KANTASÄÄSTÖPANKKI LTD

BALANCE SHEET BOOK 2013

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BOARD OF DIRECTORS' ANNUAL REPORT FOR THE FINANCIAL PERIOD OF 1 JANUARY – 31 DECEMBER 2013

Kantasäästöpankki Ltd is an independent Savings Bank established in 2008. 2013 was the bank's fifth year of operation. The bank operates in Tavastia Proper, Pirkanmaa and the Riihimäki–Hyvinkää economic area. The majority of the bank's clientele is formed by private clients and small businesses.

The clientele amounted to more than 15,600 at the end of the financial period. The Group has a total of 11 offices in Hämeenlinna, Akaa, Lempäälä, Narva, Riihimäki and Hyvinkää. In addition to the services offered by the offices, the clients use online banking, self-service machines and cash dispensers. The share of self-service in all basic client services was 95.1 per cent in 2013. By the end of the year, more than 5,300 clients had an online banking agreement.

BANK'S OPERATING ACTIVITIES

The growth and income of Kantasäästöpankki Ltd's operating activities met the goals set by the bank in its operating plan for the financial period. The bank focussed, in accordance with its operating plan, to promote the well-being of its clients in the downturn.

Kantasäästöpankki Ltd practices basic banking operations and offers its clients diverse banking services both via its own balance and by supplying products of its partners. The supplied products include credit, investment and insurance products.

The supplied credits comprise Aktia Real Estate Mortgage Bank Plc's mortgage credits that amounted to EUR 20,120,000 at the end of 2013. During the review period, Aktia Real Estate Mortgage Bank has not given out any new mortgage credits, hence, new lending is done from the banks' own balances. The bank has a refinancing obligation to the mortgage credits it supplies. The refinancing obligation is implemented as long-term, unsecured senior credit to Aktia Real Estate Mortgage Bank. The credit amount is tied to the amount of supplied credits. The amount is reviewed twice per year.

The investment products in the bank's product selection include Sp-Fund Management Company Ltd's funds as well as SEB Wealth Management Finland and SEB's funds and index credits. In addition, the bank offers its clients stock trading services.

At the end of the year, the clients had EUR 24,850,000 of fund and insurance savings supplied by the bank.

The pension and life insurance products supplied by the bank are produced by Duo Life Insurance Company Ltd, which is owned by the Savings Banks. Previously owned equally by the Savings Banks and Local Insurance Group, Duo Life Insurance Company Ltd was transferred to the full ownership of the Savings Banks in February 2013. The Savings Bank Group and LähiTapiola Group signed an agreement in late January 2013 on ending the co-operation agreement. At the turn of June and July, Duo handed its entire risk life insurance portfolio over to the LähiTapiola Group. The arrangements have no significant impact on the operations of Duo.

In payment intermediation, the bank uses the payment intermediation and clearing services of Bonum Bank Ltd (former ACH Finland Ltd). In June, Säästöpankkien Holding that represents the Savings Banks sold its share in payment centre Bonum Bank Ltd to POP Bank Alliance. Bonum Bank Ltd continues the payment intermediation of the Savings Banks, POP Bank and Aktia Bank until the payment transactions of the Savings Banks and POP Banks is shifted to their own central credit institutions and the central credit institution services provided by Aktia Bank end in 2015.

In May, the Savings Banks opened an online shop for insurances. The online shop offers the most common accident insurance services for consumers. The insurer is Finnish P&C Insurance.

The shareholders of Kantasäästöpankki Ltd decided on 18 October 2013 to unanimously accept the merger with Oma Savings Bank Ltd.

Reorganisation of the Savings Bank Group and applying a licence for the consortium

A partner of the Savings Banks, Aktia Bank announced in January the discontinuation of the Savings Banks' central credit institution services at the beginning of 2015. The Savings Banks and Itella signed a letter of intent in March regarding a share transaction by which the Savings Banks purchased the whole share capital of Itella Bank. The transaction was completed in April. In June, Säästöpankkien Keskuspankki Suomi Oy – Sparbankernas Centralbank Finland Ab – Central Bank of Savings Banks Finland Ltd was registered as the bank's official name.

In August, The Savings Bank Group announced that the Savings Banks are considering closing ranks and making their own group status official. Kantasäästöpankki Ltd, together with Oma Savings Bank Ltd, Etelä-Karjala Savings Bank and Suodenniemi Savings Bank, decided to remain outside the planned cooperative-based consortium.

INCOME

The turnover of Kantasäästöpankki Ltd was EUR 1,296,000 (EUR 1,223,000 in 2012). The operating profit grew by 6.0 per cent over the previous year. The operating profit percentage, based on the annual average of the balance, was at 0.6 per cent (0.6). The bank's cost/income ratio was 74.1 per cent (75.0).

The bank's key income statement items have developed as follows in comparison with the two previous years:

EUR thousand	01–12/2013	01–12/2012	Change % *)	01–12/2011	Change % **)
Net interest income	3,617	3,915	-7.6	3,786	3.4
Net commission income	1,784	1,641	8.7	1,566	4.8
Net income from trading in securities and foreign currencies	0	-1	69.4	-42	98.4
Net income from available-for-sale financial assets	840	32	…	197	-84.0
Net income from hedge accounting	-18	4	…	9	-52.5
Other income	221	102	…	110	-7.9
Total income	6,445	5,693	13.2	5,626	1.2
Personnel expenses	-2,104	-1,788	17.7	-1,649	8.4
Other administrative expenses	-1,681	-1,649	1.9	-1,444	14.2
Other expenses	-992	-835	18.9	-822	1.5
Total expenses	-4,777	-4,272	11.8	-3,915	9.1
Cost/income ratio	74.12	75.04		69.58	
Impairment losses on loans	-372	-198	87.8	-201	-1.5
Operating profit	1,296	1,223	6.0	1,510	-19.0
Profit for the period	330	989	-66.7	1,019	-2.9
*) Change 2013–2012					
**) Change 2012–2011					

The bank's net interest income was EUR 3,617,000 (3,915,000). The net interest income decreased by 7.6 per cent over the previous financial period. The net interest income was strengthened by interest from hedging interest-rate derivatives whose amount in the net interest income was EUR 611,000 (869,000).

The interest income amounted to EUR 4,705,000 (5,718,000), which means a decrease of 17.7 per cent over the previous year. The most significant part of the interest income was formed by the interest income of lending. The interest expenses were EUR 1,088,000 (1,803,000). The interest expenses decreased by 39.7 per cent over the previous financial period. The interest expenses were mainly formed by interest paid to the deposits of the public.

The net commission income was EUR 1,784,000 (1,641,000). Here, the share of commission income was EUR 1,992,000 (1,841,000) and the share of commission expenses was EUR 208,000 (200,000). The commission income includes commissions from supplied products in the amount of EUR 451,000 (427,000), out of which the commissions received for the supplied credits of the mortgage bank amounted to EUR 103,000 (112,000) and the commissions for the other supplied products amounted to EUR 347,000 (314,000). The commissions received from the supplied mortgage credits are included in the aforementioned figures in net terms. With regard to the other commission income, the most significant were the commissions for lending EUR 435,000 (372,000) and the commissions for payment transactions EUR 893,000 (837,000). Commission expenses increased by 4.0 per cent over the previous year.

The net income from available-for-sale financial assets was EUR 840,000 (32,000) that was formed by sales profits and losses.

The net income from hedge accounting was EUR –18,000 (4,000). The item is formed by the difference of interest-rate derivatives hedging the fair value and the changes in the fair values of the items being hedged.

The other income includes income from equity-based investments, net income from investment property and other operating profit in the amount of EUR 221,000 (102,000). The received dividends were EUR 30,000 (40,000), which means a decrease of EUR 10,000 over the previous year. The other operating income increased to EUR 199,000 (35,000).

The personnel expenses were formed by salary expenses as well as pension and other indirect personnel expenses. These expenses amounted to EUR 2,104,000 (1,788,000), which was 17.7 per cent more than the year before. The increase in the personnel expenses resulted from the increase in pension expenses due to the merger preparations.

The other administrative expenses increased by 1.9 per cent to EUR 1,681,000 (1,649,000). The other expenses, EUR 992,000 (835,000), comprise the depreciation and other operating expenses. The amount of planned depreciation was EUR 136,000 (150,000). The other operating expenses increased by 25.1 per cent to EUR 856,000 (685,000). The increase in the other operating expenses was caused by the temporary bank tax that took effect at the beginning of the year.

The net amount of impairment losses recorded for loans and guarantees in the financial period income was EUR 372,000 (198,000), an increase of EUR 174,000 over last year. The gross amount of impairment losses was EUR 448,000 (224,000). Cancellations of impairments amounted to EUR 33,000 (0) and returns on receivables recorded previously as realised credit losses amounted to EUR 42,000 (26,000).

The impairment losses on loans still remained moderate.

BALANCE SHEET

The bank's balance increased during 2013 by 2.4 per cent totalling EUR 213,596,000 (208,502,000) at the end of the year. The amount of credit in the balance was EUR 161,754,000. The amount of deposits was EUR 176,724,000.

Kantasäästöpankki Ltd's key balance items have developed as follows in comparison with the two previous years:

EUR thousand	31 Dec 2013	31 Dec 2012	Change % **)	31 Dec 2011	Change % ***)
Receivables from the public and general government	**161,754**	**158,010**	**2.4**	**146,904**	**7.6**
Loans	161,754	158,010	2.4	146,904	7.6
Investments	**47,192**	**44,995**	**4.9**	**36,670**	**22.7**
Receivables from credit institutions	38,264	29,008	31.9	26,726	8.5
Debt securities	0	3,841	…	761	…
Shares and interests	3,355	9,760	-65.6	6,992	39.6
Properties	5,573	2,386	…	2,192	8.9
Derivative contracts	**1,975**	**2,700**	**-26.9**	**2,012**	**34.1**
Derivative contracts assets	1,975	2,700	-26.9	2,012	34.1
Deposits by the public *)	**176,724**	**172,188**	**2.6**	**158,575**	**8.6**
Liabilities to credit institutions	**3,458**	**3,583**	**-3.5**	**250**	**…**
Issued promissory notes	**8,663**	**6,750**	**28.3**	**6,438**	**4.9**
Subordinated liabilities	8,663	6,750	28.3	6,438	4.9
Equity	**12,603**	**12,736**	**-1.0**	**11,426**	**11.5**
Appropriations	**7,772**	**6,959**	**11.7**	**7,043**	**-1.2**
ROA %	0.5	0.5		0.6	
ROE %	6.3	5.2		6.9	
Equity ratio	8.6	8.6		8.8	
Solvency ratio	26.39%	23.52%		24.27%	

*) The figure does not include the change in the fair value resulting from hedging.

**) Change 2013–2012

***) Change 2012–2011

Lending

The total amount of lending by Kantasäästöpankki Ltd at the end of the financial period was EUR 181,873,000 (182,853,000). The lending includes the credit in the bank's balance sheet, EUR 161,754,000 (158,010,000), as well as the mortgage credits of Aktia Real Estate Mortgage Bank supplied by the bank that are not included in the bank's balance sheet. The amount of supplied mortgage credits was EUR 20,120,000 (24,843,000) at the end of the year. Credit supplied by the bank from public funds are included in the bank's balance sheet in the item Receivables from the public and general government. They amounted to EUR 91,000 (144,000) at the end of the year.

Including the supplied mortgage credits, credits were taken out and renewed in the amount of EUR 48,077,000 during the year. The net decrease of lending was EUR 980,000, i.e. 0.5 per cent.

Lending operations were impacted by the downturn.

The amount of unorganised receivables still remained at a very moderate level.

Unorganised receivables amounted to EUR 2,056,000 (666,000), i.e. EUR 1,390,000 more than the year before. The amount of unorganised receivables was 1.1 per cent (0.4) of the sum of total lending and guarantees included in the commitments outside the balance sheet.

Commitments outside the balance sheet

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

The commitments given to a third party on behalf of a client, EUR 3,524,000 (4,142,000), mainly comprise bank and other guarantees. The other guarantees include the absolute guarantees issued by the bank on behalf of itself and other Savings Banks to Aktia Bank Plc regarding the payment transaction agreement between the banks and to Aktia Real Estate Mortgage Bank Plc regarding compensation for potential losses due to the supplied mortgage credits.

The irrevocable commitments given in favour of a client that amounted to EUR 5,216,000 (7,222,000) at the end of the financial period are mainly formed by granted credit not drawn.

Investments

The bank’s investments mainly focus on deposits in other credit institutions, debt securities, shares and interests as well as properties that are included in the balance sheet item Tangible assets. The tangible assets are specified in Note 2.8.

The bank’s deposits in other credit institutions were EUR 38,264,000 (29,008,000). The amount was EUR 9,256,000 greater than the year before. The investments in debt securities were formed by money-market securities and bonds. At the end of the financial period, their amount was EUR 0 (3,841,000).

The investments in shares and interests amounted to EUR 3,355,000 (9,760,000) at the end of the period. The proportion of shares and interests considered essential for operations was EUR 3,062,000 (2,383,000), and the proportion of other shares and fund units was EUR 294,000 (7,377,000). The bank holds no quoted shares for active trading.

The bank’s property assets in the balance sheet totalled EUR 5,573,000 (2,386,000). The value of properties in own use was EUR 1,235,000 (1,277,000) and the value of investment property was EUR 4,338,000 (1,109,000). The fair values of investment property are presented in Note 2.8.

In 2013, the bank purchased shares of property communities in the amount of EUR 3,241,000.

Derivative contracts

The bank uses derivative contracts to hedge its interest rate risks. At the end of the financial period, the positive fair value of the derivatives on the assets side of the balance sheet amounted to EUR 1,975,000 (2,700,000) in the balance item Derivative contracts, out of which the share of derivatives hedging the fair value was EUR 1,963,000 (2,700,000). For hedging the fair value, the bank used a deposit portfolio with at-sight terms. The hedging instrument was formed by interest-rate swaps.

The derivative contracts are specified in Note 2.5. In the solvency calculations, the derivatives are included in the solvency requirement of the credit and counterparty risk.

Deposits by the public

The majority of the bank’s fund-raising comes from deposits by the public.
The deposits totalled EUR 176,724,000 (172,188,000) at the end of the year. The deposits increased in the amount of EUR 4,536,000, i.e. 2.6 per cent, during the year.

The deposits in transactions and savings accounts increased by EUR 1,795,000, i.e. 1.9 per cent, during the year and they amounted to EUR 97,736,000 (95,941,000) at the end of the year. The increase in investment accounts and savings account for first home purchasers was EUR 2,742,000, i.e. 3.6 per cent, and they amounted to EUR 78,988,000 (76,246,000) at the end of the year.

Other liabilities

The other liabilities are mainly formed by liabilities to credit institutions and issued promissory notes that are subordinated liabilities.

The liabilities to credit institutions were EUR 3,458,000 (3,583,000).

During the year, the bank issued together with three other banks a debenture loan where the bank’s share was EUR 4,000,000. At the end of the financial period, the amount of issued debentures in the bank’s balance sheet was in total EUR 8,663,000 (6,750,000).

The other liabilities were mainly formed by short-term payment intermediation items as well as transitory items of the financial statements’ phase related to the sectioning of income and expenses.

Equity and appropriations

The bank’s equity was EUR 12,603,000 (12,736,000) at the end of the financial period. There was a decrease of EUR 134,000 over the previous period. The amount of fair value reserve included in equity was EUR 3,000 (396,000), as adjusted with deferred taxes. The amount was formed by the change in the fair value of the available-for-sale financial assets.

The appropriations are voluntary provisions formed by the credit loss provision. The amount of the credit loss provision was EUR 7,772,000 (6,959,000) at the end of the period. In 2013, the credit loss provision was increased by EUR 813,000 (dissolved EUR –81,000), after which the provision amounted to 3.9 per cent of the receivables in the financial statements.

CONSOLIDATED FINANCIAL STATEMENTS

Kantasäästöpankki Ltd forms a group that includes the parent bank and its fully owned Kantapankin Kiinteistövälitys Ltd. The bank's subsidiary, Kantapankin Kiinteistövälitys Ltd, has not been included in the consolidated financial statements because it constitutes a small subsidiary as specified in Section 155(3) of the Act on Credit Institutions. The subsidiary's impact on the Group's income and equity is minor.

VOLUNTARY JA STATUTORY RESERVES

Kantasäästöpankki Ltd is a member of the Säästöpankkien Vakuusrahasto security reserve. The purpose of this security reserve is to secure the stable operations of the Savings Banks. The reserve is free from debt. The reserve has not made any new support decisions during the year. The assets of the reserve total MEUR 23.7 (23.4). In the voluntary security reserve, the bank is not involved in any such joint liability arrangements that would make it liable for debts or commitments of another bank.

In addition, the Savings Bank is part of the deposit insurance reserve that safeguards the depositor's receivables from the bank
up to EUR 100,000. The bank's contribution to the reserve was EUR 85,000. Kantasäästöpankki Ltd is also part of the investors' compensation reserve that hedges all non-professional investors.

SOLVENCY MANAGEMENT

Kantasäästöpankki Ltd has specified a solvency management process with the goal of securing the bank's risk-bearing capacity with regard to all essential risks in its operations. In order to meet this goal, the bank identifies and assesses the risks related to its operations extensively and dimensions its risk-bearing capacity to meet the bank's total risks. In order to secure its solvency, the bank sets risk-based equity goals and prepares an equity plan in order to meet those goals. Another goal of the solvency management process is to maintain and develop high-quality risk management.

The bank operates according to its strategy in retail banking. By only operating in this business area, the bank is able to manage its operations-related risks and keep them minor in view of the operations. Savings Bank's solvency management is the responsibility of the bank's Board of Directors that also defines the operations-related risk limits. The bank's Board of Directors annually reviews the risks related to the bank's solvency management, the equity plan and limits set for the risks.

In its solvency management process, the bank prepares, among other things, income, growth and solvency forecasts. Based on the forecasts, the bank maps the actions to be taken to maintain the solvency level in accordance with the business strategy.

The bank applies in its solvency calculations a standard method for the calculation of the credit risk and a basic method for the operative risk. In the standard method, the liabilities are divided into liability groups, and minimum limits required for lending decentralisation are defined in the retail receivables group. Kantasäästöpankki Ltd releases the key information for the solvency calculations annually as part of its annual report and financial statements' notes. The biannual interim financial report releases the key solvency information.

Kantasäästöpankki Ltd's own assets were EUR 27,330,000 (24,612,000), when the minimum requirement for own assets was EUR 8,285,000 (8,371,000). The amount of primary own assets was EUR 18,665,000 (17,465,000). The secondary own assets amounted to EUR 8,666,000 (7,147,000), out of which the share of the upper secondary own assets was EUR 3,000 (396,000) and the share of the lower secondary own assets was EUR 8,663,000 (6,750,000).

During the year, the bank's solvency ratio increased by 2.87 percentage points to 26.39 per cent. The ratio of primary own assets to risk-weighted items was 18.02 per cent (16.69 per cent).

SOLVENCY CALCULATION		
Own assets	**2013**	**2012**
Primary own assets before decreases	18,818	17,594
Decreases from primary own assets	-153	-129
Total primary own assets	18,665	17,465
Secondary own assets before decreases	8,666	7,147
Upper secondary own assets	3	396
Lower secondary own assets	8,663	6,750
Total secondary own assets	8,666	7,147
Total own assets	**27,330**	**24,612**
Total liabilities	**222,476**	**220,031**
Risk-weighted liabilities		
Credit and counterparty risk	**92,962**	**92,256**
Items in the balance sheet	90,283	88,888
Commitments outside the balance sheet	2,140	2,656
Derivatives	539	711
Operative risk	**10,598**	**10,070**
Market risk		**2307**
Currency risk		2307
Total risk-weighted liabilities	**103,560**	**104,633**
Minimum requirement for own assets	8,285	8,371
Amount exceeding the minimum requirement for own assets	19,045	16,241
Solvency ratio (%)	**26.39%**	**23.52%**
Ratio of primary own assets (%)	**18.02%**	**16.69%**

Kantasäästöpankki Ltd's solvency was impacted, in addition to the income, by the investment portfolio's risk decrease.

The European Union's new Capital Requirements Regulation and Directive were issued on 27 June 2013. The new regulation takes effect on 1 January 2014 and it is based on the recommendations given in 2010 by the Basel Committee on Banking Supervision, i.e. the so-called Basel III framework. The new Capital Requirements Regulation is directly binding legislation for the member states and, along with it, a large part of the standards of the Financial Supervisory Authority's standards regarding solvency calculation will be revoked. The European Banking Authority (EBA) issues standards that specify the regulation and that are binding in the same way as the regulation.

The Basel III solvency reporting in accordance with the new regulation begins as per the status on 31 March 2014. Along with it, banks' capital requirements become more stringent both via the terms set for capital instruments and additional capital buffers. New requirements are set for liquidity and a new indicator, leverage ratio requirement, will be introduced for monitoring gearing.

The solvency of local banks is expected to meet the required minimum level of 8 per cent also in the future. In addition to the minimum solvency requirement, a fixed additional capital requirement of 2.5 per cent as well as a variable additional capital requirement that the authorities can set between 0 and 2.5 per cent as necessary will be introduced on 1 January 2015. In terms of the new liquidity requirements, monitoring will be implemented in 2014 but the requirements will only become binding at a later stage. The binding application of the liquidity coverage ratio (LCR) will begin at a level of 60 per cent on 1 January 2015, from where it will gradually increase to 100 per cent by 1 January 2018. The EU decides on the binding and contents of the net stable funding ratio (NSFR) and leverage ratio requirement after the monitoring period. Based on current information, they will only become binding in 2018, at the earliest.

RISK MANAGEMENT

Risk management objective

The objective of risk management is to ensure that the risks resulting from the bank's operating activities are identified, assessed and dimensioned to an accepted level and that those risks are monitored and they are correctly proportionate to the bank's risk-bearing capacity. The key sub-areas in risk management are credit risks, market risks including interest and price risks, financial risks and property risks as well as strategic and operative risks. The bank monitors the dependencies between different risks with a risk map.

Principles and organisation

Kantasäästöpankki Ltd's risk management strategy is based on the goal confirmed by the Board of Directors for the bank and the business strategy, risk management instructions, mandate system and the risk and deviation reporting produced for the key business sub-areas.

The bank focuses its operating activities according to its strategy in the low-risk section of retail banking. The bank has no oversized client or investment risk concentrations with regard to its financial bearing capacity nor will it seek any in accordance with its strategy.

The bank keeps its solvency at a safe level. The bank's solvency and risk-bearing capacity are solidified with profitable operating activities. The bank observes the threat of loss formed by credit risks and other risks in its financial statements with sufficient depreciation and other losses.

The Board of Directors is regularly provided with information on the bank's different risks and their levels. The Board of Directors also approves the mandate and framework for risk taking by defining the allowed risk limits for credit and market risks. Within that mandate, the responsibility for daily risk monitoring and supervision belongs to the operative management. The operative management utilises in its monitoring the reports produced by the systems in the different risk sub-areas. The systems and practices dedicated for risk reporting and monitoring meet the requirements set for risk management taking into consideration the nature and extent of the bank's operations.

Credit risks

The goal of credit risk management is to limit the income and solvency impacts of risks resulting from client liabilities to an acceptable level. The business strategy confirmed by the Board of Directors and the lending instructions define the maximum amounts for risk concentrations and guide lending according to client sectors, fields of operation and creditworthiness classes.

The bank's key client groups include the operating area's private clients, agriculture entrepreneurs and small businesses. The majority of the bank's fund-raising has been lent to the bank's clients. The combined share of household and entrepreneur loans in the bank's balance sheet is approx. 72.6 per cent (72.2 per cent). The share of rural entrepreneurs in the loans of the balance sheet is 9.5 per cent (10.8 per cent) and that of others 17.9 per cent (17.0 per cent). The majority of the bank's loans, 74.8 per cent (77.2 per cent), have been granted against a housing unit serving as guarantee.

The management of corporate and agriculture credit risks is based on client monitoring carried out by the person in charge of the client and on the internal creditworthiness classification. The assessment of a private client's creditworthiness is based on the local bank's good client knowledge and an assessment done based on that knowledge on the client's solvency.

The bank's Board of Directors makes the major credit decisions. The Board of Directors has delegated the credit mandate to the bank's management, credit group and other appointed employees. Credit decisions are made in accordance with the lending instructions confirmed by the bank's Board of Directors. The main rule is the principle of at least two decision makers. Credit decisions are based on the client's creditworthiness and solvency as well as other lending criteria, such as meeting the guarantee requirements. The credits have been mainly granted with securing guarantees. Guarantees are cautiously valued to their fair value and their fair values are regularly monitored by utilising both statistics and good knowledge of the field. The bank's Board of Directors has confirmed instructions for the bank on the valuing of different forms of guarantees and their guarantee values that can be used in lending.

The credit risk is constantly assessed by monitoring, for example, delays in repayment and unorganised loans. The amounts of client-specific liabilities and guarantees are tracked by the person in charge of the client based on continuous payment behaviour and monitoring of the client's activities. The liabilities and guarantees of the 40 largest clients as well as the unorganised groups of connected clients and those in debt collection, whose total liabilities amount to over EUR 50,000, are regularly reported to the Board of Directors twice a year. The reporting covers, among other things, the amount and development of risks per client unities, fields and creditworthiness classes.

The bank has no client unities, whose liabilities exceed the 10 per cent limit of the bank’s own assets set by the Act on Credit Institutions (the so-called major client risks). The risks included in the bank’s credit portfolio are, based on the reports made, at a low level in view of the bank’s annual income level and risk-bearing capacity.

Financial risk

The financial risk is a risk related to the availability and price of refinancing that is created when the maturities of receivables and payables differ from each other. The financial risk is also created if the receivables and payables are too concentrated on individual counterparties. The financial risk is assessed according to the maturity classes with the extent of the difference between the receivables and payables of each class. The financial risk is managed, for example, by keeping sufficient liquid assets in order to ensure liquidity. The financial risk is monitored monthly by reporting to the Board of Directors on the bank's financial and liquidity standing. The reporting is based on information on the maturity dates of receivables and payables as well as the available limits.

Kantasäästöpankki Ltd acquires the refinancing it needs as deposits within its own field of operations. According to the deposit account terms, a significant part of refinancing is subject to at-sight terms and, therefore, it is distributed over more than 13,400 depositor clients. The bank's goal is to extend the maturity of its refinancing and to maintain an extensive capital base.

The bank invests no more than 92 per cent of its fund-raising in lending and keeps its liquidity good by investing liquid assets mainly in financial instruments that are marketable on the secondary market and in short-term deposits in other financial institutions. Out of the loans in the bank's balance sheet, 19.3 per cent (19.8 per cent) are loans whose credit period is more than 20 years. In 2013, the bank's financial standing remained good.

Interest rate risk

The interest rate risk means the impact of interest level changes on the bank's income and solvency. The interest rate risk is caused by differing interest basis of receivables and payables as well as non-simultaneous rollover or maturity dates. The bank's Board of Directors has granted the operative management the mandate to use hedging derivatives. In order to minimise its interest rate risk, the bank uses hedging derivative contracts whose use has been reported in more detail under Derivative contracts.

During this financial period, the bank's goal is to further balance the interest basis of receivables and payables in order to manage the interest rate risk.

The bank uses balance sheet analysis for measuring the interest rate risk that measures the impact of one and two percentage point changes of the forward interests over the interest margin forecast for the next 1– 60 months. The forecast is calculated with the forward interests available on the market at the time of reporting for the next five years.

The amount of the open interest rate risk is measured with interest rate sensitivity that observes the impact of the aforementioned interest rate shocks on net interest income in the upcoming years. On 31 December 2013, the bank's interest rate risk was –1/+1 per cent of the 12-month net interest income if the interest level changed one percentage point. Correspondingly, a change of two percentage points would make the bank's interest-rate risk +1/+14 per cent of the 12-month net interest income. The interest rate risk is reported regularly to the Board of Directors that has specified the maximum amounts for the bank's interest rate risk in its confirmed instructions.

Derivative contracts

The bank adapts the text to match its own decisions on the use of derivative contracts.

The bank hedges its liabilities with interest against interest rate changes with interest rate derivatives and applies the regulations concerning hedge accounting to them in addition to regular monitoring of the effectiveness of the hedging. The derivatives are specified in Note 2.5. The bank monitors on a monthly basis the risks related to the derivatives, such as changes in the fair value of the derivatives in comparison with interest rate curve changes as well as changes in the bank's balance sheet standing and in the net interest income sensitivity to interest changes.

Market risk

The market risk means the impact of changes in the interest rates and market prices on the bank's income and own assets. In trading, an interest rate change causes the realisation of a market risk as a change in the market value of securities. The share risk means, among other things, the income impact caused by the changing rates of publicly listed shares and fund units. In securities investment, the bank's goal is to gain a competitive return on the invested capital in terms of the income–risk ratio.

The bank invests in securities only so that the income impact of changing rates does not jeopardise the bank's solvency or profitability. At the time of the financial statements, the bank's income included unrealised changes in value recorded from securities in the net amount of EUR –18,000 (3,000). In addition, unrealised changes in value are included in the fair value reserve in the amount of EUR 3,000 (396,000), formed by changes in the fair value of the available-for-sale financial assets. The impact of the unrealised changes in the value of the securities on the bank's own assets was EUR –15,000 (399,000), which was –0.1 per cent (1.6 per cent) of the bank's own assets at the end of the financial period. The bank has no securities-related minimum solvency requirement caused by the settlement risk of the entire operation.

The decentralisation of investments is used to reduce the centralisation risk caused by individual investments. With regard to the bank's merger preparations, Kantasäästöpankki Ltd has deposited assets of Oma Savings Bank Ltd, whose amount does not exceed the amount of own assets. In other respects, the bank has no investment unities, where the amount of investments and receivables would exceed the 10 per cent limit of the bank's own assets as specified in the Act on Credit Institutions (the so-called major client risks).

The bank monitors on a monthly basis the market values of securities acquired for investment purposes and the cash flows related to their transactions. The contents and balance sheet standing of the securities portfolio is regularly reported to the Board of Directors. The market risk included in the securities portfolio is assessed in relation to the bank's income and own assets.

Property risk

The property risk means value reduction, income and damage risk facing property assets. Property investments are not part of the bank's core business / in line with its business strategy, the bank has reduced the amount of capital tied up in property investments. The bank's property assets are mainly insured with full value insurance.

The bank’s investment property assets have been assessed and evaluated in the financial statements by primarily using the purchase price method. When setting the market-based return requirement, the location, condition, purpose of use and market prospects of the property item have been taken into consideration. In addition to the income value method, also the purchase price method has been used especially in the evaluation of residences and land areas. The bank’s investment risk is regularly monitored with reporting to the Board of Directors that includes the income from the properties, tied-up capital, rental ratio and the properties’ rates of return.

The value of the property assets is minor in comparison to the bank’s balance sheet and the bank’s own capital, and the value of the property assets does not, at the moment, face any value reduction needs that would have an essential impact on the bank’s income and solvency in the coming years. The carrying amount and fair values of investment properties are presented in Note 2.8.

The capital tied up in the properties and property company shares that are used by the bank itself was EUR 1,235,000 (1,288,000) at the time of the financial statements. The capital tied up in investment property assets grew over the previous financial period and amounted to EUR 4,349,000 (1,122,000), which is 2 per cent of the bank’s balance sheet total.

The net income from the bank’s investment property assets is 1.59 per cent (2.44 per cent). The net income from the bank’s investment property was reduced by the redemption of a flat serving as a guarantee.

Strategic and operative risks

The strategic risk means losses generated by a poorly selected business strategy in view of the development of the bank’s operating environment.

The aim is to minimise the strategic risks by regularly updating the strategic and annual plans. The planning makes use of the Savings Banks Association’s analyses on the status and development of the Savings Banks as well as other analyses and forecasts on the development of the industry, competitive situation and financial operating environment.

The operative risks mean losses that can be caused by internal inadequacies in systems, processes and operations of the personnel or by external factors affecting the operating activities.

The realisation of operative risks is minimised by the continuous development of the personnel and comprehensive operating procedures as well as internal monitoring measures, such as separating the preparation of matters, decision-making, implementation and monitoring from each other where possible.

The bank is prepared with a special insurance against the potential operative risks in banking and the resulting damage. The realisation of judicial risks is, in part, reduced by the widely applied standard contractual provisions. Continuity planning is used for preparing for risks caused by IT system malfunctions.

The operative risks are monitored by collecting data on the financial losses and possible abuse suffered by the bank. The observations on the bank’s operative risks are reported to the Board of Directors at least twice a year. The operative management makes use of the reports on the observance of instructions generated by internal monitoring as well as the data on the changes in the operating environment.

Internal audit

The Board of Directors has set an internal audit for the bank and confirmed an audit plan and reporting principles for the internal audit.

The purpose of the internal audit is to assess the extent and sufficiency of the internal monitoring of the bank's operative organisation as well as to monitor and assess the functionality of the risk management systems. The internal audit reports its observations to the Chief Executive Officer. The bank's Board of Directors reviews the audit summaries prepared by the internal audit twice a year.

Internal monitoring

The purpose of the bank's internal monitoring is to ensure that the objectives and goals set on different levels at the bank are met in accordance with the instructions agreed and set by the internal monitoring. Internal monitoring is self-observation from within the bank carried out by the administrative bodies and the organisation, and it mainly focusses on the state, quality and results of operations. Internal monitoring is conducted by the Board of Directors, Chief Executive Officer, Risk Controller, supervisors and employees. In addition, the employees are obligated to report deviations and illegal activities to the upper organisation.

ADMINISTRATION AND PERSONNEL

The Annual General Meeting of the bank was held on 28 May 2013. The Annual General Meeting reviewed the financial statements of 2012. The proposal of the Board of Directors on the profit distribution was accepted. EUR 70,000 of the financial period profit was paid as dividend. In addition, the Annual General Meeting granted exemption from liability for the Board members and the Chief Executive Officer. The Annual General Meeting selected as new Board members Product Support Manager Markus Karppi and CEO Ismo Paananen (21 March 2013 – 4 October 2013).

The Board of Directors of Kantasäästöpankki Ltd comprised five members on 31 December 2013. Timo Kokkala has served as the Chair, Jari Lauttia as the Deputy Chair and Tarmo Laine as the Chief Executive Officer. Kirsi Kukkonen has served as Deputy Chief Executive Officer. The Board of Directors convened 14 times during the year.

The ordinary members of the Board of Directors:

Timo Kokkala	Farmer, Agronomist, 1992 Hauho Savings Bank
Jari Lauttia	Engineering Manager, 1996 Renko Savings Bank
Riitta Ilola-Seppälä	Entrepreneur, 1992 Renko Savings Bank
Matti Rantti	Entrepreneur, 1985 Hauho Savings Bank
Markus Karppi	Product Support Manager, 2013 Kantasäästöpankki Ltd

The Group employed 47 people at the end of the year. The bank employed 32 people, out of which 29 (32) were full-time and 2 (3) part-time employees. The number of personnel reduced by three people during the year. The average age of the bank's personnel was 42 years at the time of the financial statements. The Group includes Autiotalot Ltd and Kotihelmi Ltd that employed 15 (19) people at the end of the year. The bank continued the APV1 training of the personnel.

APA Henry Maarala has served as the bank's auditor and KPMG Ltd as the deputy auditor. Säästöpankkitarkastus carried out an audit in the bank on 27 September 2013. The bank has outsourced the internal audit. Anne Toivonen of Audit Partners Ltd has served as the internal auditor.

Bank's administrative and guidance system

The Annual General Meeting of the joint-stock Savings Bank processes the financial statements of the previous year, profit distribution, granting exemption from liability and selecting the Board members. The decisions on the bank's operating activities and strategic matters are taken by the bank's Board of Directors. In addition, the Board of Directors makes decisions on major matters regarding the bank's operating activities and selects the bank's Chief Executive Officer. The work of the Board of Directors is based on confirmed procedures. The bank's Chief Executive Officer takes care of the everyday administration of the bank in accordance with the instruction provided by the Board of Directors.

Settlement of the independence of the Board members and the Chief Executive Officer is carried out in accordance with the regulations provided by the Financial Supervisory Authority and its predecessor the Financial Supervision. The Board members and the Chief Executive Officer must provide a report on the communities they are involved in at the time of the appointment and from then on annually. In addition, the Board members and the Chief Executive Officer must provide an aptitude and reliability report in accordance with the regulation of the Financial Supervision when accepting the appointment.

Reward systems

The terms and benefits of the Chief Executive Officer's employment are approved by the Board of Directors of the bank. The Chair, Deputy Chair and members of the Board are paid annual compensation in addition to the meeting compensation. The bank has implemented a reward system for the personnel on 1 January 2012 that applies to supervisors and employees.

Some of the bank's personnel have a supplementary pension scheme that allows them to retire before the statutory retirement age. In these contracts, the retirement age is between 58 and 60 years. The supplementary pension scheme can be based on regulations of the collective agreement or employment contract.

Central outsourced operations

The bank's central information systems have been outsourced to Samlink Ltd, where the share majority is held by the Savings Banks. The bank's books and records are managed by Paikallispankkien PP-Laskenta Ltd, which is fully owned by Samlink. In payment intermediation, the bank uses ACH Finland Ltd's payment intermediation and clearing services and, in cash management, the cash management system of Automatia Pankkiautomaatit Ltd.

Corporate social responsibility

Kantasäästöpankki Ltd’s corporate social responsibility means the bank’s responsibility for the impacts of its business operations on the surrounding society and the company’s interest groups. As a local bank, Kantasäästöpankki Ltd deems it important for the bank to carry its responsibility for the surrounding society. Kantasäästöpankki Ltd makes sure that the employer obligations are observed. In 2013, EUR 153,000 of corporate tax was paid for the bank’s income. The Savings Banks organised a Facebook poll during the ‘Thrift Week’ on the allocation of Savings Banks’ support provided to local communities. The vote was organised for the second time. Based on the 2012 poll, the Savings Banks allocated support in the amount of EUR 480,000 in 2013. Based on 2013, the support sum is estimated at EUR 430,000.

Events occurring after the balance sheet date

The bank’s Board of Directors has no knowledge of factors that would essentially impact the bank’s financial standing after the completion of the financial statements.

DEVELOPMENT OF BUSINESS OPERATIONS IN 2014

The bank’s business operations are expected to develop favourably in 2014. The development of the bank’s income is expected to remain at the level of 2013.

Kantasäästöpankki Ltd will merge with Oma Savings Bank Ltd on 1 April 2014.

PROPOSAL OF THE BOARD OF DIRECTORS ON THE USE OF ASSETS ELIGIBLE FOR PROFIT DISTRIBUTION

According to the financial reporting standards of the Financial Supervision, the annual report of a credit institution must include a proposal of the Board of Directors for actions involving the profit as well as a proposal for other possible distribution of own non-restricted capital.

Kantasäästöpankki Ltd’s assets eligible for profit distribution are EUR 6,599,852.08, out of which the profit of the financial period is EUR 329,775.95.

The Board of Directors proposes to the Annual General Meeting that the profit of the financial period be used as follows:

– to be paid as dividend	EUR 70,000.00
– profit of the previous financial period to be left in the own capital account	EUR 259,775.95
Total	EUR 329,775.95

There have been no significant changes in the financial standing of the bank after the end of the financial period. The liquidity of the bank is good and the proposed distribution of profit does not endanger the liquidity of the bank in the view of the Board of Directors.

CALCULATION FORMULAE OF THE KEY FIGURES

Cost/income ratio, %

Administrative expenses + depreciation and impairment losses on tangible and intangible
assets + other operating expenses x 100
Net interest income + income from equity-based investments + net commission income
+ net income from trading in securities and foreign currencies + net income from
available-for-sale financial assets + net income from hedge accounting + net income
from investment property + other operating income + share of the income of the associates

Return on equity (ROE)

Operating profit or loss – Taxes on income * 100
Equity and minority interest + appropriations
deducted by deferred tax liabilities
(average of the year beginning and end)

Return on assets (ROA)

Operating profit or loss – Income taxes * 100
Balance sheet total (average of the year beginning and end)

Equity ratio

Equity and minority interest + Appropriations
deducted by deferred tax liabilities * 100
Balance sheet total

Solvency ratio

Total own assets…………………………………………* 8%
Total minimum requirement of own assets

Ratio of primary own assets to risk-weighted items

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

Financial statements

Income statement of Kantasäästöpankki Ltd

		1 Jan–31 Dec 2013 EUR	1 Jan–31 Dec 2012 EUR
Interest income	**(1.1)**	4,705,197.56	5,718,279.28
Interest expenses	**(1.1)**	-1,087,989.15	-1,803,045.62
NET INTEREST INCOME		3,617,208.41	3,915,233.66
Income from equity-based investments	**(1.2)**	29,819.20	39,719.09
Fee and commission income	**(1.3)**	1,992,414.61	1,841,080.18
Fee and commission expenses	**(1.3)**	-208,047.33	-200,035.41
Net income from trading in securities and foreign currencies	**(1.4)**	-204.87	-669.26
Net income from available-for-sale financial assets	**(1.5)**	840,306.61	31,545.69
Net income from hedge accounting	**(1.6)**	-17,841.07	4,070.82
Net income from investment property	**(1.7)**	-7,611.07	27,219.14
Other operating profit	**(1.8)**	199,023.54	34,707.07
Administrative expenses		-3,784,785.48	-3,437,357.40
Personnel expenses	**(1.9)**	-2,104,171.84	-1,788,285.86
Other administrative expenses	**(1.10)**	-1,680,613.64	-1,649,071.54
Depreciation and impairment losses on tangible and intangible assets	**(1.11)**	-136,041.73	-149,991.90
Other operating expenses	**(1.8)**	-856,276.33	-684,528.43
Impairment losses on credits and other receivables	**(1.12)**	-372,188.78	-198,198.05
OPERATING PROFIT		1,295,775.71	1,222,795.20
Appropriations		-813,065.01	83,972.72
Income taxes		-152,934.75	-317,297.16
PROFIT OF ACTUAL OPERATIONS AFTER TAXES		329,775.95	989,470.76
PROFIT FOR THE FINANCIAL PERIOD		329,775.95	989,470.76

BALANCE SHEET OF KANTASÄÄSTÖPANKKI LTD

ASSETS

		31 Dec 2013 EUR	31 Dec 2012 EUR
Cash and cash equivalents		1,213,810.06	1,209,609.94
Debt securities eligible for refinancing with central banks		0.00	2,308,875.98
Receivables from credit institutions	**(2.1)**	38,263,799.32	29,007,855.59
Receivables from the public and public institutions	**(2.2)**	161,753,759.65	158,010,282.69
Debt securities	**(2.3)**	0.00	1,532,080.17
From others		0.00	1,532,080.17
Shares and interests	**(2.4)**	3,355,279.50	9,759,890.41
Derivative contracts	**(2.5)**	1,974,623.78	2,699,516.59
Intangible assets	**(2.7)**	83,246.80	58,910.79
Tangible assets		5,628,015.06	2,578,128.65
Investment property, investment property shares and interests	**(2.8)**	4,338,092.88	1,109,269.73
Other property and property community shares and interests	**(2.8)**	1,174,440.94	1,276,871.80
Other tangible assets		115,481.24	191,987.12
Other assets	**(2.10)**	13,920.49	19,546.80
Accrued income and prepayments	**(2.11)**	1,307,315.16	1,297,049.52
Deferred tax assets	**(2.17)**	2,612.70	20,207.49
TOTAL ASSETS		213,596,382.52	208,501,954.62

LIABILITIES

		31 Dec 2013 EUR	31 Dec 2012 EUR
LIABILITIES			
Liabilities to credit institutions	**(2.12)**	3,458,269.99	3,582,915.38
Liabilities to the public and public institutions	**(2.13)**	178,783,136.13	175,020,611.00
Deposits		178,694,582.20	174,876,365.27
Other liabilities		88,553.93	144,245.73
Other liabilities	**(2.14)**	1,379,116.35	2,065,941.60
Accrued liabilities and prepayments received	**(2.15)**	934,629.46	1,237,744.83
Subordinated liabilities	**(2.16)**	8,662,800.00	6,750,400.00
Deferred tax liabilities	**(2.17)**	3,321.65	148,759.51
TOTAL LIABILITIES		193,221,273.58	188,806,372.32
APPROPRIATIONS			
Voluntary provisions		7,772,421.05	6,959,356.04
TOTAL APPROPRIATIONS		7,772,421.05	6,959,356.04
EQUITY	**(2.21)**		
Share capital/Co-operative capital/Basic capital		6,000,000.00	6,000,000.00
Other restricted reserves		2,835.81	396,150.13
Fair value reserve		2,835.81	396,150.13
Non-restricted reserves		3,110,725.03	3,110,725.03
Reserve for invested non-restricted equity		3,018,577.40	3,018,577.40
Other reserves		92,147.63	92,147.63
Retained profit		3,159,351.10	2,239,880.34
Profit for the financial period		329,775.95	989,470.76
TOTAL EQUITY		12,602,687.89	12,736,226.26
TOTAL LIABILITIES		213,596,382.52	208,501,954.62

COMMITMENTS OUTSIDE THE BALANCE SHEET

	31 Dec 2013 EUR	31 Dec 2012 EUR
Commitments given to a third party on behalf of a client	3,524,117.20	4,141,502.23
Guarantees and pledges	3,295,071.56	3,355,249.85
Others	229,045.64	786,252.38
Irrevocable commitments given in favour of a client	5,216,079.74	7,221,636.77
Others	5,216,079.74	7,221,636.77

Financial statement of Kantasäästöpankki Ltd

	1 Jan–31 Dec 2013 EUR	1 Jan–31 Dec 2012 EUR
Cash flow from operations		
Profit of actual operations after taxes	329,775.95	989,470.76
Rectifications for the financial period	1,128,952.58	333,300.68
Increase (–) or decrease (+) of operating assets	**-16,145,496.11**	**-7,618,536.56**
Debt securities	3,753,849.37	-3,028,679.69
Receivables from credit institutions	-22,981,398.97	8,615,734.85
Receivables from the public and public institutions	-3,743,476.96	-11,105,897.34
Shares and interests	6,649,686.25	-2,065,545.69
Other assets	175,844.20	-34,148.69
Increase (+) or decrease (–) of operating liabilities	**3,455,261.87**	**17,469,489.85**
Liabilities to credit institutions	-124,645.39	3,333,292.24
Liabilities to the public and public institutions	4,480,545.83	13,557,914.63
Promissory notes issued to the public	0.00	0.00
Other liabilities	-900,638.57	578,282.98
Paid income taxes	-432,761.39	-302,855.25
Total operating cash flow	**-11,664,267.10**	**10,870,869.48**
Cash flow from investments		
Investments in shares and interests, increases	-679,125.95	0.00
Investments in shares and interests, decreases	0.00	4,776.66
Investments in tangible and intangible assets	-3,256,262.07	-360,416.92
Assignments of tangible and intangible assets	36,000.00	90,000.00
Total cash flow from investments	**-3,899,388.02**	**-265,640.26**
Financing cash flow		
Subordinated liabilities, increases	4,000,000.00	2,000,000.00
Subordinated liabilities, decreases	-2,087,600.00	-1,687,600.00
Paid dividends and other distribution of profit	-70,000.00	-70,000.00
Total financing cash flow	**1,842,400.00**	**242,400.00**
Net change of cash and cash equivalents	**-13,721,255.12**	**10,847,629.22**
Financial assets at the beginning of the financial period	18,600,678.50	7,753,049.28
Financial assets at the end of the financial period	4,879,423.38	18,600,678.50
Financial assets are composed of the following balance sheet items:		
Cash and cash equivalents	1,213,810.06	1,209,609.94
Receivables from credit institutions paid on demand	3,665,613.32	17,391,068.56
Total	**4,879,423.38**	**18,600,678.50**
Additional information on the financial statement:		
Received interest	4,919,237.96	5,575,223.51
Paid interest	1,280,711.39	1,853,075.74
Received dividends	29,819.20	39,719.09
Rectifications for the financial period:		
Appropriations	813,065.01	-83,972.72
Income statement taxes	152,934.75	317,297.16
Impairments of financial assets	0.00	0.00
Changes in fair value	16,668.17	-4,070.82
Depreciation and impairment losses on tangible and intangible assets	148,473.85	162,598.74
Other rectifications	-2,189.20	-58,551.68

Total	**1,128,952.58**	**333,300.68**

NOTES

Accounting principles

The financial statements of the bank are made in accordance with the regulations of the Accounting Act and the Act on Credit Institutions, the Ministry of Finance Decree (150/2007) on Financial Statements and Consolidated Financial Statements of Credit Institutions as well as the Regulations and Guidelines 1/2013 of the Financial Supervisory Authority on Financial Sector Bookkeeping, Financial Statements and Annual Report.

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 Act on Credit Institutions, subsidiaries, associates and joint ventures whose balance sheet total is less than 1 per cent of the parent bank's balance sheet total and less than MEUR 10 can be excluded from the consolidated financial statements. The subsidiaries do not have a significant impact on the Group's income and balance sheet and, therefore, the financial statements of the bank provide a correct and adequate picture of the operative income and financial standing of the Group.

Foreign currency entries

Assets and liabilities bound to foreign currencies outside the EU are converted to euros in accordance with the average rate quoted by the European Central Bank on the day of closing the accounts.

The differences in currency rates emerging from valuation are entered in the income statement under net income on trading in foreign currencies.

Financial instruments

Classification

The financial assets are classified in the financial statements in accordance with the Regulations and Guidelines 1/2013 of the Financial Supervisory Authority on Financial Sector Bookkeeping, Financial Statements and Annual Report to four valuation classes:

- Financial assets entered to fair value with impact on the income
- Available-for-sale financial assets
- Held-to-maturity investments
- Loans and other receivables.

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

The bank does not possess any held-to-maturity investments.

The class of loans and receivables contains receivables with fixed or definable payments that are not quoted on the market.

The available-for-sale financial assets contain financial assets that have not been classified in the aforementioned valuation classes.

The acquisition and sales of financial assets have been entered in the books and records by the trade date and they are included in the balance sheet items Debt securities and Shares and interests.

Financial liabilities are divided into two valuation classes:

- Financial liabilities held for trading
- Other financial liabilities.

The bank does not possess any financial liabilities held for trading. Therefore, all financial liabilities are classified under Other financial liabilities.

Valuation

Financial assets are carried either at fair value or amortised cost. With the exception of derivative contracts, financial liabilities are carried at amortised cost.

Available-for-sale financial assets are appraised to their fair value. Changes in their fair value are adjusted by deferred taxes and recorded in the fair value reserve under equity. Foreign exchange gains and losses are not entered in the fair value reserve but directly to income. The change of value accrued in the fair value reserve is entered under income when an asset belonging to available-for-sale financial assets is sold or otherwise derecognised.

The year's final bid price has been considered to be the fair value of quoted shares. The fair value of unquoted shares has been their acquisition cost when their fair value cannot have been determined reliably. The fair value of debt securities is the year's last bid price if the debt security has a quotation or, when there is no quotation, the present value of the debt security discounted by the market interest rate of the capital or interest flow, or a value calculated by using some other generally approved valuation model or method.

The shares and interest in subsidiaries and associates are recorded under the acquisition cost or acquisition cost deducted by the impairment loss in the event that the impairment 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 fair value and applies fair value hedging to it. The hedging is applied to fixed-rate deposits. The change in the fair value of derivatives that are used for hedging the fair value is recorded in the income statement under Net income from hedge accounting. When hedging the fair value, the subject of hedging is also appraised to the fair value for the hedging period, even if it is otherwise appraised at the amortised cost. The change in the fair value of the subject of hedging is recorded in the balance sheet as an adjustment of the item in question and in the income statement under Net income from hedge accounting. The interests of the hedging derivatives are given as adjustment of interest expenses.

Tangible and intangible assets

Properties and shares in property communities are divided on the basis of their purpose of use into property in own use and investment property. The division is based on the floor area used.

Properties are entered in the balance sheet with the acquisition cost deducted by planned depreciation. The shares and interests in property communities are entered in the balance sheet at the acquisition cost. The bank does not apply the possibility to evaluate the investment property to fair value under Section 153 of the Act on Credit Institutions.

The balance values of properties as well as shares and interests in property communities in own use are based on the value of the assets in relation to the income expectations of the actual operations.

The difference between the carrying amount of the investment property and shares of property communities and the permanently lower probable assignment price is, in case it is significant, entered in impairment loss as an expense under Net income from investment property. Potential cancellations of impairment are entered as adjustments of the same item.

The bank's key investment property items are valued using the purchase price method for each property. The purchase price method is primarily used for estimating the value of residences and land areas. The estimates of the income value method are based on the amount of the net rental income from the property in question and the income requirement of the property market. The minimum income requirement has been set to 5.0 per cent. The fair values of investment property are presented in Note 2.8.

In the past, revaluation has been applied to some properties and shares of property communities based on expert opinions and approved by the Financial Supervision. In the event that the value of the revaluated asset has decreased below the carrying amount or if the asset or part thereof has been assigned or destroyed, the revaluation is cancelled accordingly. No depreciation is made from revaluations. No deferred tax liabilities are entered from revaluations. If the deferred tax liability is significant, it is reported in the notes.

Appropriations

<u>Voluntary provisions</u>

The bank uses voluntary provisions, such as credit loss provisions, when planning taxation and the financial statements. Therefore, the amount or change of voluntary provisions does not characterise the risks of the bank.

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

Commitments outside the balance sheet

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

Commitments given to a third party on behalf of a client include, for example, guarantees or similar guarantee commitments. The commitments are presented in the amount that the guarantee or guarantee commitment corresponds to at the moment of closing the accounts.

Irrevocable commitments given in favour of a client include, for example, binding credit commitments, granted loans not drawn yet and unused credit limits. The commitments are presented in the maximum 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-bound assets and liabilities. Interests are recorded on an accrual basis, with the exception of penalty interests, which are recorded 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 payables, which is deferred to the exercise period of the receivables or payables by using the method of effective interests. A counter item is entered as a change in the receivables or payables.

Interest income is also accrued in the bookings of receivables 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 receivables</u>

Impairment losses contain impairment of loans and other receivables when there is objective proof that the capital or interests of the loan or receivable will not be paid and when the guarantee of the receivable does not suffice to cover the amount. Estimation of the objective proof is based on estimating the insolvency of the client 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 carrying amount of the receivable and the estimated current value of the incoming cash flow accruable from the receivable by taking into account the fair value of the guarantee. The original effective interest rate of the receivable has been used as the discount rate.

<u>Available-for-sale financial assets</u>

In the event that, at the closing of accounts, objective proof indicates that the value of securities classified as 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 the share has decreased significantly or below the acquisition cost for a long time 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 under Net income from available-for-sale financial assets.

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

Depreciation principles

The acquisition cost of buildings and other tangible and intangible assets is depreciated on the basis of the economic holding period, in accordance with the depreciation plan as straight-line depreciation. Depreciation periods range from 22 to 50 years for buildings and structures and from 5 to 8 years for machinery and equipment. Land areas are not subject to depreciation.

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

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. A positive change in the value included in the fair value reserve is recorded in the balance sheet as a deferred tax liability, and a negative change as a deferred tax asset, respectively. In addition, the negative change in value transferred from the fair value reserve to income is recorded as a deferred tax asset. Other deferred taxes have not been recorded.

Financial assets

The financial assets of the financial statements comprise cash and cash equivalents and receivables from credit institutions paid on demand. The financial statements have been prepared using the indirect method.

Other notes

NOTES
NOTES ON THE FINANCIAL STATEMENTS

1.1 Interest income and expenses

	2013	2012
Interest income		
From receivables from credit institutions	133.615.96	296.585.06
From receivables from the public and public institutions	4.532.191.36	5.062.295.80
From debt securities	9.658.02	65.884.68
From derivative contracts	0.00	292.963.48
Other interest income	29.732.22	550.26
Total	**4.705.197.56**	**5.718.279.28**
Interest income on impairment of credits and other receivables	85.133.18	84.521.11
Interest expenses		
From liabilities to credit institutions	-54.770.02	-15.043.17
From liabilities to the public and public institutions	-1.419.350.95	-2.152.256.31
From derivative contracts and other liabilities held for trading	610.870.58	576.241.24
From subordinated liabilities	-221.849.38	-210.474.76
Other interest expenses	-2.889.38	-1.512.62
Total	**-1.087.989.15**	**-1.803.045.62**

1.2 Income from equity-based investments

	2013	2012
From available-for-sale financial assets	29.819.20	39.719.09
Total	**29.819.20**	**39.719.09**

1.3 Fee and commission income and expenses

	2013	2012
Fee and commission income		
From lending	434.505.72	371.924.83
From deposits	7.018.50	8.749.33
From payment transactions	892.820.53	836.680.44
From asset management	164.251.91	145.488.54
From supplied operations	450.544.72	426.693.91
From granting of guarantees	24.856.94	30.558.45
Other fee and commission income	18.416.29	20.984.68
Total	**1.992.414.61**	**1.841.080.18**
Fee and commission expenses		
Paid commissions	-17.890.58	-18.376.61
Others	-190.156.75	-181.658.80
Total	**-208.047.33**	**-200.035.41**

1.4 Net income on trading in securities and foreign currencies

2013	Sales profits and losses (net)	Changes in fair value (net)	Total
Net income on trading in foreign currencies	-204.87	0.00	-204.87
Income statement item total	**-204.87**	**0.00**	**-204.87**

Net income from trading in securities and foreign currencies

2012	Sales profits and losses (net)	Changes in fair value (net)	Total
From others	0.00	-731.29	-731.29
Total net income on trading in securities	0.00	-731.29	-731.29
Net income on trading in foreign currencies	62.03	0.00	62.03
Income statement item total	**62.03**	**-731.29**	**-669.26**

1.5 Net income on available-for-sale financial assets

2013	Sales profits and losses (net)	Impairments	Transfers from the fair value reserve	Total
From debt securities	-3,325.50	0.00	82,816.98	79,491.48
From shares and interests	182,235.43	0.00	578,579.70	760,815.13
Total	**178,909.93**	**0.00**	**661,396.68**	**840,306.61**

Net income on available-for-sale financial assets

2012	Sales profits and losses (net)	Impairments	Transfers from the fair value reserve	Total
From debt securities	0.00	0.00	0.00	0.00
From shares and interests	-6,093.13	0.00	37,638.82	31,545.69
Total	**-6,093.13**	**0.00**	**37,638.82**	**31,545.69**

1.6 Net income from hedge accounting

	2013	2012
Change (net) in the fair value of hedging derivatives	-673,391.67	1,009,137.30
Change (net) in the fair value of hedged items	655,550.60	-1,005,066.48
Total	**-17,841.07**	**4,070.82**

1.7 Net income from investment property

	2013	2012
Rental income	99,929.96	100,632.87
Planned depreciation	-12,432.12	-12,606.84
Sales profits and losses (net)	0.00	136.50
Other income	97.00	101.00
Other expenses	-95,205.91	-61,044.39
Total	**-7,611.07**	**27,219.14**

1.8 Other operating income and expenses

Other operating income	2013	2012
Rental income from property in own use	7,088.50	6,468.76
Other income	191,935.04	28,238.31
Total	**199,023.54**	**34,707.07**

Other operating expenses	2013	2012
Rental expenses	-152,910.23	-158,287.38
Expenses from property in own use	-211,966.07	-185,190.76
Other expenses	-491,400.03	-341,050.29
Total	**-856,276.33**	**-684,528.43**

1.9 Personnel expenses

	2013	2012
Salaries and fees	-1,483,298.28	-1,416,605.18
Indirect employee expenses	-620,873.56	-371,680.68
Pension expenses	-564,159.06	-326,172.29
Other indirect employee expenses	-56,714.50	-45,508.39
Total	**-2,104,171.84**	**-1,788,285.86**

1.10 Other administrative expenses

	2013	2012
Other personnel expenses	-130,703.89	-192,495.32
Office expenses	-179,033.91	-163,828.00
IT expenses	-950,459.10	-898,081.76
Communications expenses	-148,012.25	-119,865.93
Representational and marketing expenses	-272,404.49	-274,800.53
Total	**-1,680,613.64**	**-1,649,071.54**

1.11 Depreciation and impairments on tangible and intangible assets

	2013	2012
Planned depreciation	-136,041.73	-149,991.90
Tangible assets	-69,584.85	-103,624.26
Intangible assets	-66,456.88	-46,367.64
Total	**-136,041.73**	**-149,991.90**

1.12 Impairment losses on credits and other commitments as well as other financial assets

Impairment losses on credits and other commitments	2013	2012
From receivables from the public and public institutions	-372,188.78	-198,198.05
Contract-specific impairment losses	-447,742.67	-224,338.40
Cancellations and returns (-) on impairments	75,553.89	26,140.35
Total impairment losses on credits and other commitments	**-372,188.78**	**-198,198.05**
Total impairment losses on financial assets	-372,188.78	-198,198.05

1.13 Income by operating area and market area

	2013	2012
Income from banking operations	6,653,115.36	5,892,906.39

Distribution of income, operating profit, assets and liabilities by operating area has not been reported due to a lack of significance.
The bank only operates in Finland.
The income is presented as non-eliminated.

NOTES ON THE BALANCE SHEET

2.1. Receivables from credit institutions

	2013	2012
Repayable on demand	3,665,613.32	17,391,068.56
From domestic credit institutions	3,665,613.32	17,387,531.94
From foreign credit institutions	0.00	3,536.62
Others	34,598,186.00	11,616,787.03
From domestic credit institutions	34,598,186.00	11,616,787.03
Total	**38,263,799.32**	**29,007,855.59**

The item Others comprises a long-term, unsecured senior credit granted by the bank to Aktia Real Estate Mortgage Bank Plc. for refinancing of the supplied mortgages.

2.2 Receivables from the public and public institutions

	2013	2012
Enterprises and housing communities	28,716,671.19	26,668,618.46
Households	132,780,641.41	131,063,210.10
Non-profit communities serving households	252,643.84	275,290.19
Foreign	3,803.21	3,163.94
Total	**161,753,759.65**	**158,010,282.69**
– out of which receivables with subordinated liabilities	21,000.00	0.00

Impairment losses recorded during the financial period

	2013	2012
Impairment losses at the beginning of the financial period	651,930.98	453,484.02
+ receivable-specific impairment losses recorded during the financial period	447,742.67	224,338.40
– receivable-specific impairment losses cancelled during the financial period	-75,509.01	-25,891.44
– credit losses realised during the financial period formerly recorded with a receivable-specific impairment loss	-4,313.51	0.00
Impairment losses at the end of the financial period	**1,019,851.13**	**651,930.98**

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	0.00	0.00	3,840,956.15	2,308,875.98
Quoted	0.00	0.00	809,643.50	809,643.50
Others	0.00	0.00	3,031,312.65	1,499,232.48
Total	**0.00**	**0.00**	**3,840,956.15**	**2,308,875.98**

2.4 Shares and interests

	2013	2012
Available-for-sale shares and interests	3,162,779.50	9,567,390.41
Quoted	80,733.53	7,164,424.15
Others	3,082,045.97	2,402,966.26
Total shares and interests	**3,162,779.50**	**9,567,390.41**
– of which in credit institutions	1,857,464.99	1,861,220.07

Shares and interests in companies belonging to the same Group

In other companies	192,500.00	192,500.00
Total	**192,500.00**	**192,500.00**

Ownership is measured at 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
Hedging derivative contracts	0.00	20,603,300.00	5,000,000.00	25,603,300.00
Interest rate derivatives	0.00	20,000,000.00	5,000,000.00	25,000,000.00
Interest rate swaps	0.00	20,000,000.00	5,000,000.00	25,000,000.00
Share derivatives	0.00	603,300.00	0.00	603,300.00

	2012			
Remaining maturity	less than 1 year	1 to 5 years	more than 5 years	Total
Hedging derivative contracts	5,000,000.00	15,000,000.00	10,000,000.00	30,000,000.00
Interest rate derivatives	5,000,000.00	15,000,000.00	10,000,000.00	30,000,000.00
Interest rate swaps	5,000,000.00	15,000,000.00	10,000,000.00	30,000,000.00

Fair values of derivative contracts

	2013		2012	
	Receivables	Payables	Receivables	Payables
Hedging derivative contracts	1,974,623.78	0.00	2,699,516.59	0.00
Interest rate derivatives	1,963,409.82	0.00	2,699,516.59	0.00
Interest rate swaps	1,963,409.82	0.00	2,699,516.59	0.00
Share derivatives	11,213.96	0.00	0.00	0.00
Total	**1,974,623.78**	**0.00**	**2,699,516.59**	**0.00**

2.6 Related party disclosures

Related party disclosures are presented in connection with the notes on personnel and management. Note 4.4.

2.7 Intangible assets

	2013	2012
Other intangible assets	83,246.80	58,910.79
Total	**83,246.80**	**58,910.79**

2.8 Tangible assets

	Carrying amount	Fair value
Land and water areas		
In own use	8,690.72	
Invested	339,964.54	339,964.54
Total	**348,655.26**	
Buildings		
In own use	155,580.45	
Invested	124,853.46	124,853.46
Total	**280,433.91**	
Shares and interests in property communities		
In own use	1,010,169.77	
Invested	3,873,274.88	3,873,274.88
Total	**4,883,444.65**	
Other tangible assets	115,481.24	
Total tangible assets	5,628,015.06	

Investment property is appraised at acquisition cost.

2.9 Changes in intangible and tangible assets during the financial period

Intangible assets	**2013**
Acquisition cost 1 Jan	356,285.27
+ increases during the financial period	7,964.84
+/– transfers between items	359,414.02
Acquisition cost 31 Dec	723,664.13
Accrued depreciation and impairments 1 Jan	-297,374.48
+/– accrued depreciation on decreases and transfers	-276,585.97
– depreciation during the financial period	-66,456.88
Accrued depreciation and impairments 31 Dec	-640,417.33
Carrying amount 31 Dec	**83,246.80**
Carrying amount 1 Jan	58,910.79

Tangible assets

	2013 **Investment property and shares in investment property**	**Other property and shares in property**	**Other tangible assets**	**Total**
Acquisition cost 1 Jan	1,389,394.09	1,769,729.69	997,835.04	4,156,958.82
+ increases during the financial period	3,241,255.27	0.00	15,182.01	3,256,437.28
– decreases during the financial period	0.00	-8,140.05	-55,942.92	-64,082.97
+/– transfers between items	0.00	-359,414.02	0.00	-359,414.02
Acquisition cost 31 Dec	4,630,649.36	1,402,175.62	957,074.13	6,989,899.11
Accrued depreciation and impairments 1 Jan	-328,145.14	-575,350.94	-805,847.92	-1,709,344.00
+/– accrued depreciation on decreases and transfers	0.00	276,585.97	22,377.12	298,963.09
– depreciation during the financial period	-12,432.12	-11,462.76	-58,122.09	-82,016.97
Accrued depreciation and impairments 31 Dec	-340,577.26	-310,227.73	-841,592.89	-1,492,397.88
Accrued revaluations 1 Jan	48,020.78	82,493.05	0.00	130,513.83
Accrued revaluations 31 Dec	48,020.78	82,493.05	0.00	130,513.83
Carrying amount 31 Dec	**4,338,092.88**	**1,174,440.94**	**115,481.24**	**5,628,015.06**
Carrying amount 1 Jan	1,109,269.73	1,276,872	191,987.12	2578128.85

Activated reconstruction expenses of housing company units have been transferred during the financial period of 2013 from tangible assets to intangible assets.

2.10 Other assets

	2013	**2012**
Others	13,920.49	19,546.80
Total	**13,920.49**	**19,546.80**

2.11 Accrued income and prepayments

	2013	**2012**
Interests	963,147.80	1,177,188.20
Others	344,167.36	119,861.32
Total	**1,307,315.16**	**1,297,049.52**

2.12 Liabilities to credit institutions

	2013	**2012**
To credit institutions	3,458,269.99	3,582,915.38
Repayable on demand	2,557,319.63	3,082,233.52
Others	900,950.36	500,681.86
Total	**3,458,269.99**	**3,582,915.38**

2.13 Liabilities to the public and public institutions

	2013	**2012**
Deposits	178,694,582.20	174,876,365.27
Repayable on demand	99,706,742.21	98,630,160.80
Others	78,987,839.99	76,246,204.47
Other liabilities	88,553.93	144,245.73
Others	88,553.93	144,245.73

Total	**178,783,136.13**	**175,020,611.00**

2.14 Other liabilities

	2013	2012
Liabilities on payment intermediation	1,359,685.32	2,051,482.39
Others	19,431.03	14,459.21
Total	**1,379,116.35**	**2,065,941.60**

2.15 Accrued liabilities and prepayments received

	2013	2012
Interests	618,274.41	811,243.25
Others	316,355.05	426,501.58
Total	**934,629.46**	**1,237,744.83**

2.16 Subordinated liabilities

1) Subordinated liabilities
whose carrying amount exceeds 10 per cent of the total value of liabilities

Identification data of the liabilities	Carrying amount	Interest %	Maturity date
Common debenture loan of the Savings Banks 2/2009	800,000.00	3.00	18 May 2014
Common debenture loan of the Savings Banks 1/2010	800,000.00	3.25	18 May 2015
Common debenture loan of the Savings Banks 1/2011	1,462,800.00	3.50	16 May 2016
Common debenture loan of the Savings Banks 1/2012	1,600,000.00	2.85	7 May 2017
Common debenture loan of the Savings Banks 1/2013	4,000,000.00	2.35	15 May 2018
Total	**8,662,800.00**		

	Amount counted among own assets
Common debenture loan of the Savings Banks 2/2009	800,000.00
Common debenture loan of the Savings Banks 1/2010	800,000.00
Common debenture loan of the Savings Banks 1/2011	1,462,800.00
Common debenture loan of the Savings Banks 1/2012	1,600,000.00
Common debenture loan of the Savings Banks 1/2013	4,000,000.00
Total	**8,662,800.00**

All liabilities are reported in euros. The reported liabilities are counted in solvency calculation as lower secondary credit institution-respective assets.

Terms of prepayment:
The bank retains the right of full or partial redemption of all loans prior to the maturity date. However, prepayment is subject to permission from the Financial Supervisory Authority, except for minor redemptions which the bank resells within a short period of redemption.

Regulations concerning the subordination of liabilities or the potential change of liabilities to shares:
The loans are issued as debenture loans in accordance with Section 34 of the Promissory Notes Act (622/1947). The loans are subordinate in comparison to the other liabilities of the issuer.

2.17 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. 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	2,612.70
Valuation-based deferred tax liabilities	3,321.65

2.18 Maturity distribution of financial assets and liabilities

Financial assets

Parent

	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	0.00
Receivables from credit institutions	35,281,299.32	0.00	0.00
Receivables from the public and general government	7,215,898.78	19,727,762.53	50,618,539.52
Debt securities	0.00	0.00	0.00
Total	**42,497,198.10**	**19,727,762.53**	**50,618,539.52**

	2013 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	2,982,500.00	38,263,799.32
Receivables from the public and general government	39,862,427.10	44,329,131.72	161,753,759.65
Debt securities	0.00	0.00	0.00
Total	**39,862,427.10**	**47,311,631.72**	**200,017,558.97**

Financial assets

	2012 Less than 3 months	3 to 12 months	1 to 5 years
Debt securities eligible for refinancing with central banks	231,081.00	1,499,232.48	277,887.50
Receivables from credit institutions	26,518,155.59	0.00	0.00
Receivables from the public and general government	8,102,648.82	19,598,504.54	48,850,421.38
Debt securities	0.00	1,532,080.17	0.00
Total	**34,851,885.41**	**22,629,817.19**	**49,128,308.88**

Financial assets

	2012 5 to 10 years	More than 10 years	Total
Debt securities eligible for refinancing with central banks	300,675.00	0.00	2,308,875.98
Receivables from credit institutions	0.00	2,489,700.00	29,007,855.59
Receivables from the public and general government	39,177,716.58	42,280,991.37	158,010,282.69
Debt securities	0.00	0.00	1,532,080.17
Total	**39,478,391.58**	**44,770,691.37**	**190,859,094.43**

Financial liabilities

	2013 Less than 3 months	3 to 12 months	1 to 5 years
Liabilities to credit institutions and central banks	2,561,933.07	0.00	896,336.92
Liabilities to the public and public institutions	122,410,254.43	53,074,316.71	3,210,011.06
Subordinated liabilities	0.00	2,887,600.00	5,775,200.00
Total	**124,972,187.50**	**55,961,916.71**	**9,881,547.98**

Financial liabilities

	2013 5 to 10 years	More than 10 years	Total
Liabilities to credit institutions and central banks	0.00	0.00	3,458,269.99
Liabilities to the public and public institutions	88,553.93	0.00	178,783,136.13
Subordinated liabilities	0.00	0.00	8,662,800.00
Total	**88,553.93**	**0.00**	**190,904,206.12**

Financial liabilities

	2012 Less than 3 months	3 to 12 months	1 to 5 years
Liabilities to credit institutions and central banks	3,082,233.52	0.00	500,681.86
Liabilities to the public and public institutions	124,487,369.95	43,110,372.23	7,278,623.09
Subordinated liabilities	0.00	2,087,600.00	4,662,800.00
Total	**127,569,603.47**	**45,197,972.23**	**12,442,104.95**

Financial liabilities

	2012 5 to 10 years	More than 10 years	Total
Liabilities to credit institutions and central banks	0.00	0.00	3,582,915.38
Liabilities to the public and public institutions	144,245.73	0.00	175,020,611.00
Subordinated liabilities	0.00	0.00	6,750,400.00
Total	**144,245.73**	**0.00**	**185,353,926.38**

Liabilities to the public and public institutions repayable on demand:
Other than fixed-term deposits and accounts with overdraft allowance are reported in the category Less than 3 months.

2.19 Classification of domestic and foreign currency assets and liabilities and those within the same Group

Assets	2013 Domestic currency	Foreign currency	2012 Domestic currency	Foreign currency
Debt securities eligible for refinancing with central banks	0.00	0.00	2,308,875.98	0.00
Receivables from credit institutions	38,263,799.32	0.00	29,007,855.59	0.00
Receivables from the public and general government	161,753,759.65	0.00	158,010,282.69	0.00
Debt securities	0.00	0.00	1,532,080.17	0.00
Derivative contracts	1,974,623.78	0.00	2,699,516.59	0.00
Other property	11,600,376.01	3,823.76	14,939,314.97	4,028.63
Total	**213,592,558.76**	**3,823.76**	**208,497,925.99**	**4,028.63**

Payables

	2013 Domestic currency	Foreign currency	2012 Domestic currency	Foreign currency
Liabilities to credit institutions and central banks	3,458,269.99	0.00	3,582,915.38	0.00
Liabilities to the public and public institutions	178,783,136.13	0.00	175,020,611.00	0.00
Subordinated liabilities	8,662,800.00	0.00	6,750,400.00	0.00
Other liabilities	1,382,438.00	0.00	2,214,701.11	0.00
Accrued liabilities and prepayments received	934,629.46	0.00	1,237,744.83	0.00
Total	**193,221,273.58**	**0.00**	**188,806,372.32**	**0.00**

2.20 Fair values of financial assets and liabilities

Financial assets	2013 Carrying amount	2013 Fair value	2012 Carrying amount	2012 Fair value
Cash and cash equivalents	1,213,810.06	1,213,810.06	1,209,609.94	1,209,609.94
Receivables from credit institutions	38,263,799.32	38,263,799.32	29,007,855.59	29,007,855.59
Receivables from the public and general government	161,753,759.65	161,753,759.65	158,010,282.69	158,010,282.69
Debt securities	0.00	0.00	3,840,956.15	3,840,956.15
Shares and interests	3,162,779.50	3,162,779.50	9,567,390.41	9,567,390.41
Shares and interests in companies belonging to the same Group	192,500.00	192,500.00	192,500.00	192,500.00
Derivative contracts	1,974,623.78	1,974,623.78	2,699,516.59	2,699,516.59
Total	**206,561,272.31**	**206,561,272.31**	**204,528,111.37**	**204,528,111.37**

Financial liabilities

	2013 Carrying amount	2013 Fair value	2012 Carrying amount	2012 Fair value
Liabilities to credit institutions	3,458,269.99	3,458,269.99	3,582,915.38	3,582,915.38
Liabilities to the public and public institutions	178,783,136.13	178,783,136.13	175,020,611.00	175,020,611.00
Subordinated liabilities	8,662,800.00	8,662,800.00	6,750,400.00	6,750,400.00
Total	**190,904,206.12**	**190,904,206.12**	**185,353,926.38**	**185,353,926.38**

The fair values of financial asset have primarily been defined using quoted market prices. If a quoted market price 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 carrying amount has been used. For the fair value of financial liabilities, the carrying amount has been used.

Financial instruments valued at the fair value on the balance sheet		Parent 2013		
	Level 1	**Level 2**	**Level 3**	**Total**
	80,733.53	1,963,409.82	11,213.96	2,055,357.31
Profits and losses unrealised during the period			0.00	
		Parent 2012		
	Level 1	**Level 2**	**Level 3**	**Total**
	7,742,986.65	5,730,829.24	231,081.00	13,704,896.89
Profits and losses unrealised during the period			0.00	

Essential financial assets measured at cost instead of fair value

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

2.21 Equity increase and decrease during the financial period

	Financial period at the beginning	Increase	Decrease	Financial period at the end
Share capital/Co-operative capital/Basic capital	5,106,057.62	0.00	0.00	5,106,057.62
Credit loss provision transferred to the share capital	893,942.38	0.00	0.00	893,942.38
Other restricted reserves	396,150.13	736,832.72	-1,130,147.04	2,835.81
Fair value reserve	396,150.13	736,832.72	-1,130,147.04	2,835.81
From valuation to fair value	396,150.13	736,832.72	-1,130,147.04	2,835.81
Non-restricted reserves	3,110,725.03	0.00	0.00	3,110,725.03
Reserve for invested non-restricted equity	3,018,577.40	0.00	0.00	3,018,577.40
Other reserves	92,147.63	0.00	0.00	92,147.63
Retained profit	2,239,880.34	989,470.76	-70,000.00	3,159,351.10
Profit for the period	989,470.76	329,775.95	-989,470.76	329,775.95
Total equity	**12,736,226.26**	**2,056,079.43**	**-2,189,617.80**	**12,602,687.89**

	Financial period at the beginning	Increase	Decrease	Financial period at the end
Equity instruments	330,384.51	937,267.21	-1,264,815.91	2,835.81

of which deferred taxes	-107,210.86	107,210.86	-708.95	-708.95
Debt securities	65,765.62	22,027.54	-87,793.16	0.00
of which deferred taxes	-21,341.16	21,341.16	0.00	0.00
Total fair value reserve	**396,150.13**	**959,294.75**	**-1,352,609.07**	**2,835.81**

2.22 Share capital

The shares of Kantasäästöpankki Ltd are A-series shares.

The number of shares totals 100,000. Each share represents one vote and has equal rights when funds are distributed.

Restrictions concerning the acquisition of shares: share owners have the right to redeem shares.

When dividends are distributed, a maximum of EUR 100,000 shall be paid to A-series shares, an equal amount to each share.

NOTES CONCERNING GRANTED SECURITY COLLATERALS AND CONTINGENT LIABILITIES

3.1 Pension liabilities

The pension scheme of the personnel has been arranged by Veritas Pension Insurance, and there is no uncovered pension liability.

3.2 Commitments outside the balance sheet

	2013	2012
Commitments given to a third party on behalf of a client		
Guarantees	3,295,071.56	3,355,249.85
Other commitments given to a third party on behalf of a client	229,045.64	786,252.38
Granted to a client		
Irrevocable commitments	5,216,079.74	7,221,636.77
of which credit commitments	5,216,079.74	7,221,636.77
Total commitments outside the balance sheet	**8,740,196.94**	**11,363,139.00**

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

The bank has issued an absolute guarantee to Aktia Pankki Plc in favour of all the other Savings Banks which have concluded a payment transaction contract of similar content with Aktia Pankki Plc. The guarantee concerns the receivables that may be generated to Aktia Pankki Plc on the breach of the terms and conditions of the payment transaction contract. The amount of guarantee liabilities is restricted.

3.3 Other arrangements outside the balance sheet

The bank belongs to the VAT group of Samlink Ltd.

Joint responsibility related to the group VAT registration	1,599,454.59	884,897.32

The Savings Banks Association represents the Savings Banks towards Visa Europe. As a member of Visa Europe (Associate Member), the Savings Banks Association is primarily responsible for the potential damage that may incur in the payment card business and for following the rules of the membership and Visa with respect to Visa Europe. On the basis of the membership contract, Visa Europe may submit a claim for compensation upon breaching the contract or the rules.

Since the Savings Banks are responsible for all business operations related to the 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	24	28
Permanent part-time personnel	3	3
Fixed-term personnel	5	6
Total	**32**	**37**

4.2 Salaries and fees of the management

	2013	2012
The Board members and deputies as well as the Chief Executive Officer and his or her deputy	251,314.51	238,067.35
Total	**251,314.51**	**238,067.35**

Pension commitments

4.3 Loans and guarantees granted to the management

	2013		2012	
	Loans	Guarantees	Loans	Guarantees
The Board members and deputies as well as the Chief Executive Officer and his or her deputy	355,306.89	53,847.70	400,821.54	50,884.00
Total	**355,306.89**	**53,847.70**	**400,821.54**	**50,884.00**
Increase	138,280.00	2,963.70	71,419.29	0.00
Decrease	183,794.65	0.00	56,441.11	6,717.13

Loan terms
Loans and guarantees have been granted under terms similar to those applied to clients' loans and guarantees.

4.4 Related party disclosures

	2013			
Related party grounds	Receivables from the public and public institutions	Investments	Other receivables	Guarantees/ securities
Ownership in credit institutions	1,029,824.88	0.00	0.00	15,467.41
Management *)	0.00	0.00	0.00	0.00
Relation	23,287.19	0.00	0.00	50,000.00
Total	**1,053,112.07**	**0.00**	**0.00**	**65,467.41**

	2012			
Related party grounds	Receivables from the public and public institutions	Investments	Other receivables	Guarantees/ securities
Ownership in the credit institution	1,191,230.97	0.00	0.00	19,334.82
Management *)	0.00	0.00	0.00	0.00
Relation	30,412.25	0.00	0.00	50,000.00
Total	**1,221,643.22**	**0.00**	**0.00**	**69,334.82**

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

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

OWNERSHIPS IN OTHER COMPANIES

5.1 Small subsidiaries and associates left out of the consolidated financial statements

Subsidiaries	Pcs	Carrying amounts
Kantapankin Kiinteistövälitys Ltd	1	192,500.00

5.2 Ownerships in other companies

Name and domicile of the company	Share of ownership, %	Equity*	Profit for the financial period*
Aktia Real Estate Mortgage Bank Plc, Helsinki	0.82	107,700,000.00	1,738,724.47
Henkivakuutusosakeyhtiö Duo, Espoo	2.21	24,804,665.73	6,623,227.21
Nooa Savings Bank Ltd, Helsinki	1.63	35,310,395.25	-642,230.68
Samlink Ltd, Espoo	1.36	11,582,011.78	1,552,187.95
Sp-Rahastoyhtiö Ltd, Helsinki	2.10	1,957,053.86	-359,684.96
Säästöpankkien Holding Ltd, Espoo	2.29	1,351,008.31	-123.65
Central Bank of Savings Banks Finland, Espoo	2.48	-	-
Total		**182,705,134.93**	**8,912,100.34**

* Equity and profit of financial period 2012

OTHER NOTES

6.1 Trustee operations provided by the credit institution

Trust activity services provided by the credit institution

The bank provides supply and implementation of assignments, trading on its own behalf, trust activities, investment consultation, safekeeping and management of financial instruments as well as safety deposit and related services described in Section 11 of the Investment Services Act.
The bank does not provide so-called full-service trust activities.

6.2 Auditor fees

	2013
Auditor fees by assignment group:	
Audit	2,273.14
Tax consultation	3,968.00
Total	**6,241.14**

7 NOTES ON SOLVENCY (PILLAR III)

7.1 Classification of own assets

Primary own assets	**2013**	**2012**
Paid equity	6,000,000.00	6,000,000.00
Reserves	12,817,788.92	11,594,389.94
– Planned profit distribution	-70,000.00	-70,000.00
– Intangible assets	-83,246.80	-58,910.79
Total primary own assets	18,664,542.12	17,465,479.15
Secondary own assets		
Upper secondary own assets	2,835.81	396,150.13
Lower secondary own assets	8,662,800.00	6,750,400.00
Total secondary own assets	8,665,635.81	7,146,550.13
Total own assets	**27,330,177.93**	**24,612,029.28**

7.2 Minimum amount of own assets

Credit and counterparty risk

Liability group	**2013** **Minimum amount of own assets**	**2012** **Minimum amount of own assets**
Receivables from credit institutions and investment service companies	665,168.76	585,185.79
Receivables from companies	851,862.66	939,046.79
Retail receivables	1,758,333.96	1,755,854.66
Property-security receivables	3,239,098.19	3,170,716.44
Matured receivables	191,466.36	60,497.79
Investments in unit trusts	3,560.79	437,735.29
Other items	727,493.36	431,403.31
Total credit risk	**7,436,984.08**	**7,380,440.07**
Market risk (currency risk)	0.00	184,557.87
Operative risk	847,816.24	805,619.96
Total minimum amount of own assets	**8,284,800.32**	**8,370,617.90**

7.3 Total liabilities according to risk weight

Credit and counterparty risk

Risk weight (%)	**2013**	**2012**
0	9,260,534.50	9,696,210.76
10	0.00	201,727.47
20	41,575,339.36	36,982,556.23
35	116,083,742.88	113,742,969.28
50	730.88	1,110,583.87
75	32,376,190.31	34,287,951.53
100	22,580,756.45	23,767,217.96
150	598,782.28	235,248.40
350	0.00	6,500.64
1,250	0.00	216.69
Total	**222,476,076.66**	**220,031,182.83**

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

Credit and counterparty risk

Liability group	**2013**	**2012**
Receivables from governments and central banks	6,204,573.37	6,073,687.81
Receivables from regional administration and local authorities	135,016.95	100,000.00
Receivables from credit institutions and investment service companies	31,733,114.50	32,495,604.66
Receivables from companies	13,221,659.32	14,494,956.19
Retail receivables	32,809,547.51	31,499,057.65
Property-security receivables	116,271,770.94	112,878,627.97
Matured receivables	2,253,312.43	1,896,786.08
Investments in unit trusts	9,724,453.58	6,821,127.60
Other items	8,165,175.96	6,398,147.18
Total	**220,518,624.56**	**212,657,995.14**

7.5 Maturity distribution of total liabilities by liability group *)

Credit and counterparty risk

Liability group	**2013 Total**	**Less than 3 months**	**3 to 12 months**
Property-security receivables	116,384,173.28	1,369,793.03	3,051,502.32
Receivables from credit institutions and investment service companies	43,188,969.25	5,281,534.94	0.00
Retail receivables	32,376,190.31	1,561,325.36	3,141,052.64
Receivables from companies	11,644,445.38	929,798.07	3,512,145.34
Total other liability groups	16,784,961.22	1,572,674.08	86,962.45
Matured receivables	2,097,337.22	1,217,809.74	3,810.64
Total	**222,476,076.66**	**11,932,935.22**	**9,795,473.39**

Liability group	**1 to 5 years**	**5 to 10 years**	**More than 10 years**
Property-security receivables	10,686,606.24	22,645,868.07	78,630,403.62
Receivables from credit institutions and investment service companies	4,217.29	68,656.90	37,834,560.12
Retail receivables	5,116,133.45	7,218,540.44	15,339,138.43
Receivables from companies	1,913,918.38	899,808.19	4,388,775.40
Total other liability groups	291,694.79	404,436.94	14,429,192.94
Matured receivables	33,264.23	194,827.93	647,624.68
Total	**18,045,834.38**	**31,432,138.47**	**151,269,695.19**

Credit and counterparty risk

Liability group	**2012 Total**	**Less than 3 months**	**3 to 12 months**
Property-security receivables	114,113,919.65	1,640,599.26	3,341,245.08
Receivables from credit institutions and investment service companies	38,165,399.86	18,982,381.01	0.00
Retail receivables	34,287,951.53	3,264,652.16	3,096,630.01
Receivables from companies	12,811,294.05	3,199,802.16	4,441,910.55
Total other liability groups	20,009,981.08	1,426,134.56	100,804.32
Matured receivables	642,636.65	128,763.51	5,252.01
Total	**220,031,182.82**	**28,642,332.66**	**10,985,841.97**

Liability group	**1 to 5 years**	**5 to 10 years**	**More than 10 years**
Property-security receivables	10,478,885.16	21,555,937.70	77,097,252.45
Receivables from credit institutions and investment service companies	292,487.67	308,246.92	18,582,284.26
Retail receivables	5,321,627.41	7,195,711.28	15,409,330.67
Receivables from companies	534,972.86	1,502,176.37	3,132,432.11

Total other liability groups	392,638.12	457,814.64	17,632,589.44
Matured receivables	82,832.01	191,109.68	234,679.44
Total	**17,103,443.23**	**31,210,996.59**	**132,088,568.37**

*) The table shows the four largest liability groups and matured receivables; the other liability groups are summed up in one item, Total other liability groups.

7.6 Total liabilities by liability group and by counterparty *)

Credit and counterparty risk

Liability group	**2013 Total**	**Private**	**Agriculture**	**Companies**	**Others**
Property-security receivables	116,384,173.28	92,522,956.54	10,549,803.66	11,599,379.15	1,712,033.93
Receivables from credit institutions and investment service companies	43,188,969.25	48,217.29	0.00	70,068.85	43,070,683.11
Retail receivables	32,376,190.31	15,484,104.96	5,001,161.15	8,927,088.17	2,963,836.03
Receivables from companies	11,644,445.38	789,516.54	1,737,125.10	4,632,057.75	4,485,745.99
Total other liability groups	16,784,961.22	5,719,407.10	81,466.24	759,529.83	10,224,558.05
Matured receivables	2,097,337.22	840,814.90	116,225.62	1,129,787.21	10,509.49
Total	**222,476,076.66**	**115,405,017.33**	**17,485,781.77**	**27,117,910.96**	**62,467,366.60**

Credit and counterparty risk

Liability group	**2012 Total**	**Private**	**Agriculture**	**Companies**	**Others**
Property-security receivables	114,113,919.66	89,776,923.40	10,381,354.69	12,370,764.13	1,584,877.44
Receivables from credit institutions and investment service companies	38,165,399.86	64,000.00	0.00	7,000.40	38,094,399.46
Retail receivables	34,287,951.53	16,043,463.10	4,589,418.56	10,951,157.88	2,703,911.99
Receivables from companies	12,811,294.05	990,638.09	4,327,589.01	4,332,794.39	3,160,272.56
Total other liability groups	20,009,981.08	5,588,309.89	135,047.08	854,730.62	13,431,893.49
Matured receivables	642,636.65	559,384.33	0.00	68,381.95	14,870.37
Total	**220,031,182.83**	**113,022,718.81**	**19,433,409.34**	**28,584,829.37**	**58,990,225.31**

*) The table shows the four largest liability groups and matured receivables; the other liability groups are summed up in one item, Total other liability groups.

7.7 Imputed operative risk

	Parent 2013	**2012**	**2011**	**Minimum amount of own assets**
Total gross income	5,712,399.45	5,734,976.52	5,508,948.89	
Income indicator	856,859.92	860,246.48	826,342.33	847,816.24

	2012	**2011**	**2010**	**Minimum amount of own assets**
Total gross income	5,734,976.52	5,508,948.89	4,868,473.71	
Income indicator	860,246.48	826,342.33	730,271.06	805,619.96

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 OF THE FINANCIAL STATEMENTS AND ANNUAL REPORT

Hämeenlinna, 26 February 2014

Board of Directors of Kantasäästöpankki Ltd

Timo Kokkala

Jari Lauttia

Riitta Ilola-Seppälä

Markus Karppi

Matti Rantti

Tarmo Laine
Chief Executive Officer

ADOPTION OF THE FINANCIAL STATEMENTS

A report of the performed audit has been issued today.

Hämeenlinna, 28 February 2014

Henry Maarala
APA

List of Accounting Books and Types of Receipts Used During the Financial Period

Accounting books	**Form of archiving**
General ledger/journal	Electronic archive
Balance sheet	Bound book
Receipts	Paper print-out
<u>Factoring</u>	
Sales ledger (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 accounting	Electronic archive
Derivative factoring	Excel file
Rent receivables	Excel file
Trustee assignments	Excel file

Types of receipts

10	Payment transactions in account statement
20	Purchase invoices
21	Expenses of the Chief Executive Officer
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
54	Foreign cash, agios
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 pay
84	Machine-language imputations, salaries, indirect expenses, social security payments
85	Depreciation write-off
99	Income entry