermediation and clearing services. In June, Säästöpankkien Holding, which is owned by the Savings Banks, sold its share in the payment institution Bonum Bank Ltd to POP Bank Alliance. Bonum Bank will continue its operations as a payment intermediary for the Savings

Banks, POP Banks and Aktia Bank until the central credit institutions of the Savings Banks and POP Banks begin to handle their payment transfers.

The real estate chain of the Savings Banks, with Sp-Koti Ltd as the central company, acts as the real estate broker. Sp-Koti Ltd operates according to the franchising principle, in which independent companies form a national broking chain that operates in cooperation with the bank. In May, the Savings Banks opened an online insurance shop. The online shop provides the most common non-life insurance services for individual customers. Finnish P&C Insurance acts as the insurance provider.

Aktia Bank, partner to the Savings Banks, notified in January that it will be discontinuing the central credit institution services it is providing to the Savings Banks in early 2015. In March, the Savings Banks and Itella signed a letter of intent regarding a share transaction through which the Savings Banks purchased the entire share capital of Itella Bank. The deal was realised in April. In June, the following were registered as the bank's official names: Säästöpankkien Keskuspankki Suomi Oy – Sparbankernas Centralbank Finland Ab – Central Bank of Savings Banks Finland Ltd.

Result

The operating profit of Etelä-Karjala Savings Bank stood at MEUR 8.3 (MEUR 7.1 in 2012). The operating profit grew from the previous year by 17.4%. The operating profit percentage of the annual balance average was 1.4% (1.2). The bank's cost-income ratio stood at 55.1% (58.1).

The essential income statement items developed as follows in comparison to the two previous years:

Thousand euros	01-12/2013	01-12/2012	Change % *)	01-12/2011	Change % **)
					,
Net interest income	11,186	12,765	-12.4	12,831	-0.5
Net fee and commission income	4,947	4,395	12.6	3,871	13.5
Net gains on trading in securities and foreign currencies	-19	-185	89.5	-614	69.8
Net gains on available-for-sale financial assets	-200	-1,231	…	521	…
Other income	3,427	1,526	…	1,318	15.8
Total income	19,340	17,270	12.0	17,926	-3.7
Personnel expenses	-4,313	-4,168	3.5	-4,095	1.8
Other administrative expenses	-4,342	-4,128	5.2	-3,928	5.1
Other expenses	-2,000	-1,742	14.8	-1,782	-2.2
Total expenses	-10,656	-10,038	6.2	-9,804	2.4
Cost-income ratio	55.10	58.12		54.69	,
Impairment losses on loans	-378	-158	…	-592	-73.3
Operating profit	8,307	7,075	17.4	7,530	-6.0
Profit for the period	6,577	5,873	12.0	5,440	8.0
*) Change 2013-2012					,
**) Change 2012-2011	,	,	,	,	,

The bank's net interest income was MEUR 11.2 (12.8). This was a 12.4% decrease from the previous accounting period. The net interest income was bolstered by interests received from hedging interest derivatives, which amounted to MEUR 2.0 (2.3) of the net interest income.

The interest income stood at MEUR 12.9 (16.2), which was a 20.4% drop from the previous year. The interest expenses were MEUR 1.7 (3.4). The interest expenses saw a MEUR 1.7 decrease from the previous accounting period.

The net fee and commission income stood at MEUR 4.9 (4.4). The share of fee and commission income amounted to MEUR 5.7 (5.2) while that of fee and commission expenses was MEUR 0.8 (0.8). The fee and commission income includes MEUR 1.0 (0.9) in income from intermediated products – fees and compensations from intermediated mortgage bank credits stood at MEUR 0.1 (0.1) while fees and compensations from other intermediated products stood at MEUR 0.8 (0.8). The fees and compensations received from the intermediated mortgages are included in the figures presented above as net amounts. Of other fee and commission income, the most significant were the fees and commissions from lending at MEUR 1.2 (1.1), fees and commissions from payment transactions at MEUR 2.9 (2.5), and fees and commissions from administration of property and legal tasks MEUR 0.4 (0.3). The fee and commission expenses were at the level of the previous year.

Net gains on available-for-sale financial assets stood at MEUR -0.2 (-1.2). Of this, gains and losses on sales were MEUR 0.1 (-0.1). This item also includes MEUR 0.3 (-1.1) in impairment losses transferred from the fair value reserve to the income statement.

The other income includes income from equity-based investments, net income from investment property and other operating income, totalling at MEUR 3.4 (1.5). The dividends received stood at MEUR 0.6 (0.6). The net income from investment property was MEUR 2.1 (0.6). The net income from investment property includes MEUR 1.9 in sales profit. Other operating income increased to MEUR 0.8 (0.3).

The personnel expenses were formed by salary expenses, pension expenses and other indirect employee costs. The total amount of these costs was MEUR 4.3 (4.2), which was 3.5% higher than in the previous year.

Other administrative expenses increased by 5.2% to MEUR 4.3 (4.1). Other expenses, MEUR 2.0 (1.7), include depreciations, amortisations and impairment losses on material and immaterial goods. The planned depreciation write-offs stood at MEUR 0.2 (0.2). The other operating expenses increased by 17.6% to MEUR 1.8 (1.5). The increase in other operating expenses was caused by the temporary bank tax, which was instituted early in the year.

The net amount of impairment losses entered on loans and guarantees stood at MEUR 0.4 (0.2) in the result for the period, which was a MEUR 0.2 increase from the previous year. The gross amount of the impairment losses was MEUR 0.6 (0.4). Returns on impairments from earnings formerly entered as credit losses were received in the amount of MEUR 0.2 (0.2).

Balance sheet

The bank's balance increased in 2013 by 1.5%, standing at MEUR 614.9 (605.7) at the end of the year. The amount of credits in the balance was MEUR 475.5. The amount of deposits was MEUR 479.0.

The essential balance sheet items of Etelä-Karjala Savings Bank developed as follows in comparison to the two previous years:

Thousand euros	31 December 2013	31 December 2012	Change % **)	31 December 2011	Change % ***)
Receivables from the public and general government	**475,518**	**456,028**	**4.3**	**441,125**	**3.4**
Loans	475,488	456,000	4.3	441,097	3.4
Other receivables	30	28	7.2	28	-0.2
Investments	**131,878**	**139,314**	**-5.3**	**158,570**	**-12.1**
Receivables from credit institutions	46,168	70,811	-34.8	103,429	-31.5
Debt securities	29,903	30,773	-2.8	17,850	72.4
Shares and interests	41,764	19,520	…	19,178	1.8
Properties	14,043	18,211	-22.9	18,113	0.5
Derivative contracts	**2,391**	**4,403**	**-45.7**	**4,320**	**1.9**
Derivative contracts assets	2,391	4,403	-45.7	4,320	1.9
Public deposits *)	**478,992**	**473,675**	**1.1**	**484,830**	**-2.3**
Liabilities to credit institutions	**521**	**255**	**…**	**197**	**29.6**
Equity	**110,877**	**104,709**	**5.9**	**97,252**	**7.7**
Appropriations	**17,691**	**18,226**	**-2.9**	**18,888**	**-3.5**
ROA %	1.0	0.8		0.9	,
Equity ratio	20.2	19.5		18.3	,
Solvency ratio	35.45%	34.90%		34.57%	

*) The figure does not include the change in fair value attributable to hedging

**) Change 2013-2012

***) Change 2012-2011

Granting of credit

The total amount of credit granted by Etelä-Karjala Savings Bank stood at MEUR 527.6 (517.2) at the end of the accounting period. The granting of credit includes the credit of MEUR 475.5 (456.0) in the bank's balance sheet as well as the mortgages intermediated by the Aktia Real Estate Mortgage Bank, which are not included in the bank's balance sheet. The amount of intermediated mortgages at the end of the year was MEUR 52.1 (61.2). The credit intermediated by the bank from state funds is included in the bank's balance sheet item 'Receivables from the public and general government'. They amounted to MEUR 0.5 (0.6) at the end of the year.

Over the course of the year, credit, including intermediated mortgages, was drawn and renewed at a total amount of MEUR 136.3. The net increase in granting of credit was MEUR 10.4, i.e. 2.0%.

Non-performing exposures stood at MEUR 3.8 (4.7), which is MEUR 0.8 less than in the previous year. The amount of non-performing exposures was 0.8% (1.0) of the total amount of the credit included in the bank's balance sheet and the total amount of guarantees included in the engagements outside the balance sheet.

Engagements outside the balance sheet

The engagements outside the balance sheet comprise commitments given to a third party on behalf of a customer and irrevocable commitments given in favour of a customer.

The commitments given to a third party on behalf of a customer, at MEUR 9.6 (15.6), primarily consist of bank and other guarantees. The other guarantees include the absolute guarantees provided by the bank on behalf of itself and for other Savings Banks to Aktia Bank Plc with regard to the payment transaction account contract and to Aktia Real Estate Mortgage Bank Plc with regard to compensation for any possible losses from intermediated mortgages.

The irrevocable engagements given in favour of a customer, which amounted to MEUR 14.5 (16.3) at the end of the accounting period, primarily comprise granted credit not drawn.

Investments

The bank investments were mainly focused on deposits in other credit institutions, debt securities, shares and interests, as well as properties included in the balance sheet item 'Material goods'. The material goods are itemised in Note 2.9

Bank deposits in other credit institutions stood at MEUR 46.2 (70.8). The amount was MEUR 24.6 less than in the previous year. Investments in debt securities consisted of money market securities and bonds. At the end of the accounting period, the amount stood at MEUR 29.9 (30.8), which was 2.8% less than in the previous year.

Investments in shares and interests stood at MEUR 41.8 (19.5) at the end of the accounting period. Of this, the portion of shares and interests necessary for operations was MEUR 12.6 (10.1) while the portion of shares and fund units was MEUR 29.2 (9.4). The bank does not hold publicly quoted shares for active trade.

The value of the bank's real property in the balance sheet amounted to MEUR 14.0 (18.2). Of this, the value of real property in the bank's own use was MEUR 6.2 (6.2) while the value of investment property stood at MEUR 7.8 (12.0). The fair values of investment property are presented in Note 2.8.

During the accounting period, MEUR 0.2 in basic renovation costs for properties was activated in the balance. In 2013, the bank sold shares and properties of real estate communities in its ownerships for a total value of MEUR 3.4. A net sales profit of MEUR 1.9 was accumulated from the sales of real property. Over the course of the accounting period, the bank removed revaluations at a value of MEUR 0.7 (0.0) and entered a total of MEUR -0.3 (0.0) in depreciations from real property.

Derivative contracts

The bank uses derivative contracts for interest risk hedging. At the end of the accounting period, the positive fair value in the assets side of the balance sheet – item 'Derivative contracts' – stood at a total of MEUR 2.4 (4.4), which comprised cash flow hedging derivatives. Through cash flow hedging, the bank protected the future interest flow of variable-interest lending, which involved interest options as the hedging instrument.

The derivative contracts are itemised in Note 2.5. In solvency calculation, the derivatives are included in the solvency requirement for credit and opponent risk.

Public deposits

Most of the bank's funding was comprised of received deposits.
The amount of deposits was MEUR 479.0 (473.7) at the end of the year. The deposits increased over the course of the year by MEUR 5.3, i.e. 1.1%.

Deposits in cheque accounts and savings accounts increased by MEUR 16.7, 4.5%, during the year, standing at MEUR 390.8 (374.1) at the end of the year. The reduction of investment and home savings bonus accounts was MEUR 11.3, 11.4%, and the value stood at MEUR 88.2 (99.6) at the end of the year.

Other liabilities

The other liabilities primarily consist of debts to credit institutions. Liabilities to credit institutions amounted to MEUR 0.5 (0.3).

Other liability items mainly consisted of short-term payment intermediation items as well as appropriation items related to the deferrals of income and costs.

Equity and appropriations

The bank's equity was MEUR 110.9 (104.7) at the end of the accounting period. This was a MEUR 6.2 increase over the previous year. The amount of the fair value reserve included in the equity, adjusted by deferred taxes, stood at MEUR 2.8 (2.5). The amount consisted of a change in the fair value of the derivatives hedging the cash flow, MEUR 1.2 (2.6), and a change in the fair value of the financial assets, MEUR 1.6 (-0.1).

Appropriations are voluntary provisions, the total amount of which at the end of the period was MEUR 17.7 (18.2). Of this, bad debt credit loss appropriation was MEUR 17.7 (18.2). In 2013, MEUR -0.5 in bad debt credit loss was removed (MEUR -0.7 removed), after which the provision in the financial statements was 4.6% of the receivables. MEUR 5.9 of the appropriation has been transferred into the legal reserve.

Consolidated financial statements

Etelä-Karjala Savings Bank does not prepare consolidated financial statements. The bank subsidiaries have been left outside the consolidated financial statements as they are considered as small subsidiaries, as referred to Section 155(3) of the Credit Institution Act. The effect of the subsidiaries on the group result and equity is minor.

Voluntary and statutory funds

Etelä-Karjala Savings Bank belongs to the Säästöpankkien Vakuusrahasto guarantee fund. The task of the fund is to ensure the stable operations of the Savings Banks. The fund is debt free. The fund has not made new support decisions during the year. The fund currently holds MEUR 24 (23) in financial assets. In the voluntary guarantee fund, the bank does not belong to a joint liability arrangement wherein it would be responsible for another banks liabilities or engagements.

In addition to this, the Savings Bank belongs to a deposit insurance fund, which secures the depositor's receivables from the bank
up to EUR 100,000. The bank's contribution to the fund was MEUR 0.2. Etelä-Karjala Savings Bank also belongs to an investor compensation fund, which covers all non-professional investors.

Management of solvency

Etelä-Karjala Savings Bank has created a solvency management process with the goal of securing the sufficiency of the bank's risk bearing capacity in relation to all essential risks of the operations. In order to reach this goal, the bank identifies and assess risks related to its operations in a comprehensive manner and dimensions its risk bearing capacity to match the total amount of the risks with which it is faced. To secure its solvency, the bank sets risk-based capital targets and creates a capital plan in order to reach these targets. Another aim of the solvency management process is to maintain and develop high-quality risk management.

In accordance with its strategy, the bank engages in retail banking operations. By only operating in this business area, the bank is capable of ensuring that the risks of its operations remain minor and at a manageable level in terms of the quality of the operations. The management of the Savings Bank's solvency is handled by the bank's board of directors, which also defines the risk limits related to the operations. The board annually reviews the risks related to the management of the bank's solvency, the capital plan and the limits set for the risks.

In the solvency management process, the bank prepares result, growth and solvency forecasts, for example. Based on the forecasts, the bank determines the necessary measures with which the solvency level accordant with the business strategy can be maintained.

For solvency calculation, the bank applies the standard method for credit risk and the basic method for operative risk. In the standard method, the exposures are divided into exposure classes, and the required minimum limits for the decentralisation of the granting of credit are defined in the retail receivables class. Etelä-Karjala Savings Bank publishes the information essential to solvency calculation annually as part of its annual report and the notes to the financial statements. The interim report, which is prepared every six months, presents the essential solvency information.

Etelä-Karjala Savings Bank's own assets stood at MEUR 118.0 (110.0), with the minimum requirement for own assets standing at MEUR 26.6 (25.2). The amount of primary own funds was MEUR 118.0 (110.2). The secondary own assets stood at MEUR 0.0 (-0.1).

Over the course of the year, the bank's solvency ratio increased by 0.55 percentage units to 35.45%. The ratio of primary own assets to risk-weighted items was 35.45% (34.94%).

SOLVENCY CALCULATION		
Own assets	**2013**	**2012**
Primary own assets before deductions	122,245	115,974
Deductions from the primary own assets	-4,248	-5,819
Total primary own assets	117,997	110,156
Secondary own assets before deductions	1,616	-123
Upper secondary own assets	1,616	-123
Deductions from secondary own assets	-1,616	0
Total secondary own assets	0	-123
Total own assets	**117,997**	**110,033**
Total liabilities	**633,454**	**632,206**
Risk-weighted liabilities		
Credit and opponent risk	**291,847**	**281,292**
Items in the balance sheet	285,740	272,826
Engagements outside the balance sheet	5,575	7,515
Derivatives	532	951
Operative risk	**36,275**	**33,980**
Market risk	**4,697**	**0**
Currency risk	4,697	0
Total risk-weighted liabilities	**332,819**	**315,273**
Minimum requirement for own assets	26,626	25,222
Amount exceeding the minimum requirement for own assets	91,372	84,811
Solvency ratio (%)	**35.45%**	**34.90%**
Ratio of primary own assets (%)	**35.45%**	**34.94%**

The new Capital Requirements Regulation and Directive of the European Union was issued on 27 June 2013. The new provisions will enter into force on 1 January 2014 and be based on the recommendations provided by the Basel Committee on Banking Supervision in 2010, i.e. the Basel III framework. The new Capital Requirements Regulation is a piece of legislation that is directly binding to the member countries, and it will void the majority of Financial Supervisory Authority standards regarding solvency calculation. The European Banking Authority (EBA) will issue standards that specify the regulation and are equally binding.

The solvency reporting according to the Basel III framework will begin on 31 March 2014. It will tighten the capital requirements of banks and the terms set for capital instruments through additional capital buffers. New requirements will be set for liquidity, and a new key figure, minimum equity ratio, will be implemented for the monitoring of indebtedness.

The solvency of local banks will also be expected to meet the minimum 8% level in the future. In addition to the minimum solvency requirement, a fixed additional capital requirement of 2.5% will be introduced on 1 January 2015, alongside an additional capital requirement that authorities can set to a level of 0%-2.5%, if necessary. As regards the new liquidity requirements, follow-up reporting will be implemented in 2014 and the requirements will not become binding until later on. The binding application of the Liquidity Coverage Ratio (LCR) will begin at the 60% level on 1 January 2015, from which it will be incrementally raised to 100% by 1 January 2018. The EU will decide on the binding nature and content of the Net Stable Funding Ratio and minimum equity after the follow-up period. According to the information available at this time, they will not become binding requirements before 2018.

Risk management

Aim of risk management

The aim of risk management is to ensure that the risks caused by the bank's operations are identified, assessed and dimensioned to an acceptable level, and that they are monitored and properly proportioned to the bank's risk bearing capacity. The essential areas of risk management are credit risks, market risks including interest and price risks, financing risks, real estate risks as well as strategic and operative risks. The bank monitors the mutual dependencies of various risks on the risk map.

Principles and organisation

The risk management strategy of Etelä-Karjala Savings Bank is based on the goal and business strategy defined by the board of directors, risk management instructions, the authority system and the risk and deviation reporting for the most essential business areas.

In accordance with its strategy, the bank will focus its business operations on the low-risk portion of the retail banking operations. In terms of its financial bearing capacity, the bank does not face excessive customer or investment risk concentrations, nor will it take such risks in the future, as is dictated by its strategy.

The bank will maintain its solvency at a safe level. The solvency and risk bearing capacity of the bank will be bolstered through profitable business operations. The threat of losses formed by credit and other risks is taken into account in the financial statements with sufficient depreciation and other loss entries.

The board of directors is provided with information on the various risks faced by the bank, as well as their levels, on a regular basis. The board also approves the authorisations and framework for taking risks by defining the permissible risk limits for credit and market risks. The responsibility for daily risk monitoring and control is carried by the acting management, within the framework of the authorisations. In the monitoring, the acting management utilises reports produced by systems on various risk areas. The systems and procedures intended for risk reporting and monitoring meet the requirements set for risk management, taking into account the nature and scope of the bank's operations.

Credit risks

The aim of the credit risk management is to limit the result and solvency effects of risks generated by customer exposures to an acceptable level. The business strategy confirmed by the board as well as the instructions for granting credit define the maximum amounts for risk concentrations and steer the granting of credit in accordance with customer sector, business area and credit standing class.

The bank's essential customer groups are individual customers and small businesses in the operating area. The majority of the bank's acquired funding has been granted to bank customers as credit. The total share of households and entrepreneurs of the credit in the bank balance is approximately 79.4% (80.3%). The rural entrepreneurs' share of the balance credit is 2.2%

(2.1%), while the share of others stands at 18.4% (17.6%). The majority of bank credit, 77.7% (79.0%), has been granted in exchange for home equity.

The management of business and agriculture credit risks is based on customer monitoring conducted by the person responsible for customers as well as internal credit standing classification. The assessment of an individual customer's credit standing is based on the customer knowledge and awareness of the local bank as well as an evaluation of the customers' solvency, which is prepared using this information.

The bank's board of directors makes the most important credit decisions. The board has further delegated credit authorisations to appointed employees. Credit decisions are made in accordance with the credit granting instructions confirmed by the bank's board of directors. The main rule to be observed is to involve at least two decision-makers. Credit decisions are based on the credit standing and solvency of each customer, as well as other credit granting criteria, such as the fulfilment of the guarantee requirements. Credits are primarily granted with securing guarantees. Guarantees are valued conservatively at fair value, and their fair values are monitored regularly utilising statistics and good knowledge of the business area. The bank's board of directors has confirmed instructions for the bank regarding the valuations and guarantee values of the various forms of guarantee in exchange for which credit can be granted.

Credit risk is assessed constantly by monitoring delays in payback and non-performing credit, for example. The amounts of customer-specific exposures and guarantees are monitored by the persons responsible for customers, based on continuous payment behaviour and the monitoring of customer activities. Reports on customer exposures and non-performing credit exceeding EUR 400,000 are provided to the board of directors regularly twice a year. The report includes risk amounts and development per customer group, business area and credit standing class.

The bank does not have customer groups whose exposures would exceed the limit set by the Credit Institution Act, i.e. 10% of the bank's own assets (major customer risks). Based on analyses prepared, the risks included in the bank's credit portfolio are low in terms of the bank's annual result level and risk bearing capacity.

Financing risk

Financing risk is a risk related to the availability and price of refinancing, which occurs when the maturities of receivables and debts deviate from each other. A financing risk also occurs if receivables and debts are excessively focused on individual opponents. The financing risk is estimated by maturity class based on the difference between the receivables and debts of each class. The risk is managed utilising a variety of measures, such as maintaining a sufficient amount of liquid assets in order to ensure liquidity. The financing risk is monitored on a monthly basis by issuing reports to the board of directors on the bank's financing situation and liquidity status. The reporting is based on information on the maturity dates of receivables and debts as well as the available limits.

Etelä-Karjala Savings Bank acquires the required refinancing as deposits from its own operating area. According to the deposit account terms, a significant portion of the refinancing adheres to at-sight terms and is distributed between over 44,900 depositing customers. The goal of the bank is to extend the maturity of the refinancing and maintain an extensive capital base.

The bank maintains good level of liquidity by investing liquid assets primarily on negotiable instruments and short-term deposits into other financial institutions. 4.2% (6.0%) of the credit in the bank's balance sheet is in credits with a term exceeding 20 years. The bank's financial standing remained stable in 2013.

Interest risk

Interest risk refers to the effect of changes in interest level on the result and solvency. The interest risk is caused by the deviating interest bases of receivables and debts, as well as interest adjustment and maturity taking place at different times. The bank's board of directors has authorised the acting management to use hedging derivatives. In order to reduce the interest risk, the bank implements hedging derivative contracts, the use of which is detailed in the section on derivative contracts.

For the purpose of controlling interest risk, the bank aims to continue to balance the interest bases of receivables and debts during the current accounting period.

The bank measures interest risk by means of balance sheet analysis, which measures the effect of 1% and 2% changes in forward interests on the net interest income of the upcoming 1–60 months. The forecast is calculated for the next five years at the time of reporting using forward interest rates obtained from the market.

The amount of open interest risk is measured using interest rate sensitivity that accounts for the effects of the above-mentioned interest shocks on the net interest income in the following years. On 31 December 2013, the bank's interest risk was +29/-17% of the 12-month net interest income if the interest level were to change by one percentage unit. With a change of two percentage units, the bank's interest risk would correspondingly be +57/-17% of the 12-month net interest income. The interest risk is regularly reported to the board of directors, which has set the maximum amounts for the bank's interest risks in its confirmed instructions.

Derivative contracts

The bank uses derivative contracts for interest risk hedging. At the end of the accounting period, the positive fair value in the assets side of the balance sheet – item 'Derivative contracts' – stood at a total of MEUR 2.4 (4.4), which comprised of cash flow hedging derivatives. Through cash flow hedging, the bank protected the future interest flow of variable-interest lending, which involved interest options as the hedging instrument.

The derivative contracts are itemised in Note 2.5. In solvency calculation, the derivatives are included in the solvency requirement for credit and opponent risk.

Market risk

Market risk refers to the impact of interest and market prices on the bank's result and own assets. In trading activities, the change in interest rates causes the realisation of the market risk as a change in the market value of securities. Share risk refers, among other things, to the effect on profit of changes in the rates of publicly quoted shares and fund units. The aim of the bank in security investments is to obtain a return on invested capital that is competitive in terms of the risk-profit ratio.

The bank only invests in securities in such a way that the effect on profit of rate changes does not compromise the bank's solvency or profitability. At the moment of closing the accounts, the bank's result included unrealised value changes recorded on securities at a net value of EUR -19,000 (MEUR -0.2). In addition to this, the fair value reserve includes MEUR 2.8 (2.5) in unrealised value changes, of which the value change of derivatives used for cash flow hedging was MEUR 1.2 (2.6) while the value change of available-for-sale financial assets was MEUR 1.6 (-0.1). The effect of the unrealised value changes of securities on the bank's own assets was MEUR 2.5 (1.2), which constitutes 2.1% (1.1%) of the bank's own assets at the end of the accounting period. The bank does not have a security-related minimum solvency requirement caused by the liquidation risk of the entire operations.

The decentralisation of the investments reduces the concentration risk caused by individual investments. The bank does not have investment groups in which the amount of investments and receivables would exceed the limit set by the Credit Institution Act, i.e. 10% of the bank's own assets (major customer risks).

The bank monitors the market value of securities obtained for investment purposes on a monthly basis, as well as the cash flows related to their transactions. The content and balance status of the securities portfolio is reported to the board of directors on a regular basis. The market risk entailed by the securities portfolio is assessed in relation to the bank's result and own assets.

Real estate risk

Real estate risk refers to a depreciation, profit or damage risk regarding real property. Real estate investments are not part of the bank's core business – the bank has reduced capital tied to real estate investments in accordance with its strategy. The bank's real estate locations have primarily been insured under full value policies.

The bank's investment property has been assessed and valued in the financial statements mainly by using the income approach. When setting the market-based return requirement, the location, condition, purpose of use and market outlook of each piece of real estate has been taken into account. In addition to the income approach, the sales comparison approach is used especially when evaluating housing units and land areas. The bank's real estate risk is monitored on a regular basis by means of providing reports to the board of directors on the yields of the real property, invested capital, occupancy rates and yield percentages of the properties.

The value of the real property is moderate in comparison to the bank's balance and own assets, and there are currently no such depreciation requirements with regard to the real property values that would significantly affect the bank's result and solvency in the coming years. The book values and fair values of the investment properties are described in Note 2.8 (excluding activations recorded in immaterial goods).

Capital invested in properties used by the bank itself and in real estate company shares stood at MEUR 6.2 (6.2) at the moment of closing the accounts. Capital in investment property assets decreased in comparison to the previous accounting period arriving at MEUR 7.8 (12.0), which was 1% of the bank's balance value.

The net yield of the bank's real property stood at 5.9% (6.0).

Strategic and operative risks

Strategic risk refers to losses caused by a business strategy that is chosen incorrectly with regard to the development of the operating environment.

The aim is to minimise strategic risks by updating the strategic and annual plans regularly.

Operative risks are losses that can be caused by internal deficiencies in systems, processes and personnel operations, or by external factors affecting business.

The bank seeks to minimise the realisation of operative risks through continuous personnel development, comprehensive operating instructions and internal supervision measures, such as differentiating preparation, decision-making, implementation and supervision, where possible.

The bank has made preparations for possible operative risks and resulting damages by obtaining a special insurance policy. The possibility of the realisation of judicial risks, in turn, is reduced by the implementation of widely-used and standardised agreement terms. Protection against risks caused by malfunctions in information systems is provided by continuity planning.

Operative risks are monitored by collecting information on the bank's financial losses and any possible misuse. Observations on the bank's operative risks are reported to the board at least twice a year. The acting management utilises reporting produced by internal supervision on adherence to instructions and changes in the operating environment.

Internal audit

The board of directors has set an internal audit for the bank and confirmed an inspection plan and reporting principles for the inspection.

The purpose of the internal auditing is to assess the extent and sufficiency of the internal supervision of the bank's operating organisation, and to monitor and evaluate the functioning of the risk management systems. The internal auditing reports its observations to the managing director. The bank's board of directors reviews the audit summaries prepared by the internal auditing twice a year.

Internal supervision

The purpose of the bank's internal supervision is to ensure that goals and targets set for various levels of the organisation are reached in accordance with the agreed and set internal supervision instructions. Internal supervision is monitoring conducted from within the bank by administrative bodies and the organisation itself, and it is primarily concerned with the status, quality and results of the operations. Internal supervision is performed by the supervisory board, the board of directors, the managing director, supervisors and employees. In addition to this, employees are obliged to report deviations and illegal activities to the higher tiers of the organisation.

Administration and personnel

The voting depositors of the bank convened for a Savings Bank meeting on 15 October 2013 and selected five depositor representatives for the trustee election to be held in the autumn meeting for trustees.

In 2013, Etelä-Karjala Savings Bank had 49 trustees. Contractor Juha Helkala from Lappeenranta has served as the chairman for the trustees. Measurer Kari Rikkliä from Lappeenranta served as the first deputy chairman while the second deputy chairman was Technician Jari Kurki from Imatra. At the autumn meeting for trustees, Secretary Riikka Hämäläinen and Farmer Petri Kuokka from Lappeenranta, Youth Worker Allan Mylläri, Reception Centre Director Maritta Mälkiä and Police Sergeant Jouni Salminen from Imatra as well as Farmer Seppo Poutiala from Savitaipale were selected as new trustees.

The supervisory board of Etelä-Karjala Savings Bank includes 12 members. Shift Supervisor Lasse Malin (retired) from Kouvola has served as the chairman of the supervisory board. Lawyer Jarmo Salmi from Imatra served as the first deputy chairman while Training Director Heli Korpinen from Lappeenranta served as the second deputy chairman. The supervisory board convened five times over the course of the year.

During the year of operation, the bank's board of directors included Managing Director Jarmo Partanen as the chairman as well as bank managers Pekka Ruokonen, Pekka Ryynänen and Hannu Valkeapää as ordinary members and Bank Manager Ilkka Haapalainen as a deputy member.

At the end of the year, the bank employed 82 people, 76 (77) of whom were full-time and 6 (4) part-time employees. The personnel number increased by one person during the year. In 2013, there were 181 training days in total. Over the course of the year, five people completed the APV1 qualification.

The main auditor for the bank was Authorised Public Accountant Henry Maarala while KPMG Oy Ab was the deputy auditor. Audit Partners A&T Oy served as the internal auditor.

Bank's management and control system

The bank's management is handled by trustees who are representatives of the depositors. The depositor representatives and trustees elected in the Savings Bank meeting select the trustees at the autumn meeting for trustees. The duty of the trustees is to appoint the members of the supervisory board, confirm the rules and general instructions concerning the bank's operations, and grant discharge from liability.

The bank's supervisory board is tasked with monitoring the bank's operations in accordance with the law and the bank's rules. The supervisory board selects and releases the managing director and board members, along with deciding the bases for their pay and remunerations, and providing the spring meeting for trustees a statement on the bank's financial statements and audit report. The supervisory board decides on significant reductions and expansions of bank operations or fundamental changes to the organisation as well as monitors the Savings Bank management handled by the board of directors and managing director.

Decision on the bank's business operations and strategic matters are made by the bank's board of directors. The board of directors operates based on the confirmed instructions. The task of the board of directors is to decide on the most significant matters pertaining to the bank's business operations. The bank's managing director handles the day-to-day administration of the bank based on the instructions provided by the board of directors.

The independence of the board members and managing directors is determined in accordance with provisions issued by the Financial Supervisory Authority and its predecessor Financial Supervision. Upon being appointed to the task each year, board members and the managing director must provide an account of the communities within which they operate. In addition to this, board members and the managing director must provide a suitability and reliability report, as specified by the Financial Supervision, upon accepting their task.

Remuneration schemes

The supervisory board appoints the chairman of the board of directors, who also serves as the bank's managing director, as well as determines the pay and other benefits of the board members and deputy member. Members of the supervisory board receive a fixed annual compensation specified by the trustees in addition to a meeting-specific remuneration.

In addition to a monthly salary, members of the board of directors benefit from a remuneration scheme confirmed by the supervisory board, which can be used to pay remunerations based on the bank's financial key figures.

In 2008, the bank established an employee fund; the grating criteria for the profit-sharing remuneration paid into the fund is decided by the bank's board of directors on an annual basis. The aim of the remuneration scheme is to reward personnel accomplishments related to achieving goals accordant with the bank's strategy. The employee fund covers all employees who have served the bank more than six months. The members and deputy member of the board of directors are not covered by the fund.

Most essential outsourced operations

The bank's essential information systems have been outsourced to Samlink Ltd, in which the Savings Banks are a majority shareholder. The accounting of the bank is handled by Paikallispankkien PP-Laskenta Ltd, which is fully owned by Samlink. In payment intermediation, the bank utilises Bonum Bank Ltd's payment intermediation and clearing services, while Loomis Suomi Ltd's system is used for the maintenance of currency supply.

Social responsibility

The social responsibility of Etelä-Karjala Savings Bank refers to the bank's responsibility for the effects of its business operations on the surrounding society and the company's interest groups. As a local bank, it is important for Etelä-Karjala Savings Bank to take responsibility for the surrounding society. Etelä-Karjala Savings Bank ensures that all employer obligations are observed. In 2013, MEUR 2.3 in corporate income tax was paid from the bank's result.

Events following the closing of the accounts

An extraordinary meeting for Etelä-Karjala Savings Bank trustees was held on 16 January 2014. As regards the operational structure of the bank, the trustees made decisions on the establishment of Etelä-Karjalan Säästöpankki Ltd, which will focus on banking business, and on the Etelä-Karjalan Säästöpankkisäätiö foundation.

In addition to this, the trustees approved the letter of intent aiming for the merger of Etelä-Karjala Savings Bank and Oma Säästöpankki Ltd. This joining of banking operations will create the largest Savings Bank in Finland, which will also be financially strong. The bank's operating area will expand to cover the South Karelia, Kymenlaakso, South Savonia, South Ostrobothnia, Pirkanmaa, Häme and Satakunta regions. The main office of the bank is located in Lappeenranta. The Etelä-Karjalan Säästöpankkisäätiö foundation will be the largest individual owner of the new bank (over 48%).

In an extraordinary meeting of the Finnish Savings Banks Association on 23 January 2014, representatives of the Savings Banks made decisions on forming the consortium, approving its operating principles and turning the Finnish Savings Banks Association into a cooperative that will serve as a central body for the consortium banks. In accordance with the decision made by the Etelä-Karjala Savings Bank trustees, the bank in question will remain outside the consortium.

The decisions made at this time do not affect the bank's daily operations or customer service.

Development of business operations in 2014

The operating profit of Etelä-Karjala Savings Bank is expected to remain at the level of 2013 despite the persistently low interest level.

Board proposal on the use of distributable assets

The distributable funds of Etelä-Karjala Savings Bank stand at EUR 90,203,894.37, of which the profit for the accounting period is EUR 6,576,560.43.

The board of directors will propose to the meeting for trustees that the EUR 6,576,560.43 profit for the accounting period be transferred into the non-restricted equity fund.

Calculation formulae for key figures

Cost-income ratio, %

Administrative expenses + Depreciation, amortisation and impairment losses on
material and immaterial goods + other operating expenses x 100
Net interest income + income from equity-based investments + net fee and commission income
+ net gains on trading in securities and foreign currencies + net gains
on available-for-sale financial assets + net income from hedge accounting + net income
from investment property + other operating profit + share of associated companies' profit

Return on total assets (ROA)

Operating profit/loss - Income taxes * 100
Average balance value (average of beginning and end of year)

Equity ratio

Equity and minority share + appropriations
deducted with deferred tax debt * 100
Balance value

Solvency ratio

Total own assets * 8%
Total minimum requirement for own assets

Ratio of primary own assets to risk-weighted items

Total primary own assets * 8%
Total minimum requirement for own assets

Financial statements

Income statement of Etelä-Karjala Savings Bank

		1 Jan–31 Dec 2013 EUR	1 Jan–31 Dec 2012 EUR
Interest income	**(1.1)**	12,901,188.02	16,210,153.49
Interest expenses	**(1.1)**	-1,715,512.79	-3,444,793.42
NET INTEREST INCOME		11,185,675.23	12,765,360.07
Income from equity-based investments	**(1.2)**	562,399.73	598,665.06
Fee and commission income	**(1.3)**	5,704,068.17	5,168,643.31
Fee and commission expenses	**(1.3)**	-756,886.60	-773,351.15
Net income from trading in securities and foreign currencies	**(1.4)**	-19,430.68	-185,343.23
Net income from available-for-sale financial assets	**(1.5)**	-200,370.73	-1,230,669.46
Net income from hedge accounting	**(1.6)**	0.00	0.00
Net income from investment property	**(1.7)**	2,068,996.75	642,643.39
Other operating profit	**(1.8)**	795,405.50	284,511.15
Administrative expenses		-8,655,390.70	-8,295,890.79
Personnel expenses	**(1.9)**	-4,313,093.94	-4,168,374.97
Other administrative expenses	**(1.10)**	-4,342,296.76	-4,127,515.82
Depreciation and impairment losses on tangible and intangible assets	**(1.11)**	-219,658.57	-227,281.03
Other operating expenses	**(1.8)**	-1,780,568.32	-1,514,344.65
Impairment losses on credits and other receivables	**(1.12)**	-377,696.68	-157,956.63
OPERATING PROFIT		8,306,543.10	7,074,986.04
Appropriations		535,264.55	661,158.32
Income taxes		-2,265,247.22	-1,863,171.58
PROFIT (LOSS) OF ACTUAL OPERATIONS AFTER TAXES		6,576,560.43	5,872,972.78
PROFIT FOR THE FINANCIAL PERIOD		6,576,560.43	5,872,972.78

Balance sheet of Etelä-Karjala Savings Bank

ASSETS

		31 Dec 2013 EUR	31 Dec 2012 EUR
Cash and cash equivalents		1,978,352.89	2,764,694.29
Debt securities eligible for refinancing with central banks		1,053,130.00	0.00
Receivables from credit institutions	**(2.1)**	46,168,128.73	70,810,569.36
Receivables from the public and public institutions	**(2.2)**	475,517,913.96	456,027,837.96
Debt securities	**(2.3)**	28,849,765.87	30,772,519.53
From others		28,849,765.87	30,772,519.53
Shares and interests	**(2.4)**	41,763,901.62	19,519,804.11
Derivative contracts	**(2.5)**	2,390,988.71	4,402,730.53
Intangible assets	**(2.7)**	645,685.69	599,736.81
Tangible assets		14,395,578.44	18,820,459.04
Investment property, investment property shares and interests	**(2.9)**	7,833,427.26	12,111,272.87
Other property and property community shares and interests	**(2.9)**	6,209,562.66	6,255,294.59
Other tangible assets		352,588.52	453,891.58
Other assets	**(2.10)**	110,534.52	90,149.84
Accrued income and prepayments	**(2.11)**	1,599,801.68	1,348,502.61
Deferred tax assets	**(2.16)**	402,241.79	559,865.66
TOTAL ASSETS		614,876,023.90	605,716,869.74

LIABILITIES

		31 Dec 2013 EUR	31 Dec 2012 EUR
LIABILITIES			
Liabilities to credit institutions	**(2.12)**	520,541.98	255,453.12
Liabilities to the public and public institutions	**(2.13)**	479,317,275.65	474,152,572.71
Deposits		478,995,162.39	473,674,563.71
Other liabilities		322,113.26	478,009.00
Other liabilities	**(2.14)**	4,173,148.02	5,037,947.42
Accrued liabilities and prepayments received	**(2.15)**	1,449,483.63	2,230,512.45
Deferred tax liabilities	**(2.16)**	847,460.24	1,104,896.99
TOTAL LIABILITIES		486,307,909.52	482,781,382.69
APPROPRIATIONS			
Voluntary provisions		17,691,120.71	18,226,385.26
TOTAL APPROPRIATIONS		17 691,120.71	18,226,385.26
EQUITY	**(2.20)**		
Basic capital		2,000.00	2,000.00
Other restricted reserves		20,671,099.30	20,382,458.86
Legal reserve		17,886,560.23	17,886,560.23
Fair value reserve		2,784,539.07	2,495,898.63
Non-restricted reserves		83,069,852.41	77,894,188.62
Other reserves		83,069,852.41	77,894,188.62
Retained profit (loss)		557,481.53	557,481.53
Profit (loss) for the financial period		6,576,560.43	5,872,972.78
TOTAL EQUITY		110,876,993.67	104,709,101.79
TOTAL LIABILITIES		614,876,023.90	605,716,869.74

COMMITMENTS OUTSIDE THE BALANCE SHEET

	31 Dec 2013 EUR	31 Dec 2012 EUR
Commitments given to a third party on behalf of a client	9,642,826.55	15,633,681.26
Guarantees and pledges	9,389,207.75	9,856,124.36
Others	253,618.80	5,777,556.90
Irrevocable commitments given in favour of a client	14,529,177.49	16,323,532.05
Others	14,529,177.49	16,323,532.05

Funds statement of Etelä-Karjala Savings Bank

	1 Jan–31 Dec 2013 EUR	1 Jan–31 Dec 2012 EUR
Cash flow from operations		
Profit of actual operations after taxes	6,576,560.43	5,872,972.78
Rectifications for the financial period	-245,086.98	1,335,039.68
Increase (–) or decrease (+) of operating assets	**-8,857,902.30**	**4,980,832.32**
Debt securities	-114,416.46	-12,805,554.53
Receivables from credit institutions	28,541,835.00	30,416,868.00
Receivables from the public and public institutions	-19,490,076.00	-14,902,884.33
Shares and interests	-17,508,798.06	1,828,586.31
Other assets	-286,446.78	443,816.87
Increase (+) or decrease (–) of operating liabilities	**4,199,590.08**	**-10,620,780.76**
Liabilities to credit institutions	265,088.86	58,277.24
Liabilities to the public and public institutions	5,164,702.94	-11,263,673.97
Other liabilities	-1,230,201.72	584,615.97
Paid income taxes	-2,666,894.02	-1,842,185.21
Total operating cash flow	**-993,732.79**	**-274,121.19**
Cash flow from investments		
Financial assets held-to-maturity, decreases	900,000.00	0.00
Investments in shares and interests, increases	-2,468,188.85	-228.052.08
Investments in tangible and intangible assets	-322,334.38	-1,121,719.65
Assignments of tangible and intangible assets	5,997,308.99	201,299.00
Total cash flow from investments	**4,106,785.76**	**-1,148,472.73**
Net change of cash and cash equivalents	**3,113,052.97**	**-1,422,593.92**
Financial assets at the beginning of the financial period	7,706,411.65	9,129,005.57
Financial assets at the end of the financial period	10,819,464.62	7,706,411.65
Financial assets are composed of the following balance sheet items:		
Cash and cash equivalents	1,978,352.89	2,764,694.29
Receivables from credit institutions paid on demand	8,841,111.73	4,941,717.36
Total	**10,819,464.62**	**7,706,411.65**
Additional information on the financial statement:		
Received interest	12,729,484.64	16,623,563.20
Paid interest	2,042,824.26	3,648,463.14
Received dividends	562,399.73	598,665.06
Rectifications for the financial period:		
Appropriations	-535,264.55	-661,158.32
Income statement taxes	2,265,247.22	1,863,171.58
Changes in fair value	-3,443.45	0.00
Depreciation and impairment losses on tangible and intangible assets	580,587.88	378,573.13
Other rectifications	-2,552,214.08	-245,546.71
Total	**-245,086.98**	**1,335,039.68**

Notes

Accounting principles

The financial statements of the bank are made in accordance with the regulations on bookkeeping and credit institution law, statute (150/2007) on financial statements and consolidated financial statements issued by the Ministry of Finance, as well as regulation and guideline document 1/2013 of the Financial Supervisory Authority on accounting, financial statements and annual reports in the financial sector.

Consolidated financial statements

The subsidiaries of the bank are real estate companies and the bank does not have any associates or joint ventures. According to section 155 of the credit institution law, subsidiaries, holding companies and joint ventures whose balance value is less than 1 per cent of the parent bank value and less than 10 million euros can be excluded from the consolidated financial statements. The subsidiaries do not have a significant impact on the Group's result and balance sheet, which is why the financial statements of the bank provide a correct and adequate picture of the operative result and economic state of the Group.

Financial instruments

Classification

In accordance with the regulation and guideline document 1/2013 of the Financial Supervisory Authority on accounting, financial statements and annual reports in the financial sector, the financial assets in the financial statements are divided into four value categories:

- Financial assets entered to fair value with impact on the income
- Available-for-sale financial assets
- Investment assets to be kept till due date
  Loans and other assets

The bank does not possess financial assets entered to fair value with impact on the income.

Investments held until the due date include debt securities with fixed or definable payments that mature on a set date and which the bank is determined and capable to keep until the due date.

The category of loans and other assets contains assets with fixed or definable payments that are not quoted on the market.

Available-for-sale financial assets contain assets that have not been classified in the valuation categories mentioned above.

Acquisition and sales of financial assets have been entered in the bookkeeping in accordance with the spot date, and are contained in the balance units-based debt securities, shares and interests.

Financial liabilities are divided into two valuation categories:

- Liabilities held for transactions
- Other financial liabilities

The bank does not possess liabilities held for transactions. All financial liabilities are thus classified under other financial liabilities.

Valuation

Financial assets are entered in the balance sheet either to their fair value or periodic acquisition cost. With the exception of derivative instruments, financial liabilities are carried at amortised cost.

Available-for-sale financial assets are appraised to their fair value. The changes to their fair value adjusted with taxes are recorded in the fair value reserve under equity. Currency gains and losses originating from foreign currency based units are not entered in the fair value reserve but directly to earnings instead. The change of value accrued in the fair value reserve is entered in the earnings when a property unit belonging to available-for-sale financial assets is sold or otherwise written out of the balance sheet.

The year's final buying rate has been considered to be the fair value of quoted shares. Their acquisition cost has been regarded as the fair value for other than quoted shares when there are no reliable means to define the fair value. If the claim certificate has a quotation, the year's final buying rate has been considered to be the fair value of the claim or, when missing, the current value of the claim discounted by the market interest rate of the capital or interest flow, or a value calculated by using some other publicly approved valuation model or method.

If there has been objective proof of the depreciation, investment assets to be retained till the due date as well as loans and other claims are appraised at the periodical acquisition or acquisition cost deducted by the value depreciation loss.

The shares and interest of subsidiary and holding companies are entered in the acquisition cost or acquisition cost deducted by value depreciation loss in the event that the depreciation is considered significant or long-term.

Derivative contracts and hedge accounting

Derivative contracts in the financial statements are appraised at their fair value, and changes in the value are entered in the balance sheet and income statement.

The bank hedges its interest risk from changes in the future interest flow and applies cash flow hedging to it. The hedging applies to the future interest flow of variable-interest lending. The effective share of the change in the fair value of derivatives protecting the cash flow is entered in the fair value reserve under equity adjusted by deferred taxes. The ineffective share of the change in fair value of derivatives protecting the cash flow is entered directly in the income statement unit Net gains (losses) on trading in securities. The interests from hedging derivatives are included in interest income.

The change in the valuation of protective derivatives accrued in the fair value reserve is entered in the income statement as an adjustment of protected cash flow as soon as it is entered in the revenue. In cash flow protection, the object protected is not valued at fair value.

Material and immaterial goods

Properties and their shares are divided on the basis of their purpose into real estate in own use and investment property.

Properties are entered in the balance sheet with acquisition cost deducted by planned depreciation write-off. The shares and interest of real estate communities are entered in the balance sheet in acquisition cost. The bank does not apply the possibility defined in section 153 of the Credit Institution Act to evaluate the investment property to fair value.

The balance values of properties in own use and shares and interest of real estate communities are based on the value of the goods in relation to the income expectations in relation to the actual operations.

The difference between the book value of investment property and the shares of real estate communities and the permanently lower likely assignment price is, in case it is significant, entered in value depreciation loss as an expense in the net income from investment property. Potential cancellations of value depreciations are entered as adjustments of the same unit.

The bank's key investment property items are valued using the yield value method for each property. The purchase price method is primarily used to estimate the value of residences and land areas. The evaluations of the yield value method are based on the amount of the net rental income from the property in question and the yield requirement of the property markets. The fair values of investment property are presented in Note 2.8.

In earlier years, revaluation has been applied to some real estates and investment property shares on the basis of experts' opinions and the approval of the Financial Supervision. In the event that the value of the property with increased value has dropped below the booking value, or if the property or part of it has been assigned or destroyed, the revaluation is cancelled accordingly. No depreciation write-off is made from revaluations. No imputable tax debt is entered from revaluations. If the imputable tax debt is significant, it is reported in the notes.

Appropriations

<u>Voluntary provisions</u>

The bank uses voluntary provisions such as bad debt credit loss provisions when planning taxation and the financial statements. This being the case, the amount or change of voluntary provisions do not characterise the risks of the bank.

In the bank's financial statements, the appropriations are presented without deducting the related tax debt.

Engagements outside the balance sheet

Engagements outside the balance sheet comprise commitments given to a third party on behalf of a customer and irrevocable commitments given in favour of a customer.

Commitments given to a third party on behalf of a customer contain, for example, guarantees or similar guarantee engagements. The engagements are presented in the amount that the guarantee or guarantee engagement corresponds to at the moment of closing the accounts.

Irrevocable commitments given in favour of a customer are, for example, binding credit engagements, granted loans not drawn yet and unused credit limits. The engagements are presented in the amount that may result in payments at the moment of closing the accounts.

Interest income and expenses

Interest income and expenses contain entries of all income and expenses resulting from interest-bearing assets and liabilities. Interests are entered on an accrual basis except for penalty interests, which are entered after receiving the payment. Interests are deferred by using the method of effective interests.

Interest income and expenses also contain the difference between the acquisition price and nominal value of receivables and debts, which is amortised to the running period of the claim or debt using the effective interest method. A counter unit is entered as a change in a claim or debt.

Interest yield is also accrued in the bookings of claims with decreased value to the remaining value using the original effective interest rate of the contract.

Impairment losses of financial assets

<u>Loans and other assets</u>

Impairment losses contain entries from the impairment of loans and other assets, when there has been objective proof that payment is lacking from the capital or interest of the loan or other asset as well as when the guarantee does not suffice to cover the amount. Estimation of the objective proof is based on estimating the insolvency of a customer and sufficiency of the guarantee. When impairments are entered, the guarantee is evaluated to the amount that is expected to be gained at the moment of realisation. The amount of impairment losses is defined as the difference between the book value of the claim and the estimated current value of the accruable incoming cash flow, by taking into account the fair value of the guarantee. The original effective interest has been used as the discount interest of a claim.

Loans and other assets are classified into groups where the need for impairment losses has been estimated for each group. The asset groups are classified on the basis of similar credit risk characteristics in order to estimate the group-specific needs for impairments concerning claims in which an impairment criterion targeted to an individual claim has not yet been identified.

<u>Investment assets to be kept till due date</u>

In the event that, on closing the accounts, objective proof has been shown that the value of a debt security classified in investments held until the due date may have declined, the debt security must undergo an impairment analysis.

If the analysis shows an impairment, for example that the credit risk of the issuer has increased, the impairment is recorded through profit and loss to the item Impairment losses on other financial assets. The amount of the impairment loss is defined as the difference between the book value of the claim and the estimated current value of the accruable future cash flows. The original effective interest has been used as the discount interest of a claim.

Available-for-sale financial assets

In the event that, at the closing of accounts, objective proof has been shown that the value of securities classified in available-for-sale financial assets may have declined, the securities must undergo an impairment analysis. If the analysis shows impairment – e.g. the credit risk of the issuer has increased or the value of a share has decreased significantly or below the long-term acquisition cost, and the bank estimates that it cannot return the investment – the loss accrued in the fair value reserve is entered with impact on the income to the unit Net income from available-for-sale financial assets.

As comes to claim certificates, the amount of impairment loss is defined as the difference between the book value of the claim and the estimated current value of the accruable incoming cash flow. The original effective interest has been used as the discount interest of a claim. The cancellation of the impairment losses of claim certificates are entered with impact on the income. The amount of the impairment losses of shares and interest is estimated as the difference between their book value and the value that the bank estimates not to receive. The impairment losses of shares cannot be cancelled with impact on the income, and the change in the value is entered in the fair value reserve.

Depreciation principles

The acquisition cost of buildings and other material and immaterial goods is depreciated on the basis of the economic holding period, in accordance with the depreciation plan as straight-line depreciations. Depreciation periods are 40 years for buildings and their parts, and 3 to 8 years for machinery and equipment. Land areas are not subject to depreciation.

The development costs of software programs and licences are activated in Immaterial Rights and depreciated in 3 to 5 years. Long-term expenses are depreciated over their useful lives, which is 5 to 10 years.

Income and expenses other than those from ordinary activities and statutory provisions

The bank and the group have not recorded any statutory provisions or income and expenses other than those from ordinary activities.

Taxes

Income taxes are entered in the bank's financial statements on the basis of taxable income. Of a positive change in the value contained in the fair value reserve, the imputable tax debt is entered on the balance sheet. Of a negative change in the value, the imputable tax claim is entered. In addition, an imputable tax claim has been recorded on the negative value change transferred from the fair value reserve to income. Other deferred taxes have not been recorded.

Cash and cash equivalents

The cash and cash equivalents of the funds statement comprise cash in hand and receivables from credit institutions paid on demand. The funds statement has been prepared using the indirect method.

Other notes

NOTES ON THE FINANCIAL STATEMENTS

1.1 Interest income and expenses

	2013	2012
Interest income		
From claims from credit institutions	346,182.95	1,137,857.26
From loans and advances to the public and general government	9,778,966.40	12,325,407.80
From claim certificates	565,183.83	399,458.36
From derivative contracts	1,978,081.66	2,346,921.00
Other interest income	232,773.18	509.07
Total	**12,901,188.02**	**16,210,153.49**
Interest income on impairment of credits and other assets	23,068.83	15,011.37
Interest expenses		
From liabilities to credit institutions	0.00	-302.87
From liabilities to the public and general government	-1,708,523.58	-3,435,601.83
Other interest expenses	-6,989.21	-8,888.72
Total	**-1,715,512.79**	**-3,444,793.42**

1.2 Income from equity-based investments

	2013	2012
From available-for-sale financial assets	562,399.73	598,665.06
Total	**562,399.73**	**598,665.06**

1.3 Fee and commission income and expenses

	2013	2012
Fee and commission income		
From credits	1,227,735.79	1,117,401.90
From deposits	44,236.90	17,815.25
From payment transactions	2,877,331.91	2,536,720.57
From asset management	407,710.10	392,676.43
From intermediary operations	960,734.69	919,941.34
From granting of guarantees	49,623.17	53,629.55
Other fee and commission income	136,695.61	130,458.27
Total	**5,704,068.17**	**5,168,643.31**
Fee and commission expenses		
Paid commissions	-118,231.83	-163,039.53
Others	-638,654.77	-610,311.62
Total	**-756,886.60**	**-773,351.15**

1.4 Net gains on trading in securities and foreign currencies

	2013 Gains and losses on sales (net)	Changes in market value (net)	Total
From others	0.00	-19,430.68	-19,430.68
Total net gains on trading in securities	0.00	-19,430.68	-19,430.68
Total of the income statement unit	**0.00**	**-19,430.68**	**-19,430.68**

Net gains on trading in securities and foreign currencies

	2012 Gains and losses on sales (net)	Changes in market value (net)	Total
From others	0.00	-185,343.23	-185,343.23
Total net gains on trading in securities	0.00	-185,343.23	-185,343.23
Total of the income statement unit	**0.00**	**-185,343.23**	**-185,343.23**

1.5 Net gains on available for sale financial assets

	2013 Gains and losses on sales (net)	Depreciations	Transfers from fair value reserve	Total
From claim certificates	-10,355.00	0.00	-21,402.12	-31,757.12
From shares and interests	-32,181.24	-295,024.37	158,592.00	-168,613.61
Total	**-42,536.24**	**-295,024.37**	**137,189.88**	**-200,370.73**

Net gains on available-for-sale financial assets

	2012 Gains and losses on sales (net)	Depreciations	Transfers from fair value reserve	Total
From claim certificates	0.00	0.00	0.00	0.00
From shares and interests	24,480.68	-1,081,208.24	-173,941.90	-1,230,669.46
Total	**24,480.68**	**-1,081,208.24**	**-173,941.90**	**-1,230,669.46**

1.6 Net income from hedge accounting

	2013	2012
Change (net) in the fair value of protective derivatives	3,443.45	0.00
Change (net) in the fair value of investment objects to be protected	-3,443.45	0.00
Total	**0.00**	**0.00**

1.7 Net income from investment property

	2013	2012
Rental yields	1,197,328.73	1,445,068.70
Rent expenses	-140.00	0.00
Planned depreciation write-off	-78,609.53	-151,292.10
Gains and losses on sales (net)	1,876,630.77	4,600.00
Impairment loss	-282,319.78	0.00
Other income	6,085.93	8,521.51
Other expenses	-649,979.37	-664,254.72
Total	**2,068,996.75**	**642,643.39**

1.8 Other operating profit and expenses

Other operating profit	2013	2012
Rent income from real estate in own use	53,163.97	117,277.58
Other income	742,241.53	167,233.57
Total	**795,405.50**	**284,511.15**

Other operating expenses	2013	2012
Rent expenses	-119,420.90	-213,004.08
Expenses from real estate in own use	-473,681.34	-533,226.74
Other expenses	-1,187,466.08	-768,113.83
Total	**-1,780,568.32**	**-1,514,344.65**

1.9 Personnel expenses

	2013	2012
Salaries and fees	-3,266,641.09	-3,376,978.38
Indirect employee expenses	-1,046,452.85	-791,396.59
Pension expenses	-916,260.93	-654,967.87
Other indirect employee expenses	-130,191.92	-136,428.72
Total	**-4,313,093.94**	**-4,168,374.97**

1.10 Other administrative expenses

	2013	2012
Other personnel expenses	-323,832.82	-309,137.39
Office expenses	-389,100.22	-355,374.05
IT expenses	-2,717,136.79	-2,576,641.48
Communications expenses	-380,309.51	-360,480.58
Promotional and marketing expenses	-531,917.42	-525,882.32
Total	**-4,342,296.76**	**-4,127,515.82**

1.11 Depreciation, amortisation and impairment losses on material and immaterial goods

	2013	2012
Planned depreciation write-off	-219,658.57	-227,281.03
Material goods	-130,584.30	-208,032.04
Immaterial goods	-89,074.27	-19,248.99
Total	**-219,658.57**	**-227,281.03**

1.12 Impairment losses on loans, other engagements and other financial assets

Impairment losses on loans and other receivables	2013	2012
From loans and advances to the public and general government	-387,511.50	-157,956.63
Contractually based impairment losses	-603,555.32	-257,388.98
Group-specific impairment losses	0.00	-100,000.00
Cancellations and returns (-) on impairments	216,043.82	199,432.35
From guarantees and other units outside the balance sheet	9,814.82	0.00
Cancellations and returns (-) on impairments	9,814.82	0.00
Total impairment losses on loans and other receivables	**-377,696.68**	**-157,956.63**
Total impairment losses on financial assets	-377,696.68	-157,956.63

1.13 Income by operating and market area

	2013	2012
Income from banking operations	20,096,743.97	18,043,810.29

Distribution of gains, operating profit, assets and liabilities by operating area have not been reported due to lack of significance.

The bank operates only in Finland.

The gains are presented as non-eliminated.

NOTES ON THE BALANCE SHEET

2.1. Loans and advances to credit institutions

	2013	2012
Repayable on demand	8,841,111.73	4,941,717.36
From domestic credit institutions	8,841,111.73	4,941,717.36
Others	37,327,017.00	65,868,852.00
From domestic credit institutions	37,327,017.00	65,868,852.00
Total	**46,168,128.73**	**70,810,569.36**

The item Others contains a long-term, unsecured loan (senior) granted by the bank to Aktia Real Estate Mortgage Bank Plc for refinancing of mortgages.

2.2 Loans to the public and general government

	2013	2012
Enterprises and housing communities	83,850,227.06	76,161,368.91
Financing and insurance institutions	87,716.37	110,733.95
General government	0.00	73,215.55
Households	388,134,439.65	375,807,904.17
Non-profit communities serving households	2,662,315.03	2,929,557.12
Foreign	783,215.85	945,058.26
Total	**475,517,913.96**	**456,027,837.96**
- subordinated liabilities	101,000.00,	0.00,

Impairment losses recorded during the accounting period

	2013	2012
Impairment losses at the beginning of the accounting period	2,451,260.51	2,484,771.06
+ claim-specific impairment losses recorded during the accounting period	603,555.32	257,388.98
+ group-specific impairment losses recorded during the accounting period	0.00	100,000.00
- claim-specific impairment losses cancelled during the accounting period	-160,666.36	-192,925.08
- credit losses realized during the accounting period formerly recorded with a claim-specific impairment loss	-367,696.21	-197,974.45
Impairment losses at the end of the accounting period	**2,526,453.26**	**2,451,260.51**

2.3 Debt securities

	2013		2012	
	Total	**Of which debt securities eligible for refinancing with central banks**	**Total**	**Of which debt securities eligible for refinancing with central banks**
Available-for-sale debt securities	29,902,895.87	1,053,130.00	29,872,519.53	0.00
Quoted	15,211,707.00	1,053,130.00	2,096,000.00	0.00
Others	14,691,188.87	0.00	27,776,519.53	0.00
Debt securities to be kept till due date	0.00	0.00	900,000.00	0.00
Others	0.00	0.00	900,000.00	0.00
Total	**29,902,895.87**	**1,053,130.00**	**30,772,519.53**	**0.00**
- subordinated liabilities	3,364,020.00	0.00	900,000.00	0.00

2.4 Shares and interests

	2013	2012
Available-for-sale shares and interests	41,755,492.22	19,511,394.71
Quoted	29,162,905.62	9,387,636.96
Others	12,592,586.60	10,123,757.75
Total shares and interests	**41,755,492.22**	**19,511,394.71**
- of which in credit institutions	9,682,292.18	8,613,073.53

Shares and interests in companies belonging to the same group		
In other companies	8,409.40	8,409.40
Total	**8,409.40**	**8,409.40**

Ownerships are appraised at acquisition cost.

2.5 Derivative contracts

Nominal values of derivative contracts

2013

Remaining maturity	Less than 1 year	1 to 5 years	More than 5 years	Total
Protective derivatives	30,000,000.00	40,879,900.00	0.00	70,879,900.00
Interest derivatives	30,000,000.00	40,000,000.00	0.00	70,000,000.00
Option contracts	30,000,000.00	40,000,000.00	0.00	70,000,000.00
Purchased	30,000,000.00	40,000,000.00	0.00	70,000,000.00
Share derivatives	0.00	879,900.00	0.00	879,900.00

2012

Remaining maturity	Less than 1 year	1 to 5 years	More than 5 years	Total
Protective derivatives	0.00	70,000,000.00	0.00	0.00
Interest derivatives	0.00	70,000,000.00	0.00	0.00
Option contracts	0.00	70,000,000.00	0.00	0.00
Purchased	0.00	70,000,000.00	0.00	0.00
Share derivatives	0.00	0.00	0.00	0.00

Fair values of derivative contracts

	2013		2012	
	Claims	Liabilities	Claims	Liabilities
Protective derivatives	2,390,988.71	0.00	4,402,730.53	0.00
Interest derivatives	2,372,782.23	0.00	4,402,730.53	0.00
Option contracts	2,372,782.23	0.00	4,402,730.53	0.00
Purchased	2,372,782.23	0.00	4,402,730.53	0.00
Share derivatives	18,206.48	0.00	0.00	0.00
Total	**2,390,988.71**	**0.00**	**4,402,730.53**	**0.00**

2.6 Notes on associated parties

Notes on associated parties are presented in connection with notes on personnel and management.
Note 4.4.

2.7 Immaterial goods

	2013	2012
Other immaterial goods	645,685,69	599,736.81
Total	**645,685,69**	**599,736.81**

2.8 Material goods

	Book value	Fair value
Land and water areas		
In own use	715,547.44	
Invested	251,593.03	770,095.58
Total	**967,140.47**	
Buildings		
In own use	267,207.25	
Invested	586,273.83	67,434.90
Total	**853,481.08**	
Shares and book entries of real estate communities		
In own use	5,226,807.97	
Invested	6,995,560.40	6,995,560.41
Total	**12,222,368.37**	
Other material goods	352,588.52	
Total material goods	14,395,578.44	

Real estate investments are appraised at acquisition cost.

2.9 Changes in immaterial and material goods during the accounting period

Immaterial goods	2013
Acquisition cost 1 Jan	1,511,420.81
+ additions of the accounting period	43,093.93
- deductions of the accounting period	-17,237.57
+/- transfers between units	1,574,379.80
Acquisition cost 31 Dec	3,111,656.97
Accrued depreciation, amortisation and impairment losses 1 Jan	-911,684.00
+/- accrued depreciation write-off on deductions and transfers	-1,418,851.32
- depreciation write-off of the accounting period	-135,435.96
Accrued depreciation, amortisation and impairment losses 31 Dec	-2,465,971.28
Book value 31 Dec	**645,685.69**
Book value 1 Jan	599,736.81

Material goods

	2013 Investment property and investment property shares	Other properties and property shares	Other material goods	Total
Acquisition cost 1 Jan	12,720,404.15	7,301,080.08	2,811,769.20	22,833,253.43
+ additions of the accounting period	275,114.02	0.00	21,364.00	296,478.02
- deductions of the accounting period	-3,479,365.42	0.00	0.00	-3,479,365.42
+/- transfers between units	-388,772.75	-1,185,607.05	0.00	-1,574,379.80
Acquisition cost 31 Dec	9,127,380.00	6,115,473.03	2,833,133.20	18,075,986.23
Accrued depreciation, amortisation and impairment losses 1 Jan	-1,463,943.22	-1,510,577.87	-2,357,877.62	-5,332,398.71
+/- accrued depreciation write-off on deductions and transfers	373,416.84	1,147,792.36	0.00	1,521,209.20
- depreciation write-off of the accounting period	-78,609.53	-7,917.24	-122,667.06	-209,193.83
- depreciations of the accounting period	-282,319.78	0.00	0.00	-282,319.78
Accrued depreciation, amortisation and impairment losses 31 Dec	-1,451,455.69	-370,702.75	-2,480,544.68	-4,302,703.12
Accrued revaluations 1 Jan	854,811.94	464,792.38	0.00	1,319,604.32
+/- Revaluations and their cancellations for the period	-697,308.99	0.00	0.00	-697,308.99
Accrued revaluations 31 Dec	157,502.95	464,792.38	0.00	622,295.33
Book value 31 Dec	**7,833,427.26**	**6,209,562.66**	**352,588.52**	**14,395,578.44**
Book value 1 Jan	12,111,272.87	6,255,294.59	453,891.58	18,820,459.04

During the 2013 accounting period, the activated basic renovation costs of housing units have been transferred from material goods to immaterial goods.

2.10 Other assets

	2013	2012
Others	110,534.52	90,149.84
Total	**110,534.52**	**90,149.84**

2.11 Accrued income and prepayments

	2013	2012
Interests	1,132,375.28	961,255.55
Others	467,426.40	387,247.06
Total	**1,599,801.68**	**1,348,502.61**

2.12 Liabilities to credit institutions

	2013	2012
To central banks	0.00	0.00
To credit institutions	520,541.98	255,453.12
Repayable on demand	520,541.98	255,453.12
Total	**520,541.98**	**255,453.12**

2.13 Liabilities to the public and general government

	2013	2012
Deposits	478,995,162.39	473,674,563.71
Repayable on demand	390,760,146.11	374,103,092.34
Others	88,235,016.28	99,571,471.37
Other liabilities	322,113.26	478,009.00
Others	322,113.26	478,009.00
Total	**479,317,275.65**	**474,152,572.71**

2.14 Other liabilities

	2013	2012
Liabilities on payment transfer	4,151,240.78	4,980,383.07
Others	21,907.24	57,564.35
Total	**4,173,148.02**	**5,037,947.42**

2.15 Accrued expenses and deferred income

	2013	2012
Interests	475,238.95	802,382.34
Others	974,244.68	1,428,130.11
Total	**1,449,483.63**	**2,230,512.45**

2.16 Deferred tax liabilities and assets

Deferred tax liabilities and assets are recorded on the changes in the fair value of cash-flow-hedging derivatives and available-for-sale financial assets recorded in the fair value reserve, and deferred tax assets from the fair value reserve are recorded on the negative change in value
transferred as an impairment loss to the income statement. Other deferred tax liabilities and assets have not been
recorded on the bank's balance sheet.

Deferred tax liabilities and assets

Valuation-based deferred tax assets	402,241.79
Valuation-based deferred tax liabilities	847,460.24

Deferred tax liabilities from revaluations have not been recorded.
Revaluations have no impact on income taxation.

2.17 Maturity distribution of financial assets and liabilities

Financial assets

	Parent company		
	2013		
	Less than 3 months	3 to 12 months	1 to 5 years
Debt securities eligible for refinancing with central banks	0.00	0.00	1,053,130.00
Receivables from credit institutions	36,448,128.73	2,000,000.00	0.00
Receivables from the public and general government	22,945,075.27	47,512,349.84	180,605,057.42
Debt securities	5,495,438.74	1,896,956.63	10,145,858.50
Total	**64,888,642.74**	**51,409,306.47**	**191,804,045.92**

	2013		
	5 to 10 years	More than 10 years	Total
Debt securities eligible for refinancing with central banks	0.00	0.00	1,053,130.00
Receivables from credit institutions	0.00	7,720,000.00	46,168,128.73
Receivables from the public and general government	131,714,510.36	92,740,921.07	475,517,913.96
Debt securities	9,955,292.00	1,356,220.00	28,849,765.87
Total	**141,669,802.36**	**101,817,141.07**	**551,588,938.56**

Financial assets

	2012		
	Less than 3 months	**3 to 12 months**	**1 to 5 years**
Debt securities eligible for refinancing with central banks	0.00	0.00	0.00
Receivables from credit institutions	34,571,469.36	29,400,000.00	0.00
Receivables from the public and general government	22,768,381.24	47,926,832.04	173,524,676.40
Debt securities	22,786,001.53	4,990,518.00	720,000.00
Total	**80,125,852.13**	**82,317,350.04**	**174,244,676.40**

Financial assets

	2012		
	5 to 10 years	**More than 10 years**	**Total**
Debt securities eligible for refinancing with central banks	0.00	0.00	0.00
Receivables from credit institutions	0.00	6,839,100.00	70,810,569.36
Receivables from the public and general government	123,527,639.51	88,280,308.77	456,027,837.96
Debt securities	2,276,000.00	0.00	30,772,519.53
Total	**125,803,639.51**	**95,119,408.77**	**557,610,926.85**

Financial liabilities

	2013		
	Less than 3 months	**3 to 12 months**	**1 to 5 years**
Liabilities to credit institutions and central banks	520,541.98	0.00	0.00
Liabilities to the public and general government	419,172,736.59	38,988,229.31	20,834,196.49
Total	**419,693,278.57**	**38,988,229.31**	**20,834,196.49**

Financial liabilities

	2013		
	5 to 10 years	**More than 10 years**	**Total**
Liabilities to credit institutions and central banks	0.00	0.00	520,541.98
Liabilities to the public and general government	322,113.26	0.00	479,317,275.65
Total	**322,113.26**	**0.00**	**479,837,817.63**

Financial liabilities

	2012		
	Less than 3 months	**3 to 12 months**	**1 to 5 years**
Liabilities to credit institutions and central banks	255,453.12	0.00	0.00
Liabilities to the public and general government	410,642,425.16	55,113,565.67	7,918,572.88
Total	**410,897,878.28**	**55,113,565.67**	**7,918,572.88**

Financial liabilities

	2012		
	5 to 10 years	**More than 10 years**	**Total**
Liabilities to credit institutions and central banks	0.00	0.00	255,453.12
Liabilities to the public and general government	478,009.00	0.00	474,152,572.71
Total	**478,009.00**	**0.00**	**474,408,025.83**

Loans and advances to the public and general government repayable on demand:
Other than fixed term deposits and accounts with overdraft allowance are reported
in the category less than 3 months.

2.18 Classification of assets and liabilities based on domestic and foreign currency and included in the Group

Assets	2013		2012	
	Domestic currency	Foreign currency	Domestic currency	Foreign currency
Debt securities eligible for refinancing with central banks	1,053,130.00	0.00	0.00	0.00
Receivables from credit institutions	46,168,128.73	0.00	70,810,569.36	0.00
Receivables from the public and general government	475,517,913.96	0.00	456,027,837.96	0.00
Debt securities	28,849,765.87	0.00	30,772,519.53	0.00
Derivative contracts	2,390,988.71	0.00	4,402,730.53	0.00
Other property	60,896,096.63	0.00	43,703,212.36	0.00
Total	**614,876,023.90**	**0.00**	**605,716,869.74**	**0.00**

Liabilities

	2013		2012	
	Domestic currency	Foreign currency	Domestic currency	Foreign currency
Liabilities to credit institutions and central banks	520,541.98	0.00	255,453.12	0.00
Liabilities to the public and general government	479,317,275.65	0.00	474,152,572.71	0.00
Other liabilities	5,020,608.26	0.00	6,142,844.41	0.00
Accrued expenses and deferred income	1,449,483.63	0.00	2,230,512.45	0.00
Total	**486,307,909.52**	**0.00**	**482,781,382.69**	**0.00**

2.19 Fair values of financial assets and liabilities

	2013		2012	
Financial assets	Book value	Fair value	Book value	Fair value
Cash and cash equivalents	1,978,352.89	1,978,352.89	2,764,694.29	2,764,694.29
Receivables from credit institutions	46,168,128.73	46,168,128.73	70,810,569.36	70,810,569.36
Receivables from the public and general government	475,517,913.96	475,517,913.96	456,027,837.96	456,027,837.96
Debt securities	29,902,895.87	29,902,895.87	30,772,519.53	30,772,519.53
Shares and interests	41,755,492.22	41,755,492.22	19,511,394.71	19,511,394.71
Shares and interests in companies belonging to the same Group	8,409.40	8,409.40	8,409.40	8,409.40
Derivative contracts	2,390,988.71	2,390,988.71	4,402,730.53	4,402,730.53
Total	**597,722,181.78**	**597,722,181.78**	**584,298,155.78**	**584,298,155.78**

Financial liabilities

	2013		2012	
	Book value	Fair value	Book value	Fair value
Liabilities to credit institutions	520,541.98	520,541.98	255,453.12	255,453.12
Liabilities to the public and general government	479,317,275.65	479,317,275.65	474,152,572.71	474,152,572.71
Total	**479,837,817.63**	**479,837,817.63**	**474,408,025.83**	**474,408,025.83**

The fair values of financial asset have primarily been made using quoted market values. If the quoted market value has not been available, the valuation has been based on the current value discounted with the market interest rate or other commonly accepted valuation model or method. For the fair value of other financial assets, the book value has been used.

For the fair value of financial liabilities, the book value has been used.

Financial instruments valued at fair value in the balance sheet	**Parent company 2013**			
	Level 1	**Level 2**	**Level 3**	**Total**
	41,775,943.62	6,990,835.37	10,299,022.50	59,065,801.49
	Parent company 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
	11,483,636.96	27,776,519.53	0.00	39,260,156.49

Essential financial assets evaluated to acquisition cost instead of fair value

Shares and interests are evaluated to acquisition cost in companies considered essential for the operation, which are described in detail
in notes 5.2. Shares and interests considered essential for the operation are meant to be kept in permanent possession. The fair value of these ownerships cannot be defined in a reliable manner.

2.20 Equity increase and decrease during accounting period

	Accounting period at the beginning	**Increase**	**Decrease**	**Accounting period at the end**
Basic capital	2,000.00	0.00	0.00	2,000.00
Other restricted reserves	20,382,458.86	3,767,731.59	-3,479,091.15	20,671,099.30
Legal reserve	17,886,560.23	0.00	0.00	17,886,560.23
Fair value reserve	2,495,898.63	3,767,731.59	-3,479,091.15	2,784,539.07
From cash flow hedging	2,618,551.48	-1,175,168.93	-275,336.57	1,168,045.98
From valuation to fair value	-122,652.85	4,942,900.52	-3,203,754.58	1,616,493.09
Non-restricted reserves	77,894,188.62	5,872,972.78	-697,308.99	83,069,852.41
Other reserves	77,894,188.62	5,872,972.78	-697,308.99	83,069,852.41
Retained earnings	557,481.53	5,872,972.78	-5,872,972.78	557,481.53
Profit for the period	5,872,972.78	6,576,560.43	-5,872,972.78	6,576,560.43
Total equity	**104,709,101.79**	**22,090,237.58**	**-15,922,345.70**	**110,876,993.67**

	Accounting period at the beginning	**Increase**	**Decrease**	**Accounting period at the end**
Cash flow hedging	2,618,551.48	-1,175,168.93	-275,336.57	1,168,045.98
of which deferred taxes	-849,728.61	557,717.11	0.00	-292,011.50
Equity-based instruments	-214,434.65	4,337,373.65	-2,536,466.04	1,586,472.96
of which deferred taxes	69,584.76	0.00	-466,202.99	-396,618.23
Debt securities	91,781.80	605,526.87	-667,288.54	30,020.13
of which deferred taxes	-29,783.49	22,278.45	0.00	-7,505.04
Total fair value reserve	**2,495,898.63**	**3,767,731.59**	**-3,479,091.15**	**2,784,539.07**

NOTES CONCERNING GUARANTEES AND CONTINGENT LIABILITIES GRANTED

3.1 Guarantees granted

Granted on others' liabilities:
The bank has not granted guarantees on the liabilities of others.

3.2 Pension liabilities

The pension security of the personnel has been arranged by Eläke-Fennia pension security company, and there is no uncovered pension liability.

3.3 Leasing and other rent liabilities

Minimum rents payable on the basis of
non-cancellable leasing

	2013	2012
Less than 1 year	117,605.57	125,979.36
1 to 5 years	349,473.04	405,435.94
More than 5 years	82,879.56	136,086.00

3.4 Off-balance sheet commitments

	2013	2012
Commitments given to third party on behalf of customer		
Guarantees	9,389,207.75	9,856,124.36
Other commitments given to a third party on behalf of a customer	253,618.80	5,777,556.90
Granted to a customer		
Irrevocable engagements	14,529,177.49	16,323,532.05
of which credit engagements	14,529,177.49	16,323,532.05
Total engagements outside the balance sheet	**24,172,004.04**	**31,957,213.31**

The bank has issued an absolute guarantee on behalf of itself and other Savings Banks included in the transfer contract on the compensation of potential mortgage loan losses to
Aktia Real Estate Mortgage Bank Plc. The amount of guarantee liabilities is restricted.

The bank has given an absolute guarantee to Aktia Bank Plc to the benefit of all other Savings Banks who have signed an identical payment transactions account contract with Aktia Bank Plc. The guarantee concerns the receivables
that may be generated to Aktia Bank Plc by breaching the terms and conditions of the payment transactions account contract.
The amount of guarantee liabilities is restricted.

3.5 Other off-balance sheet arrangements

The bank belongs to the VAT group of Samlink Ltd.

Common liabilities related to the group VAT registration	1,599,454.59	884,897.32

The Finnish Savings Banks Association represents the Savings Banks to Visa Europe. As a member of Visa Europe (Associate Member), the Finnish Savings Bank Association is primarily responsible to Visa Europe for the potential damage that may be caused
to the payment card business and for following the membership and Visa rules.
Based on the membership agreement, Visa Europe may impose on the Association compensation claims for breaching the contract and the rules.
Since the savings banks are responsible for all business operations related to Visa cards, they are also eventually responsible for any compensation to Visa Europe.

NOTES ON PERSONNEL AND MANAGEMENT

4.1 Number of personnel 31 Dec

	2013	2012
Permanent full-time personnel	75	76
Permanent part-time personnel	4	3
Fixed-term personnel	2	2
Total	**81**	**81**

4.2 Salaries and fees of the management

	2013	2012
Members and deputy members of the supervisory board	50,000.00	36,980.00
Board members and deputies as well as managing director and his deputy	612,473.40	593,516.47
Total	**662,473.40**	**630,496.47**

4.3 Loans and guarantees granted to the management

	2013		2012	
	Loans	Guarantees	Loans	Guaran-tees
Members and deputy members of the supervisory board	350,293.52	0.00	383,869.25	10,000.00
Board members and deputies as well as managing director and his deputy	92,962.71	0.00	132,952.30	75,000.00
Total	**443,256.23**	**0.00**	**516,821.55**	**85,000.00**
Increase	28,285.50		362,216.35	
Decrease	259,473.87		173,042.77	

Loans and guarantees have been granted under terms and conditions applied to similar customer credits and guarantees.

4.4 Notes on associated parties

Criterion of belonging to associated parties	2013 Receiva-bles from the public and general govern-ment	Invest-ments	Other re-ceivables	Sureties/ guaran-tees
Management *)	0.00	0.00	0.00	0.00
Relationship	305,816.90	0.00	0.00	0.00
Authority	301,144.59	0.00	0.00	0.00
Total	**606,961.49**	**0.00**	**0.00**	**0.00**

Criterion of belonging to associated parties	2012 Receiva-bles from the public and general govern-ment	Invest-ments	Other re-ceivables	Sureties/ guaran-tees
Management *)	0.00	0.00	0.00	0.00
Relationship	269,099.62	0.00	0.00	0.00
Authority	375,047.81	0.00	0.00	0.00
Total	**644,147.43**	**0.00**	**0.00**	**0.00**

*) Loans and guarantees granted to the management are presented in note 4.3.

Primary terms concerning assets and investments:
Primary content of granted guarantees and set securities:

OWNERSHIP IN OTHER COMPANIES

5.1 Small subsidiaries and partner companies left out of the consolidated balance sheet

Subsidiaries	Pcs	Book values
Housing and real estate companies	4	8,028,451.64
Others	1	8,409.40

Associates	Pcs	Book values
Housing and real estate companies	9	2,961,241.37

5.2 Ownership in other companies

Name and domicile of the company	Share of ownership, %	Equity*	Profit for the period*
Aktia Real Estate Mortgage Bank Plc, Helsinki	1.57	107,700,000.00	1 738 724,47
Life Insurance Company Duo, Espoo	9.46	24,804,665.73	6 623 227,21
Nooa Savings Bank Ltd, Helsinki	12.68	35,310,395.25	-642 230,68
Sp-Fund Management Company Ltd, Espoo	10.14	1,957,053.86	-359 684,96
Samlink Ltd, Espoo	9.65	11,582,011.78	1 552 187,95
Säästöpankkien Holding Ltd, Espoo	9.99	1,351,008.31	-123,65
Sp-Koti, Espoo	8.88	525,611.66	-534 854,48
Central Bank of Savings Banks Finland Ltd, Espoo	7.22	0.00	0,00
Total		**183,230,746.59**	**8,377,245.86**

* Equity and profit for the 2012 accounting period

OTHER NOTES

6.1 Trustee operations provided by the credit institution

Property management services provided by the credit institution

In accordance with Section 11 of the Act on Investment Services, the bank provides transaction intermediation and implementation, trade for own benefit,
administration of property, investment advice, storage and management services for financial instruments,
safety deposit box services and related services.
The bank does not provide the so-called full-service property management.

6.2 Auditor's fees

	2013
Auditor's fees by commission group:	
Audit	13,279.37
Other services	5,388.88
Total	**18,668.25**

7 NOTES ON SOLVENCY (PILLAR III)

7.1 Classification of own assets

Primary own assets	**2013**	**2012**
Paid equity	2,000.00	2,000.00
Reserves	122,243,351.17	115,972,124.03
- Immaterial goods	-645,685.69	-599,736.81
- Investments in financial institutions	-3,602,313.02	-5,218,806.11
Total primary own assets	117,997,352.46	110,155,581.11
Secondary own assets		
Upper secondary own assets	1,616,493.10	-122,652.85
- Investments in financial institutions	-1,616,493.10	0.00
Total secondary own assets	0.00	-122,652.85
Total own assets	**117,997,352.46**	**110,032,928.26**

7.2 Minimum amount of own assets

Credit and opponent risk

	2013	**2012**
Liability group	**Minimum amount of own assets**	**Minimum amount of own assets**
Loans and advances to credit institutions and investment service companies	1,002,603.56	1,309,997.24
Claims from companies	2,999,626.19	3,588,610.23
Retail claims	5,083,858.72	4,979,506.76
Real estate security claims	10,194,443.87	9,648,329.47
Maturity claims	311,509.34	376,619.11
Investments in investment funds	873,248.66	27,904.09
Other items	2,882,486.76	2,572,432.18
Total credit risk	**23,347,777.10**	**22,503,399.08**
Market risk (currency risk)	375,730.08	0.00
Operative risk	2,902,007.26	2,718,416.61
Total minimum amount of own assets	**26,625,514.44**	**25,221,815.70**

7.3 Total liabilities according to risk weight

Credit and opponent risk

Risk weight (%)	**2013**	**2012**
0	27,220,357.54	25,827,788.53
10	20,924.50	0.00
20	54,281,189.28	77,940,128.19
35	366,887,932.06	348,553,619.98
50	2,699,243.27	2,539,840.76
75	92,891,717.75	94,938,397.51
100	89,044,589.27	81,825,869.44
150	407,618.48	579,895.73
1,250	355.99	0.00
Total	**633,453,928.14**	**632,205,540.14**

7.4 Average value of total liabilities by liability group during the accounting period

Credit and opponent risk

Liability group	2013	2012
Claims from governments and central banks	18,400,983.06	17,830,709.85
Claims from regional administration and local authorities	209,795.40	251,552.26
Loans and advances to credit institutions and investment service companies	72,019,003.50	93,721,877.99
Claims from companies	44,131,623.13	41,750,417.90
Retail claims	95,514,089.70	96,289,881.60
Real estate security claims	363,703,483.73	343,166,345.24
Maturity claims	4,092,956.70	5,192,280.86
Investments in investment funds	4,568,080.50	1,020,147.58
Other items	34,909,575.05	34,824,401.82
Total	**637,549,590.77**	**634,047,615.10**

7.5 Total liabilities according to maturity analysis per liability group *)

Credit and opponent risk

	2013		
Liability group	**Total**	**Less than 3 months**	**3 to 12 months**
Real estate security claims	367,659,708.97	3,717,909.58	5,946,189.07
Retail claims	92,891,717.75	2,266,061.66	3,877,165.43
Loans and advances to credit institutions and investment service companies	59,106,138.32	13,448,800.59	0.00
Claims from companies	38,418,124.46	96,777.20	110,225.57
Total other liability groups	71,650,597.88	3,099,961.53	578,899.61
Maturity claims	3,727,640.76	1,915,392.02	11,009.86
Total	**633,453,928.14**	**24,544,902.58**	**10,523,489.54**

Liability group	**1 to 5 years**	**5 to 10 years**	**More than 10 years**
Real estate security claims	46,680,677.27	91,211,764.32	220,103,168.73
Retail claims	20,238,450.92	23,458,225.85	43,051,813.89
Loans and advances to credit institutions and investment service companies	4,093,334.27	22,000.00	41,542,003.46
Claims from companies	9,897,667.65	11,973,514.26	16,339,939.78
Total other liability groups	1,382,929.59	1,939,104.86	64,649,702.29
Maturity claims	244,422.93	499,604.48	1,057,211.47
Total	**82,537,482.63**	**129,104,213.77**	**386,743,839.62**

Credit and opponent risk

	2012		
Liability group	**Total**	**Less than 3 months**	**3 to 12 months**
Real estate security claims	349,460,038.29	7,024,680.40	6,552,334.69
Retail claims	94,938,397.52	5,742,489.31	4,035,925.01
Loans and advances to credit institutions and investment service companies	82,857,906.47	9,573,398.42	4,910.08
Claims from companies	46,110,783.50	170,180.75	85,173.34
Total other liability groups	54,374,806.91	3,926,504.07	456,789.82
Maturity claims	4,463,607.44	2,745,397.79	5,485.58
Total	**632,205,540.13**	**29,182,650.74**	**11,140,618.52**

Liability group	1 to 5 years	5 to 10 years	More than 10 years
Real estate security claims	47,321,789.52	86,969,294.48	201,591,939.20
Retail claims	22,847,103.21	24,151,058.52	38,161,821.47
Loans and advances to credit institutions and investment service companies	34,000.00	912,150.45	72,333,447.52
Claims from companies	2,540,238.03	6,267,448.98	37,047,742.40
Total other liability groups	1,717,983.01	2,428,526.91	45,845,003.10
Maturity claims	67,476.82	212,780.70	1,432,466.55
Total	**74,528,590.59**	**120,941,260.04**	**396,412,420.24**

*) The table shows the four largest liability groups and maturity claims; other liability groups are summed up in one unit, Total other liability groups.

7.6 Total liabilities grouped by opposing parties *)

Credit and opponent risk

	2013				
Liability group	**Total**	**Private**	**Agriculture**	**Companies**	**Others**
Real estate security claims	367,659,708.96	304,656,123.76	6,343,205.40	28,772,203.80	27,888,176.00
Retail claims	92,891,717.75	49,872,017.81	5,757,951.96	31,884,727.54	5,377,020.44
Loans and advances to credit institutions and investment service companies	59,106,138.32	135,526.59	0.00	0.00	58,970,611.73
Claims from companies	38,418,124.46	3,143,567.48	10,950.84	28,637,417.58	6,626,188.56
Total other liability groups	71,650,597.89	15,562,330.27	380,102.64	14,381,881.97	41,326,283.01
Maturity claims	3,727,640.76	2,734,044.38	131,543.27	801,987.29	60,065.82
Total	**633,453,928.14**	**376,103,610.29**	**12,623,754.11**	**104,478,218.18**	**140,248,345.56**

Credit and opponent risk

	2012				
Liability group	**Total**	**Private**	**Agriculture**	**Companies**	**Others**
Real estate security claims	349,460,038.30	294,454,041.57	6,500,000.30	29,823,474.94	18,682,521.49
Retail claims	94,938,397.51	53,524,992.35	5,528,172.00	32,689,447.83	3,195,785.33
Loans and advances to credit institutions and investment service companies	82,857,906.47	131,300.00	0.00	4,910.08	82,721,696.39
Claims from companies	46,110,783.50	4,476,840.72	20,598.34	38,073,638.82	3,539,705.62
Total other liability groups	54,374,806.92	14,565,372.55	503,022.85	10,114,766.31	29,191,645.21
Maturity claims	4,463,607.44	2,874,633.86	134,186.13	1,376,180.26	78,607.19
Total	**632,205,540.14**	**370,027,181.05**	**12,685,979.62**	**112,082,418.24**	**137,409,961.23**

*) The table shows the four largest liability groups and maturity claims; other liability groups are summed up in one unit, Total other liability groups.

7.7 Imputed operative risk

	Parent company 2013	2012	2011	Minimum amount of own assets
Total gross income	20,551,276.78	19,316,675.42	18,172,193.04	
Income indicator	3,082,691.52	2,897,501.31	2,725,828.96	2,902,007.26

	2012	2011	2010	Minimum amount of own assets
Total gross income	19,316,675.42	18,172,193.04	16,879,463.80	
Income indicator	2,897,501.31	2,725,828.96	2,531,919.57	2,718,416.61

The income indicator is calculated according to the basic method presented in standard 4.3i of the Financial Supervisory Authority.

Minimum amount of own assets = sum of positive annual income indicators divided by the number of years with a positive indicator.

Operative risks refer to the risk of loss potentially caused by inadequate or insufficient internal processes, personnel, systems or external factors.

Signing the financial statements and the annual report

Lappeenranta, 19 February 2014

Board of Directors of Etelä-Karjala Savings Bank

Jarmo Partanen

Pekka Ruokonen

Pekka Ryynänen

Hannu Valkeapää

Adoption of the financial statements

A report of the performed audit has been issued today.

Lappeenranta, 24 February 2014

APA Henry Maarala

Supervisory Board's statement

The Supervisory Board of Etelä-Karjala Savings Bank has reviewed the bank's 2013 income statement, balance sheet and notes thereto as well as the audit report issued by the auditors, on which the Supervisory Board has no comments.

The Supervisory Board is in favour of adopting the financial statements and concludes that it has received the necessary information from the Board of Directors and the management.

Lappeenranta, 3 March 2014

Lasse Malin	Ari Häkkinen
Raimo Härmä	Hannu Karttunen
Heli Korpinen	Anja Koskinen
Antti Rämä	Pekka Räätäri
Jarmo Salmi	Markku Soikkeli
Markku Torvi	Johanna Väkeväinen

List of accounting books and types of receipts used during the accounting period

Accounting books	Form of archiving
General ledger/journal	Electronic archive
Balance sheet	Bound book
Receipts	Paper print-out
Factoring	
Customer factoring (automated)	Electronic archive
Portfolio bookkeeping	Electronic archive
Accounts payable (eOffice)	Electronic archive
Accounts payable	Paper receipt
Cash journal	Electronic print-out
Cash reports	Electronic print-out
Payroll accounting	Electronic archive
Fixed assets factoring	Electronic archive
Derivative factoring	Excel file

Rent claims Electronic print-out

Types of receipts

10	Payment transactions in account statement
20	Purchase invoices
21	Managing Director's expenses
22	Personnel expenses
25	Purchase invoice settlements
26	Direct debiting (Samlink)
28	Direct debiting (PP-Laskenta)
30	Purchase invoices, eOffice banks, invoices circulating outside the bank
51	Portfolio bookkeeping
53	Deposits funding, payment transactions interest
56	Machine-language entries from other factoring, transactions entered at QS cash
58	Machine-language transactions between cost centres
60	Internal accounting receipts
61	Machine-language data transmission of internal accounting
70	Memorandum receipts
71	General ledger entries
75	Salary entries, paid salaries
80	Deferred receipts, distributable entries
82	Machine-language imputations
83	Machine-language imputations, salaries, holiday benefits
84	Machine-language imputations, salaries, indirect expenses, excl. social security payments
85	Depreciation write-off
99	Income entry