

# OMA SAVINGS BANK LTD

## INTERIM REPORT 1 JANUARY–30 JUNE 2014

- Customers: 64,185 (44,667)
- Solvency ratio, %: 16.54% (17.03%)
- Operating profit (MEUR): 5.5 (1.7)
- Borrowing (MEUR): 892.4 (619.9)
- Total loan extension (MEUR): 942.9 (687.7) of which 124.6 (124.4) consisted of brokered loans
- Balance (MEUR): 1,026.6 (720.2)
- Equity and provisions (MEUR): 97.1 (61.0)
- Cost/income ratio 54.5% (63.2%)

On 31 March 2014, Oma Savings Bank Ltd and Kantasäästöpankki Ltd joined to form a single Savings Bank through the merger of Kantasäästöpankki into Oma Savings Bank Ltd.

On 31 May 2014, Suodenniemi Savings Bank turned its business operations over to Oma Savings Bank Ltd. The transfer was implemented in accordance with section 2(1) of the Savings Bank Act in such a way that the assets and liabilities of Suodenniemi Savings Bank were conveyed to Oma Savings Bank Ltd. In the same context, Suodenniemi Savings Bank was converted into the Suodenniemi Savings Bank Foundation, in accordance with section 92 of the Savings Bank Act. The foundation bought into Oma Savings Bank Ltd with a 6.67% share. The savings bank foundations of Töysä, Kuortane, Parkano, Renko, Hauho and Suodenniemi are the owners of Oma Säästöpankki Ltd.

The aim of the structural development is to strengthen the preconditions for savings bank operations in the operating areas of the merging banks by creating a strong savings bank that serves and represents the demographic groups and various parts of the operating area equally.

The table section presents Oma Savings Bank Ltd's official interim figures, including reference information. The implemented bank mergers and the reform of solvency calculation substantially weaken the comparability of the information. In order to assess the development and improve comparability, the bank has prepared pro forma consolidated accounts for both the reporting period and the reference period (interim report pages 7 and 8). A profit and loss account, balance sheet and off-balance sheet items for Oma Savings Bank Ltd, Kantasäästöpankki Ltd and Suodenniemi Savings Bank are presented as appendices to the table section. Consolidated solvency information has not been calculated for the reference period.

### Business operations

Oma Savings Bank Ltd's business operations remained stable during the reporting period. The growth in deposits and loan extension were in line with the bank's targets. At the end of June, deposits stood at MEUR 791.7. The entire loan extension, including brokered loans, stood at MEUR 942.9. Deposits increased by 1.7% over the last 12 months, and the increase in credit stock during the last 12 months was 4.0%, compared to the combined situation of Oma Savings Bank Ltd, Kantasäästöpankki Ltd and Suodenniemi Savings Bank a year before.

Oma Savings Bank Ltd conducts basic banking operations and provides diverse banking services to its customers. In addition to extending loans from its own balance and receiving deposits, the bank brokers the products and services of its partners. These include mortgages, property management services and insurances. The amount of the Aktia Real Estate Mortgage Bank Plc mortgages brokered by the bank stood at MEUR 124.6 at the end of June. Aktia Real Estate Mortgage Bank has not granted new mortgages during the reporting period – new loans are provided from the banks' own balances. The bank's product selection includes funds of Sp-Fund Management Company Ltd, as well as share broking services. Pension and life insurance products are produced by Life Insurance Company Duo, which is in the ownership of the Savings Banks.

In November 2013, the boards of South Karelia Savings Bank and Oma Savings Bank Ltd signed a merger agreement. The trustees of South Karelia Savings Bank approved the merger in January 2014. The business operations of South Karelia Savings Bank will be incorporated into Oma Savings Bank Ltd in November 2014, and in exchange, the South Karelia Savings Bank Foundation will receive a considerable shareholding in the joint savings bank company. In the same context, the above-mentioned banks indicated that they will not be joining the amalgamation of the Savings Banks, which is based on unlimited joint and several liability. Instead, they will continue their operations entirely independently as the largest Savings Bank, operating under the name Oma Savings Bank Ltd. As a result of the above, Oma Savings Bank Ltd relinquished its membership in the Savings Banks Association cooperative, which will form the central institution for the amalgamation, in May 2014.

At present, the bank has a total of 26 offices in the following municipalities: Akaa, Alajärvi, Alavus, Hauho, Hyllykallio, Häijää, Hämeenlinna, Ilmajoki, Jalasjärvi, Kankaanpää, Karvia, Kauhajoki, Kihniö Kuortane, Kurikka, Lehtimäki, Lempäälä, Narva, Parkano, Renko, Riihimäki, Seinäjoki, Suodenniemi, Tampere, Tuuri and Töysä. Oma Savings Bank Ltd employs 130 people.

## Result and financial standing

Oma Savings Bank Ltd's result development was positive in early 2014. The bank's operating profit during the reporting period was MEUR 5.5 (1.7), which was MEUR 3.8 more than in the reference period. The operating profit at an annual level was 1.3% (0.6%) of the balance.

The bank's net interest income during the reporting period was MEUR 7.4 (3.6). Net interest income climbed to MEUR 3.8 compared to the same period the previous year. MEUR 4.3 (2.7) in income from fees was accumulated. Fee expenses were MEUR 0.4 (0.2). The increase in net interest income and income from fees was a result of higher customer volumes, correct pricing decisions and the bank amalgamations.

Net income from available-for-sale financial assets stood at MEUR 0.9 (0.4). Of this, sales profits amounted to MEUR 1.2.

The bank's administrative expenses were MEUR 5.2 (3.5), of which personnel expenses were MEUR 2.9 (1.7), while other administrative expenses stood at MEUR 2.3 (1.9). The increase in expenses was primarily due to the higher number of personnel and offices resulting from the bank mergers.

The bank's balance increased from the reference period by 42.6% to MEUR 1,026.6 (720.2). Equity stood at MEUR 63.4 (37.4) at the end of the reporting period. The fair value reserve included in equity was MEUR 3.5 (0.6). The fair value reserve comprises fair value changes recorded for available-for-sale financial assets and cash flow hedging derivatives. The bank's voluntary provisions stood at MEUR 33.6. During the early part of the year, the bank released MEUR 2.0 in certificates of deposits, MEUR 50.0 in bonds and MEUR 10.0 in debentures, for a total of MEUR 62.0. At the end of the financial period, the total amount of released debt securities in the bank's balance was MEUR 100.8 (53.2).

## Risk status

The bank had MEUR 11.0 in receivables that were over 90 days past due, while zero interest receivables stood at MEUR 4.9, which was 1.1% of the bank's loan extension and guarantees. In the early part of the year, MEUR 0.7 in write-downs on loans and other receivables was recorded, and MEUR 0.3 was recorded in the cancellations of these write-downs.

The bank hedges its interest-bearing liabilities and receivables against fair value changes resulting from interest rate changes by means interest derivatives, applies provisions concerning hedge accounting on them and regularly monitors the efficacy of the hedging arrangements. The derivatives are itemised in the table section of the interim report.

## Solvency

The new Capital Requirements Regulation and Directive of the European Union was issued on 27 June 2013. The regulation came into effect on 1 January 2014 and is based on the recommendations set forth by the Basel Committee on Banking Supervision in 2010 – or in other words, the Basel III framework. The new Capital Requirements Regulation is legislation that is directly binding to the member countries. By virtue of its entry into force, the majority of the Financial Supervisory Authority's standards regarding solvency calculation were invalidated. The European Banking Authority (EBA) issues standards that specify the regulation and are binding in the same way.

The Based III solvency reporting, according to the new , began on 31 March 2014. It tightened the capital requirements of banks and the terms imposed on capital instruments through additional capital buffers. The most significant changes brought about by the new regulation concern released debentures and the bank's investments in the financial field. By virtue of the new regulation, level-payment debentures cannot be taken into account in the calculation of own assets. However, during the transition period (2014–2021), debentures released before 31 December 2011 can be taken into account within the framework of the transition provision. Before the new regulation concerning holdings and investments in the financial field, significant holdings (over 10% holdings) were fully deducted from the bank's own assets, while non-significant holdings were deducted where they exceeded 10% of the bank's own assets. As a result of the new regulation, the portion of non-significant (under 10%) holdings and investments in the financial field that exceeds 10% of the Common Equity Tier 1 capital (CET1) is deducted from the holdings and investments. Significant de-

venture investments in other companies in the financial field are always deducted from the bank's own assets. On the other hand, the amount deducted from the CET1 capital is the amount by which significant shareholdings in other companies in the financial field exceed 10% of the bank's CET1 capital. Significant shareholdings under 10% are taken into account in the CET1 capital and risk-weighted with a coefficient of 250%.

Resulting from the Capital Requirements Regulation, a fixed additional capital requirement of 2.5% will be introduced on 1 January 2015, with an additional capital requirement that authorities can, when necessary, set to a level between 0% and 2.5%. In addition to this, banks will provide monitoring reports to authorities, with regard to the new liquidity requirements and the minimum equity ratio, over the course of 2014. The requirements will not become binding until a later stage. The binding application of the Liquidity Coverage Ratio (LCR) will begin at 60% on 1 January 2015, and it will be progressively increased to 100% by 1 January 2018. The EU will make its decision on the binding nature and content of the Net Stable Funding Ratio (NSFR) and minimum equity after the monitoring period. Current information indicates that they will not become binding requirements before 2018.

In solvency calculation, the credit risk is calculated using the standard method accordant with the Credit Institution Act and the basic method of operative risk calculation. The solvency ratio remained at a good level, standing at 16.54% at the end of June. A year before, the percentage was 17.03%. Due to the significant changes in solvency calculation, the figures are not mutually comparable.

The bank publishes the solvency information required by the Credit Institutions Act and Financial Supervisory Authority.

## **Outsourced operations**

The bank's essential information systems have been outsourced to Samlink Ltd. Paikallispankkien PP-Laskenta Ltd, which is fully owned by Samlink, handles the bank's accounting. For payment transfers, the bank utilises Bonum Bank Ltd's payment transfer and clearing services. Automatia Pankkiautomaatit Ltd's system is used for maintaining the currency supply. Payment transfer services, as well as other essential central credit institution services, will be conveyed to the banks' own central credit institution once the central credit institution services are commissioned. According to the current estimate, this will take place in late 2014.

## **Savings Banks' Guarantee Fund**

Oma Savings Bank Ltd belongs to the Savings Banks' Guarantee Fund. The fund is tasked with securing the stable operation of the Savings Banks. The fund is debt-free and has MEUR 24.3 in financial assets. In the voluntary guarantee fund, the savings bank is not involved in a joint liability arrangement which would make it responsible for another savings bank's liabilities or commitments.

## **Development prospects for the remaining year**

During the end of the year, the bank's solvency and result development are expected to remain good. Deposits and loans are estimated to increase moderately. Despite the poor economic development, net write-downs will likely remain relatively low this year. However, with the potential of a continued economic decline and prolonged troubles in the housing trade, the risk will also increase in terms of write-downs.

The low interest level and the possibility of the competition with margins growing even tighter weaken the otherwise strong earning power. The preparations for the legislation concerning banks (Basel III) will generally undercut their profitability by adding costs and impairing profits. The bank mergers and the separation from the Savings Banks Association will result in some extra one-off expenses. On the other hand, these structural reforms will also yield significant cost savings, which will be fully realised in 2015. The incorporation of South Karelia Savings Bank into Oma Savings Bank late in the year will constitute a considerable boost to the bank's operating capabilities.

## **Comparability of the interim information**

The bank's financial statement has been prepared in accordance with the regulations on bookkeeping and the Credit Institution Act, the Government Decree on the financial statements and consolidated financial statements of credit institutions by the Ministry of Finance, as well as regulations and guidelines 1/2013 of the Financial Supervisory Authority. The accounting rules have not changed during the reporting period in a way that would substantially affect the bank's result and financial standing.

The changes in solvency calculation and the mergers of Kantasäästöpankki Ltd and Suodenniemi Säästöpankki substantially weaken the comparability of the interim information.

**Oma Savings Bank Ltd**

<b>Profit and loss account (thousand euros) Official</b>	<b>Jan–June 2014</b>	<b>Jan–June 2013</b>	<b>1–12 2013</b>
Interest income	10,234	5,700	14,004
Interest expenses	-2,788	-2,112	-4,778
Net interest income	7,446	3,588	9,225
Income from equity investments	178	129	152
Income from fees	4,276	2,723	6,679
Fee expenses	-409	-221	-529
Net income from securities transactions and foreign ex-	-34	112	27
Net income from available-for-sale financial assets	856	411	1,036
Net income from hedge accounting	25	0	-13
Net income from investment property	52	75	141
Other operating income	520	509	613
Administrative expenses	-5,201	-3,544	-7,724
Depreciation and write-downs on tangible and intangible assets	-287	-217	-496
Other operating expenses	-1,552	-871	-2,047
Impairment losses on loans and other commitments	-363	-967	-1,989
Operating profit	5,508	1,725	5,076
Appropriations	-995	636	-379
Income taxes	-974	-603	-1,235
Profit from actual operations after taxes	3,539	1,758	3,462
Profit (loss) for the financial period	3,539	1,758	3,462

## Oma Savings Bank Ltd

### Balance sheet

<b>Assets (thousand euros) Official</b>	30 June 2014	30 June 2013	31 December 2013
Cash assets	5,057	3,751	3,631
Debt securities entitling to central bank financing	5,941	7,542	5,957
Receivables from credit institutions	78,419	58,139	56,611
Receivables from the public and public sector entities	818,262	563,334	596,199
Debt securities	24,740	22,653	22,798
Shares and participations	67,220	46,809	43,356
Shares and participations in group undertakings	344	56	56
Derivative contracts	5,737	4,380	4,015
Intangible assets	967	905	799
Tangible assets	13,810	8,076	8,005
Other assets	672	87	93
Accrued income and prepayments	5,332	4,090	2,953
Imputed tax claims	114	350	201
	<u>1,026,614</u>	<u>720,171</u>	<u>744,675</u>
<b>Liabilities (thousand euros)</b>	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>31 December 2013</b>
Liabilities to credit institutions	14,932	23,928	43,918
Liabilities to the public and public sector entities	798,349	572,098	561,194
Debt securities issued to the public	67,879	29,428	41,903
Derivative contracts and other debt securities held for trading	0	-93	-28
Other liabilities	8,875	8,875	4,834
Accrued expenses and deferred income	5,661	4,413	2,891
Subordinated liabilities	32,875	23,800	23,800
Imputed taxes due	984	553	772
Depreciation difference	0	33	4
Voluntary provisions	33,617	23,572	24,747
Share capital	17,000	10,000	10,000
Fair value reserve	3,478	627	2,284
Non-restricted reserves	30,888	19,697	19,568
Profit (loss) brought forward	8,537	5,327	5,327
Profit (loss) for the financial period	3,539	1,758	3,462
	<u>1,026,614</u>	<u>720,171</u>	<u>744,675</u>
<b>Off-balance sheet commitments (thousand)</b>	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>31 December 2013</b>
Commitments given to a third party on behalf of a customer	22,326	19,449	15,822
Irrevocable commitments given in favour of a customer	42,355	33,979	35,994

## Oma Savings Bank Ltd

### Derivative contracts

<b>Nominal values (thousand euros)</b>	30 June 2014	30 June 2013	31 December 2013
Interest rate swaps	65,000	45,000	45,000
Interest options			
Set	0	5,000	5,000
Share derivatives	4,384	122	2,311
<b>Fair values (thousand euros)</b>	30 June 2014	30 June 2013	31 December 2013
Interest rate swaps			
Fair value, positive	5,693	4,379	3,997
Interest options			
Fair value, negative	0	-93	0
Share derivatives			
Fair value, positive	44	1	19

### All derivative contracts are hedging

<b>Solvency (thousand euros)</b>	30 June 2014	30 June 2013	31 December 2013
Common Equity Tier 1 capital before deductions	90,336		
Deductions from Common Equity Tier 1 capital	-12,268		
Common Equity Tier 1 capital	78,068		
Tier 1 capital	78,068		
Tier 2 capital before deductions	19,366		
Deductions from Tier 2 capital	-118		
Tier 2 capital	19,248		
Total capital base	97,316		
Total amount of risk-weighted assets,	588,297		
of which the risk-weighted amount of operative risk	42,913		
<b>Solvency (thousand euros)</b>		30 June 2013	31 December 2013
Tier 1 capital before deductions		54,605	58,157
Deductions from the Tier 1 capital		-2,120	-1,697
Total Tier 1 capital		52,484	56,460
Tier 2 capital before deductions		24,427	26,084
Deductions from Tier 2 capital		-1,215	-647
Total Tier 2 capital		23,212	25,437
Total capital base		75,696	81,897
Total amount of risk-weighted assets,		444,393	453,877
of which the risk-weighted amount of operative risk		28,319	30,221
Solvency ratio	16.54%	17.03%	18.04%
Ratio of Common Equity Tier 1/Tier 1 capital (after deductions) to risk-weighted assets	13.27%	11.81%	12.44%

Profit gained during the early part of the year was not included in the Tier 1 capital in the calculation of the solvency ratio.

Seinäjäki, 21 August 2014  
Oma Savings Bank Ltd  
Board of Directors

**Oma Savings Bank Ltd**

<b>Profit and loss account (thousand euros) Pro forma</b>	<b>Jan–June 2014</b>	<b>Jan–June 2013</b>	<b>1–12 2013</b>
Interest income	11,816	11,816	21,477
Interest expenses	-3,120	-3,484	-6,836
Net interest income	8,697	6,879	14,642
Income from equity investments	318	326	351
Income from fees	4,900	4,637	9,708
Fee expenses	-481	-427	-882
Net income from securities transactions and foreign ex-	-47	159	102
Net income from available-for-sale financial assets	751	646	1,745
Net income from hedge accounting	29	-25	-46
Net income from investment property	39	119	166
Other operating income	531	699	837
Administrative expenses	-6,333	-7,236	-13,865
Depreciation and write-downs on tangible and intangible assets	-312	-356	-704
Other operating expenses	-1,865	-1,780	-3,475
Impairment losses on loans and other commitments	-406	-2,582	-3,804
Operating profit	5,823	1,060	4,773
Appropriations	379	822	-1,171
Income taxes	-1,319	-913	-1,419
Profit from actual operations after taxes	4,883	969	2,183
Profit (loss) for the financial period	4,883	969	2,183

**Oma Savings Bank Ltd**

**Balance sheet Pro forma**

<b>Assets (thousand euros)</b>	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>31 December 2013</b>
Cash assets	5,057	5,161	5,125
Debt securities entitling to central bank financing	5,941	7,994	6,403
Receivables from credit institutions	78,419	82,584	98,960
Receivables from the public and public sector entities	818,262	759,673	791,569
Debt securities	24,740	26,552	26,728
Shares and participations	67,220	68,697	49,622
Shares and participations in group undertakings	344	248	248
Derivative contracts	5,737	6,442	5,990
Intangible assets	967	1,023	885
Tangible assets	13,810	10,776	13,847
Other assets	672	101	108
Accrued income and prepayments	5,332	5,363	4,504
Imputed tax claims	114	506	260
	<b>1,026,614</b>	<b>4,504</b>	<b>1,004,253</b>

<b>Liabilities (thousand euros)</b>	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>31 December 2013</b>
Liabilities to credit institutions	14,932	28,426	47,383
Liabilities to the public and public sector entities	798,349	786,130	779,229
Debt securities issued to the public	67,879	29,428	41,903
Derivative contracts and other debt securities held for trading	0	-93	-28
Other liabilities	8,875	6,619	6,516
Accrued expenses and deferred income	5,661	5,848	3,956
Subordinated liabilities	32,875	31,175	32,463
Imputed taxes due	984	661	843
Depreciation difference	0	33	4
Voluntary provisions	33,617	31,841	33,992
Share capital	17,000	16,000	16,000
Fair value reserve	3,478	478	2,333
Other restricted reserves	0	667	667
Non-restricted reserves	30,888	26,754	26,624
Profit (loss) brought forward	8,537	8,537	8,506
Profit (loss) for the financial period	3,539	2,646	3,860
	<b>1,026,614</b>	<b>975,120</b>	<b>1,004,253</b>

<b>Off-balance sheet commitments (thousand)</b>	<b>30 June 2014</b>	<b>30 June 2013</b>	<b>31 December 2013</b>
Commitments given to a third party on behalf of a customer	22,326	25,012	20,755
Irrevocable commitments given in favour of a customer	42,355	44,624	42,372

