SAVINGS BANKS GROUP'S

Release of Financial Statements
1 January - 31 December 2018

SAVINGS BANKS GROUP'S RELEASE OF FINANCIAL STATEMENTS 1 JANUARY–31 DECEMBER 2018

Table of contents

SAVINGS BANKS GROUP RELEASE OF THE FINANCIAL STATEMENTS 1.1. – 31.12.2018

Review by the Managing Director of the Savings Banks' Union Coop

Savings Banks Group's (hereinafter also "the Group") competitive advantage is based on a superior customer experience. The Group is building its future around this strength and continuing to develop the customer experience. Studies show that the customers of Savings Banks Group are exceptionally satisfied with the services they receive. The accessibility and quality of services are important for Savings Banks Group's customers. Equally significant are responsibility and ethics in operations as well as local decision-making. Savings Banks are always on the customer's side and they promote the well-being of local communities.

During the financial year, Savings Bank comprehensively updated its business strategy. According to the strategy, the customer experience will be systematically developed with a focus on expertise, convenience, long-term partnership and financial coaching. We want to deliver the best combination of personal and digital services in our market. We measure our success by the benefit received by the customer.

Banking is quickly becoming digital in terms of services as well as background processes. During the financial year, Savings Banks Group introduced new digital services and enhanced its processes by automation and robotics. In the Savings Bank of the future, daily transactions are completely digital, while physical service locations make high value-added personal banking services conveniently available to customers.

Financially, the Savings Banks Group had a mixed year. The volumes and profitability of retail banking operations increased significantly, but income from investment operations was substantially lower than in the previous financial year. The Group's strategic financial objective is to grow profitably, while managing risks, in retail banking and asset management services. The Group's excellent customer satisfaction was reflected in higher volumes, particularly in asset management services and lending. Net fee and commission income increased by 6.7 per cent and net interest income grew by 7.4 per cent in spite of the low interest rates.

Continuous saving and fund investment are a central aspect of Savings Banks Group's business. As expected, the Group's business continued to grow in these areas, although the market was very challenging, particularly in the latter part of the year.

In addition to savings and investments, financing private and corporate customers is at the core of the banking operations of Savings Banks Group. The most important product area in lending is residential mortgage loans, in which Savings Banks Group continued to grow profitably and outperform the market. Credit losses remained low relative to the size of the credit portfolio.

Development work in the Savings Bank Group was very active, and several strategic projects were taken further during the year, improving the customer experience, operational efficiency and risk management. Several projects last for years, and the development work will continue during future financial years. The central development projects of the Savings Banks Group include reforming the core banking system. Intense preparations were made during 2018 for the procurement and construction of the new system. The new core banking system aims to facilitate faster and more efficient deployment of services, better preparedness for information management and more cost-efficient management of transactions and agreements.

The regulation of the financial sector continues to increase substantially. The most important regulatory projects in 2018 included the implementation of the Markets in Financial Instruments Directive (MiFID II) and the EU's General Data Protection Regulation (GDPR). The most significant change in accounting standards from the Group's perspective was IFRS 9 Financial Instruments, according to which a significant proportion of the Group investment assets is measured at market value on a continuous basis. This partly explains the fluctuations in the result of investment operations.

The cost of refinancing is a key factor in the basic banking business. In order to increase the efficiency of its refinancing, the Savings Banks Group established a mortgage credit bank in 2016. The mortgage bank has emitted a billion euros' worth of covered bonds, which has a favourable effect on the Group's refinancing costs. An AAA credit rating by S&P Global Ratings has been confirmed for Savings Banks Group's covered bonds. The central credit institution of Savings Banks, the Central Bank of Savings Banks Finland Plc, holds an S&P Global Ratings credit rating of A-/A-2. The rating prospects are stable.

Savings Banks Group continued to actively build strategic partnerships and announced several partnerships during the financial year. Previously announced strategic partnerships were also actively developed further.

The Savings Banks Group and the Savings Banks Amalgamation

The Savings Banks Group is the most longstanding banking group in Finland, which consists of Savings Banks that formed the Savings Banks Amalgamation, the Savings Banks' Union Coop that acts as the Central Institution and the subsidiaries and associated companies owned jointly by the banks.

The member organisations of the Savings Banks Amalgamation (hereinafter also "the Amalgamation") form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks' Union Coop and its member credit institutions ultimately are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 23 Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc and the companies within the consolidation groups of the above-mentioned entities, as well as Savings Bank Services Ltd and Sp-Fund Management Company Ltd. The coverage of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes institutions other than credit and financial institutions or service companies. The most notable of these are Sb Life Insurance Ltd and Sp-Koti Oy.

Further information about the structure of the Savings Banks Group can be found at *www.saastopankki.fi/saastopankkiryhma*.

Description of the operational environment

Global economic outlook

At the start of 2018, the outlook for the global economy was very positive. General economic confidence in Europe was the strongest it had been in more than 17 years and, in the United States, consumer confidence had risen to a level that substantially exceeded the highs seen before the financial crisis. By spring, however, it had become clear that global economic growth would not continue at the expected rate. With the exception of the United States, growth in the major industrialised countries began to slow down substantially in midyear. In the investment markets, the discrepancy between macroeconomic expectations and actual development was reflected in significant corrections in asset prices. The average GDP growth of industrialised countries was estimated to be only slightly over two per cent in 2018. Growth in the euro zone fell below two per cent. The United States, however, the macroeconomic climate remained good, with tax cuts and other stimulus measures driving growth to a level approaching three per cent. GDP growth in the developing markets remained at approximately 4.5 per cent.

The slowing down of growth was partly due to fairly typical phenomena associated with economic boom periods. The expectation of rising interest rates, problems with the availability of skilled labour and other capacity limitations created friction in the economy. Political risks also played a role in the international operational environment, with the aggressive trade policy moves instigated by U.S. President Donald Trump perhaps the worst among them. Tariffs imposed on raw materials and intermediate goods had a broad impact on value chains in production. Uncertainty regarding the future development of trade wars also led to businesses postponing their investment decisions, which was reflected in slower growth in industrial orders in Germany and Finland, for example. The unpredictable Brexit talks, slower economic growth in China, the Turkish currency crisis and Italy's debt problems also fomented uncertainty.

The Federal Reserve accelerated the tightening of its monetary policy in 2018. The Fed raised its benchmark interest rate four times, ending the year in the 2.25–2.50 per cent range, and its tightening monetary policy began to have an impact on the global economy. The first to suffer the effects were the developing economies and their businesses, as they are dependent on foreign financing and the costs of their dollar-denominated loans rose substantially. However, towards the end of the year, the effects of tighter monetary policy began to be felt in the home market as well. The price of long-term fixed-rate home loans rose to approximately five per cent, which was already reflected in a slight slowing down of housing transactions and construction activity. While the European Central Bank did not yet introduce actual measures to tighten monetary policy, it discontinued quantitative easing at the end of the year.

Interest rate environment

On the whole, interest rates in the euro zone remained low in 2018. Movements in short-term interest rates were minor, with a slight increase seen towards the end of the year. Long-term interest rates declined to a lower level than at the start of the year after increasing temporarily early in the year and in the early autumn.

The prevailing relatively flat yield curve presents challenges to net interest income in banking operations due to the erosion of maturity transformation income. Regulatory requirements (LCR, MREL) combined with the ECB's low deposit rate also weigh down on banks' net interest incomes.

Investment markets

Considerable movement was seen in the investment markets in 2018, with returns on investments declining significantly compared to the previous years. Economic growth remained favourable in the early part of the year, which helped support a higher risk appetite. In the second half of the year, investors' concerns regarding economic development and the simultaneous increase in political risks led to a downturn in the stock markets. The volatility of the stock markets increased significantly from the previous years and changes in share prices were particularly drastic during the autumn. Stock market returns were negative in all major markets.

Long-term interest rates increased substantially in the United States during the year, but their rise levelled off later in the year due to lowering inflation expectations. In Europe, there was no significant increase in long-term interest rates, which pushed the returns of government bonds rose to a higher level than expected. Changes in the political climate in Italy, following the new government taking office, became a concern among investors. As a result, the risk premiums of Italian government bonds rose significantly during the second half of the year. The risk premiums of corporate bonds rose in a corresponding manner as uncertainty increased. The returns of corporate bonds were negative in almost all credit rating categories in both Europe and the United States.

The outlook of developing economies worsened in the face of growing trade policy risks and uncertainty. The currencies of developing economies depreciated significantly, which pushed the interest incomes of local currencies down to negative territory. The stock markets in developing countries also declined steadily in 2018 and showed negative returns for the year.

The prevailing feeling at the start of the new year is one of uncertainty. Political risks play a major role and the uncertainty associated with them reduces risk appetite among investors. There are also risks related to economic growth, which are likely to push returns on investments lower than in the previous years.

The Finnish economy

In the Finnish economy, 2018 started in a very optimistic mood, but the outlook began to take a turn for the worse starting from the second quarter. The increased uncertainty in the global economy was reflected in exports. The development of industrial investments also fell substantially short of expectations. The growth of private consumption did not remain as strong as could have been expected based on the good employment situation and rapid rise in wages. In recent years, household debt has increased, the household saving rate has fallen into negative territory and the number of households in financial difficulties has grown. It would appear that households have become aware of the vulnerabilities of their finances and it is likely that there was an upturn in saving in 2018.

Thanks to strong development early in the year, employment again improved significantly in 2018. The unemployment rate continued to decline and the employment rate rose to a level that is very close to the government's target of 72 per cent. Nevertheless, net employment growth began to slow down in midyear. The underlying factors included both weaker demand factors in the economy and the worsening labour market mismatch problem. More and more businesses are reporting difficulties in finding suitable labour. However, on the whole, the rate at which the employment situation improved in 2018 was surprisingly high. The rate of increase in the total number of hours worked was even higher than GDP growth, which meant that the trend of increasing productivity levelled off.

Based on the available information, Finland's GDP growth in 2018 was approximately 2.3 per cent.

The housing market in Finland

The factors that influence housing transactions (employment rate, interest rates and consumer confidence) should have supported a positive climate in the housing market, but this was not the case. The transaction volume for old apartments fell by nearly three per cent compared to 2017. The factors behind the decrease include the large number of newly constructed apartments, lower investor interest in residential investments and a lower number of first-time home buyers. There was a growing divide between housing markets in different geographic regions. Uusimaa and other major cities saw continued growth, while many other regions, such as Kainuu, Kymenlaakso and Southern Savonia, moved in the opposite direction. This polarisation is significantly influenced by regional trends in population size and the size of the labour force. We predict that the transaction volume for old apartments will decrease by approximately 0–5 per cent in 2019.

The demand for residential investments declined substantially in 2018 due to strong growth in the supply of rental apartments and even excess supply in several cities. The increased supply curbed the rise in rents to a significant degree. Purchases by housing funds declined in particular. Many investors also decided to sell some of their residential investments, which was reflected in an increased supply of small apartments in several cities. The average number of days on market for small apartments increased significantly compared to 2016–2017.

New construction activity remained very strong in 2018 in spite of decreasing demand. The number of issued building permits declined almost throughout the year, which suggests growing caution among construction firms. This cautious attitude is attributable to the decreasing demand for residential investments and the extensive public debate regarding the risks of large housing company loans. The low availability of plots in good locations is also a factor. Construction firms are increasingly focusing on renovation. We predict that the transaction volume for newly constructed apartments will fall by 10–20 per cent in 2019.

The prices of old apartments and terraced houses increased by approximately one per cent in 2018, which was a significantly lower rate of increase than in 2017. There were substantial geographic differences in the development of prices, with the Helsinki Metropolitan Area seeing an increase of approximately three per cent and the rest of Finland averaging about two per cent. We predict that the prices of old apartments will remain largely unchanged or even decline slightly throughout the country in 2019. The factors affecting prices include the increased uncertainty regarding the overall economic situation and the decrease in new construction.

Adoption of IFRS 9

Savings Banks Group adopted IFRS 9 Financial Instruments effective from 1 January 2018. The most significant effects of the adoption of IFRS 9 concerned the classification of financial assets and liabilities as well as the measurement and recognition of impairment. The IFRS 9 classification of financial assets and liabilities increases the Group's profit volatility in the short term because a large proportion of the Group's investment assets are recognised through profit or loss and presented under net trading income. Following the introduction of IFRS 9, the Group has reduced risk-taking in its investment activities.

The transition to IFRS 9 meant the adoption of a new model for the measurement and recognition of impairment. Impairment losses on credit and other receivables were calculated in accordance with IFRS 9 in 2018, which means they are not fully comparable with the impairment losses calculated in accordance with the previous IAS 39 standard. The calculation model for expected credit losses was adjusted during the financial year. The expected credit losses reported in an annual report 2017 as of 1 January 2018 amounted to EUR 50.5 million. Following the application of the adjusted calculation model, the corresponding figure was EUR 43.9 million. As a result of the adjustment to the calculation model, an adjustment of EUR 6.7 million was applied to the opening balance sheet of 1 January 2018.

The comparison figures for income statement and balance sheet items are the IAS 39 figures reflecting the situation at the end of 2017, unless otherwise stated.

The Savings Banks Group's profit and balance sheet

Savings Banks Group's financial highlights

(EUR 1,000)	1-12/2018	1-12/2017	1-12/2016	1-12/2015	1-12/2014*
Revenue	278,517	331,366	304,340	298,475	295,628
Net interest income	152,704	142,176	131,693	125,018	122,022
% of revenue	54.8 %	42.9 %	43.3 %	41.9 %	41.3 %
Profit before taxes	36,408	88,210	69,603	69,699	63,137
% of revenue	13.1 %	26.6 %	22.9 %	23.4 %	21.4 %
Total operating revenue	234,670	282,191	245,376	230,531	223,903
Total operating expenses (excluding depreciations)	-197,718	-182,693	-158,060	-146,128	-143,763
Cost to income ratio	84.3 %	64.7 %	64.4 %	63.4 %	64.2 %
Total assets	11,705,740	11,326,105	10,423,646	9,189,391	8,400,544
Total equity	1,028,796	1,017,520	953,402	880,694	841,230
Return on equity %	3.0 %	7.3 %	6,2 %	6.7 %	5.7 %
Return on assets %	0.3 %	0.7 %	0.6 %	0.7 %	0.6 %
Equity/assets ratio %	9.2 %	9.0 %	9.1 %	9.6 %	10.0 %
Solvency ratio %	18.2 %	19.1 %	19.5 %	18.8 %	18.6 %
Impairment losses on loans and other receivables	-3,868	-13,266	-8,411	-6,127	-10,539

*Additional financial information from the time before the Savings Banks Amalgamation commenced its operations on 31 December 2014.

Savings Banks Group adopted IFRS 9 Financial Instruments effective from 1 January 2018. The comparison figures for income statement items are the IAS 39 figures for 2017 or figures for the corresponding comparison periods in previous years. The comparison figures for income statement and balance sheet items are the IAS 39 figures reflecting the situation at the end of 2017, unless otherwise stated.

Profit trends (comparison figures 1–12/2017)

Savings Banks Group's profit before tax stood at EUR 36.4 million (88.2). Profit for the financial year was EUR 30.6 million, of which the share of the owners of the Savings Banks Group was EUR 30.1 million (70.4).

The operating revenue of the Savings Banks Group declined to EUR 234.7 million (282.2). Net interest income and net fee and commission income grew. Operating revenue declined in net trading income, net investment income and net life insurance income. Net trading income was EUR -24.3 million. Investment income is presented in compliance with IFRS 9, which means that a large proportion of banks' investment assets are recognised through profit or loss and presented under net trading income.

Net interest income grew by 7.4 % to EUR 152.7 million (142.2). The share of derivatives used for the management of the interest rate risks of net interest income was EUR 23.5 million (21.9), or 15.4 % of net interest income (15.4). The growth of net interest income was particularly influenced by the positive development of the housing loan portfolio and the lower funding expenses of the Savings Banks Group. Interest expenses decreased by 16.3 % and amounted to EUR 33.2 million (39.7). The Savings Banks Group's funding expenses have decreased due to the Central Bank of Savings Bank's unsecured bond issues and Sp Mortgage Bank's covered bond issues.

Net fee and commission income grew by 6.7 % to EUR 84.5 million (79.2). In particular, fees received for funds, the card business and payment transactions showed growth. Other lending-related fees also grew slightly as a result of higher volume.

Investment income is presented in compliance with IFRS 9, which means that a large proportion of banks' investment assets are recognised through profit or loss and presented under net trading income. Of the Savings Banks Group's investment assets, EUR 466.2 million is measured at fair value through profit or loss.

Net investment income totalled EUR 5.0 million (39.1). Net investment income consists of realised recognised at fair value through other comprehensive income. The net trading income and net investment income figures for 2018 are not comparable with the figures for the reference period. The comparison figures for income statement items are the IAS 39 figures for 2017.

Net life insurance income totalled EUR 13.2 million (15.6). Premiums written decreased by 22 % year-on-year. Net investment income amounted to EUR -49.3 million (37.3). The decline in net life insurance income was influenced by the negative development of Sb Life Insurance's investment activities.

Other operating revenue was EUR 3.7 million (3.1).

Operating expenses grew by 8.2 % to EUR 197.7 million (182.7). Personnel expenses increased by 4.7 % to EUR 83.6 million (79.8). The average amount of the total resources of the Savings Banks Group in the financial year grew correspondingly by 10.9 %, being 1,386 (1,250) person-years in the financial year 2018. Other administrative expenses grew by 15.7 % to EUR 79.7 million (68.9). This increase was largely attributable to higher ICT expenses.

The Group's cost to income ratio was 84.3 % (64.7).

Depreciation, amortisation and impairment of property, plant and equipment and intangible assets stood at EUR 13.1 million (14.0) for the financial year.

The Group recognised impairment on loans and other receivables in the amount of EUR 3.9 million (9.3). Impairment losses on loans and other receivables were calculated in accordance with IFRS 9 in 2018, which means they are not fully comparable with the impairment losses calculated in accordance with the previous IAS 39 standard. Credit losses for the period totalled EUR 10.9 million. Impairment on loans and other receivables represented 0.04 % (0.17) of the credit portfolio. The proportion of the Group's receivables that were more than 90 days past due increased from the previous year and was approximately 0.8 % (0.6) of the credit portfolio.

The Group's effective income tax rate was 15.8 % (18.5).

Balance sheet and funding (comparison figures 31 December 2017)

The balance sheet of the Savings Banks Group totalled EUR 11.7 billion at the end of 2018 (11.3), representing growth of 3.4 %. The Group's return on assets was 0.3 % (0.7).

Loans and advances to customers amounted to EUR 8.5 billion (7.8), up 9.5 % year-on-year. Loans and advances to credit institutions amounted to EUR 92.0 million (33.2). The Savings Banks Group's investment assets stood at EUR 1.2 billion (1.3), a decrease of 8.7 % year-on-year. Life insurance assets amounted to EUR 841.7 million (855.4).

Liabilities to customers totalled EUR 6.9 billion (6.4), an increase of 8.1 % from the previous year. Liabilities to credit institutions were EUR 288.0 million (227.0). Debt securities issued stood at EUR 2.5 billion (2.6). Life insurance liabilities amounted to EUR 801.8 million (803.1).

The Savings Banks Group's equity stood at EUR 1,028.8 million (1,017.5), showing an increase of 1.1 %. The share of non-controlling interests of the Group's equity was EUR 24.9 million (26.5). The increase in the Group's equity is mainly attributable to the result for the financial year. The change in fair value recognised in other comprehensive income was EUR -17.4 million (-3.9) during the period. The impact of cash flow hedging on equity was EUR 0.3 million (-1.0). Other comprehensive income after tax totalled EUR -16.7 million (-6.0) for the period. The Group's return on equity was 3.0 % (7.3).

Capital adequacy and risk position

Capital adequacy (comparison figures 31 December 2017)

At the end of 2018, the Savings Banks Amalgamation had a strong capital structure, consisting primarily of CET1 capital. Total own funds were EUR 978.0 million (984.6), of which CET1 capital accounted for EUR 948.2 million (939.1). The growth in CET1 capital was due to the profit for the period. Savings Banks Amalgamation does not have additional Tier 1 capital. Tier 2 (T2) capital accounted for EUR 29.7 million (45.5), which consisted of debentures in the financial year. Risk-weighted assets amounted to EUR 5 385.6 million (5 165.7), i.e., they were 4.3 % higher than at the end of the previous year. The most significant change related to the increase in risk-weighted assets was the growth in the mortgage portfolio. The capital ratio of the Savings Banks Amalgamation was 18.2 % (19.1) and the CET1 capital ratio was 17.6 % (18.2).

The capital requirement of Savings Banks Amalgamation was EUR 593.9 million (EUR 569.4 million) that equals to 11.0 % of risk-weighted assets. The capital requirement is formed by:

- 8 % minimum capital requirements set by Capital Requirement Regulation (CRR),
- 2.5 % CET1 capital conservation buffer of according to the Act on Credit Institutions,
- 0.5 % CET1 pillar 2 requirement of set by the Financial Supervisory Authority and
- The country-specific countercyclical CET1 capital requirements of foreign exposures.

In the beginning of the year 2018 Credit Institution Act was updated to include a new macroprudential measure, Systemic Risk Buffer (SRB). FIN-FSA may impose SRB on the basis of the structural characteristics of the financial system. FIN-FSA made decision on the level of systemic risk buffer requirements for Finnish credit institutions on 29 June 2018. The systemic risk buffer requirement for Savings Banks Amalgamation will be 1 % of risk weighted assets, and this requirement enters into effect on 1 July 2019.

The standard method is used to calculate the capital requirement to the credit risk of the Savings Banks Amalgamation. The capital requirement to the operational risk is calculated by the basic method. The capital requirement relating to the market risk is calculated by the basic method on the foreign exchange position.

The Financial Supervisory Authority has granted a permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual institution level and sub-consolidation group level. In addition, the Financial Supervisory Authority has granted a permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint and several liability. These permissions are based on the European Union Capital Requirements Regulation (EU 575/2013) and the Act on the Amalgamation of Deposit Banks (599/2010).

The Financial Supervisory Authority has granted permission to the Central Institution of the Amalgamation to waive fully the application of the requirements regarding liquidity set out in part six of Regulation (EU) No 575/2013 and its amending and supplementing acts to the Amalgamation's member credit institutions.

Capital adequacy's main items

Own funds (EUR 1,000)	31.12.2018	31.12.2017
Common Equity Tier 1 (CET1) capital before regulatory adjustments	986,758	969,674
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-38,524	-30,591
Common Equity Tier 1 (CET1) capital	**948,235**	**939,082**
Ensisijainen lisäpääoma ennen vähennyksiä	0	0
Vähennykset ensisijaisesta lisäpääomasta	0	0
Additional Tier 1 (AT1) capital	**0**	**0**
Tier 1 capital (T1 = CET1 + AT1)	**948,235**	**939,082**
Tier 2 (T2) capital before regulatory adjustments	29,736	45,483
Total regulatory adjustments to Tier 2 (T2) capital	0	0
Tier 2 (T2) capital	**29,736**	**45,483**
Total capital (TC = T1 + T2)	**977,970**	**984,565**
Risk weighted assets	**5,385,564**	**5,165,694**
of which: credit and counterparty risk	4,815,965	4,601,921
of which: credit valuation adjustment (CVA)	72,423	72,541
of which: market risk	38,332	39,879
of which: operational risk	458,844	451,354
Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.6 %	18.2 %
Tier 1 (as a percentage of total risk exposure amount)	17.6 %	18.2 %
Total capital (as a percentage of total risk exposure amount)	18.2 %	19.1 %
Capital requirement		
Total capital	977,970	984,565
Capital requirement total*	593,940	569,379
of which: Pillar 2 additional capital requirement	26,928	25,828
Capital buffer	384,031	415,186

*The capital requirement is formed by the statutory minimum capital adequacy requirement of 8 %, the capital conservation buffer of 2.5 % according to the Act on Credit Institutions, the 0.5 % Pillar 2 requirement set by the Financial Supervisory Authority and the country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio

The Savings Banks Amalgamation's leverage ratio was 8.6 % (8.8). The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Amalgamation's Tier 1 capital to total liability. The Savings Banks Amalgamation monitors excessive indebtedness as part of its capital adequacy management process.

Leverage ratio

(EUR 1,000)	31.12.2018	31.12.2017
Tier 1 capital	948,235	939,082
Total leverage ratio exposures	11,035,250	10,639,424
Leverage ratio	8.6 %	8.8 %

Supervision by the Financial Supervisory Authority

The Directive of the European Parliament and of the Union 2014/59/EU on the recovery and resolution framework of credit institu-tions and investment service firms was brought nationally into force as of 1 January 2015 (the Act on the crisis solution of credit institutions and investment service firms). To imple-ment the resolution act, the Financial Stability Authority was established (the Act on the Financial Stability Authority, 1995/2014). In May 2017 the Stability Authority decided to set a minimum requirement of own funds and eligible liabilities (MREL) at amalgamation level and this requirement will be applied starting December 31st 2018. The requirement will not be directed at the member credit institutions. The MREL requirement is in nature a Pillar 2 -type continuously required minimum requirement. The Financial Stability Authority has decided that the minimum amount of eligible liabilities is the minimum requirement of own funds times two. Currently, the requirement is 22 % of the total risk of Amalgamation.

Risk position

The Savings Bank Group's risk position has remained at a good level. The capital adequacy of the Savings Banks' Amalgamation is very strong and non-performing assets are at a low level.

Risk management and internal control of the Savings Banks Group is a part of the internal control framework applied with-in the Group and the Amalgamation. It is also at the core of the Group's operational activities. It is the responsibility of the Central Institution's Board of Directors to steer the operation of the Amalgamation and, in order to safeguard liquidity and capital adequacy, issue instructions to the member companies on risk management, corporate governance, internal control and compliance with harmonised accounting principles in the preparation of the consolidated financial statements.

The Central Institution approves the principles for the Group's internal control framework. The following functions, which are independent of business operations, have been established within the Central Institution to ensure effective and comprehensive internal control in all the member companies within the Amalgamation and the Group:

- Independent risk control
- Compliance function
- Internal audit

The Central Institution's Risk control function maintains and develops methods for managing risks within the Group. This ensures that all, even new, fundamental but previously unidentified risks are covered by the risk management of the Group's business lines.

All significant loans or commitments including significant risk are made in accordance with collegial decision-making processes, and there is a lending authority limit structure in place. Internal operational guidelines are used to steer business operations and processes. Compliance with the internal guidelines as well as the updating process of the guidelines is monitored. All decisions and significant business operations are documented and archived. An essential part of risk management is executed in daily supervision. The execution of decisions made is monitored through an approval and verification process, controls and reconciliations together with adequate monitoring and reporting. The most significant risks affecting the operation of the Group are credit risk, liquidity risk, interest rate risk, operational risk, as well as various business risks.

The Group's risks and risk management are described in more detail in the notes on risk management in the financial statements in Appendix 5.

Credit ratings

S&P Global Ratings (S&P) has given the Central Bank of Savings Banks a credit rating of 'A-', a short-term rating of 'A-2'. The Outlook is stable. The credit rating did not change during the financial year and the previous rating was confirmed in April 2017.

The Central Bank of Savings Banks Finland Plc is part of the Savings Banks Amalgamation. The role of the Central Bank of Savings Banks is to ensure the liquidity and fund-raising of the Savings Banks Group. The Central Bank of Savings Banks raises funds and operates in the money and capital markets on behalf of the Group, manages settlements and the internal balancing of the Group's liquidity. The Central Bank of Savings Banks also manages the levelling out of the Group's internal liquidity.

Supervisory Board, Board of Directors and auditors of the Savings Banks' Union Coop

Under the by-laws of the Savings Banks' Union Coop, the Union's Supervisory board has no less than 9 and no more than 35 members, each of whom has a designated deputy. Under the operating principles of the Group, the trustee chairmen of the Savings Banks' boards of directors are elected to the Supervisory Board as regular members and the deputy chairmen as deputy members. Other members may also be elected to the Supervisory Board, within the limits set for the number of members. No other members apart from the chairmen were elected to the Supervisory Board in 2018.

The Supervisory Board included 22 members. The chairman of the Supervisory Board was Eero Laesterä from 15 March 2018 (chairman of the Board of Directors of Aito Säästöpankki) and the deputy chairman was Juha Viljamaa from 15 March 2018 (chairman of the Board of Directors of Helmi Säästöpankki Plc) and Kirsi Hedman 2018 (chairman of the Board of Directors of Suomenniemen Säästöpankki). The deputy chairman was Juha Pauli Kurunmäki until 15 March 2018 (chairman of the Board of Directors of Huittisten Säästöpankki).

As of the annual general meeting of Savings Banks' Union Coop in 2018, the following persons have been members of the Board of Directors:

Kalevi Hilli, chairman (Säästöpankki Optia)

Toivo Alarautalahti, deputy chairman (Huittisten Säästöpankki)

Jussi Hakala (Liedon Säästöpankki)

Pirkko Ahonen (Aito Säästöpankki Oy)

Peter Finne (Koivulahden Säästöpankki)

Sanna Ahonen (Säästöpankeista riippumaton)

Jan Korhonen (Suomenniemen Säästöpankki)

Marja-Leena Tuomola (Säästöpankeista riippumaton)

Pauli Aalto-Setälä (Säästöpankeista riippumaton)
from 15 March 2018

The Board of Directors of Savings Banks' Union Coop constitutes a quorum when five members are present. The Board of Directors of Savings Banks' Union Coop will be elected at the annual general meeting of the Savings Banks' Union Coop cooperative on 15 March 2018.

The Managing Director of the Savings Banks' Union Coop has been Tomi Närhinen since 1 September 2017.

At the annual general meeting of the Savings Banks' Union Coop cooperative on 15 March 2017, KPMG Oy Ab, Authorised Public

Accountants, was elected as the auditor of Savings Banks' Union Coop. The chief auditor designated by the firm is Petri Kettunen, Authorised Public Accountant.

Non-financial reporting

The Savings Banks Group's business operations are based on low-risk retail banking. Our strategic goals are profitable growth, better capital adequacy than the industry as a whole and a financial standing that is healthy with respect to its capital buffers. Our competitive strategy is based on strong customer orientation, which is referred to as the Savings Bank Experience. Our strength lies in our range of services, which is close to the customer, cost-efficient and developed on the basis of customer needs

Right from the start, when the first Savings Bank was established in Finland in 1822, the concept of responsibility has played a part in the operation of the Group. In line with the Savings Bank ideal, the basic mission of Savings Banks has been to help the hardworking population of Finland to prosper and take better care of its finances.

Today, the responsible approach taken by Savings Banks is evident in all aspects of a bank's activities. It is reflected in their attitude towards customers, partners, operating sphere, the authorities, the environment and other stakeholders. The Savings Banks Group adheres to the principles of corporate governance, openness and the Group's ethical rules.

The Savings Banks Group is focusing on the development of its reporting on responsibility and a GRI report for the year 2018 will be published during 2019.

Promoting social well-being locally

The operations of the Savings Banks are based on helping customers: The Savings Banks help customers take care of their finances and prosper. When the customers prosper and their welfare increases, the Savings Banks prosper as well.

It is important to Savings Banks Group that towns, villages and communities in Finland retain their vitality and positive development trends. From the start, Savings Banks have directed a proportion of their profits to enhancing welfare within their operating areas. Rather than making major one-off donations, Savings Banks prefer to give their support to several good, local projects. In recent years, Savings Banks have called on their customers to help with their mission. For example, customers can propose Finnish recipients for donations for the annual Good Deeds campaign.

The 2018 Good Deeds responsibility campaign saw Savings Banks donate more than EUR 785,000 to various charities. The themes highlighted among the beneficiaries included children and young people, for example through sports clubs, other forms of recreational activity and helping volunteer workers. There were more than 500 beneficiaries across Finland.

The Savings Banks Research Foundation granted scholarships to university researchers and study projects totalling EUR 107,500. In addition, savings bank trusts that own Savings Banks structured as limited liability companies have made significant charitable contributions in various parts of the country.

Personnel

The Savings Banks Group adheres to the principles of corporate governance, openness and the Group's ethical rules. Employees have a responsibility to ensure that customers receive information in accordance with good business conduct. Employees must strive to ensure that customers are aware of the consequences of their financial decisions, including the potential risk of losses. Complaints by existing and former customers must be handled without delay and in a fair manner, in compliance with the applicable laws and regulations. The Savings Banks Group has prepared guidelines to support the complaint handling process. Communication to all target groups must be open, truthful and unbiased. Employees must focus on providing clear and transparent information to customers.

Savings Banks Group considers it important for every employee to understand the direction of the organisation's development and be aware of the importance of their own work for the achievement of our objectives. We conduct an annual Group-level personnel survey, which was revised this year following the renewal of our Group strategy. Our vision is to be the most competent and trusted financial partner, and our personnel survey provides us with valuable information on how we can work together to build Säästöpankki's success and realise our vision.

According to the results of the survey, the significance of the Savings Bank Experience is strongly understood as a competitive advantage for the Group, and we put it into action in our daily work by seeking comprehensive solutions for our customers based on their needs. The majority of the respondents indicated they are proud to be part of Savings Bank and would recommend Savings Banks Group as an employer. According to the research institute we have partnered with, our employee net promoter score is higher than in similar Finnish organisations on average.

The Savings Banks Group believes that every employee is an expert in their own work, and we provide everyone with an opportunity and responsibility for the continuous development of their own expertise. Our success in the breakthrough of our industry requires everyone to continuously maintain and develop their own expertise. According to the results of the personnel survey, our employees want to have a strong focus on their own professional development. To support this, we continued to invest in the quantity and quality of Savings Banks Group's employee training during the year.

The Group's training offering in 2018 was diverse in terms of content as well as methods. Nearly 300 training events took place during the year, with more than half of these taking the form of video or online training. The training events were particularly focused on creating an excellent Savings Bank Experience, first-class customer encounters and personal service across various channels. The recurring themes of the training included managerial work, saving and investment as well as communication skills.

At the end of 2018, Savings Banks Group had 1,417 employees (1,359). Converted into total resources, the average number of employees for the financial year was 1,386 (1,250). Women accounted for 76 % and men for 24 % of all employees, with the proportion of men increasing from the previous year. The average age of employees decreased to 42 years (43). Overall turnover of personnel was 4.6 % (4.8).

The foundation and key resource underlying all of the Savings Banks Group's operations is satisfied employees with a high level of well-being who are well looked after by their employer. The most common methods of promoting well-being used by the Group include recreational days, sport and culture benefits, ergonomics inspections and close cooperation with pension insurance companies and occupational health care services aimed at maintaining a high level of well-being.

Savings Banks Group conducts an annual personnel survey, "Our Savings Bank". The survey was revised in 2018 to reflect the Group's new strategy. The goals of the personnel survey are to support the execution of the Group strategy, monitor the realisation of the strategic vision and give employees the opportunity to voice their views and proposals on how to develop the work community.

The response rate of the personnel survey has been high from one year to the next. In 2018, 85.4% of Savings Bank employees took the survey and the average score for the survey as a whole was good at 3.36 on a scale of 1–4. The implementation of the development and action plans prepared together with personnel based on the results of the survey will be regularly monitored over the next year.

Human Rights

The Savings Banks Group respects human rights and strives to prevent discrimination in all of the Group's operations. Our own operations do not involve significant direct risks or impacts related to human rights, but such impacts may be related to the supply chain or the activities of investment and financing targets. The social responsibility of target companies is taken into account in our investment activities. We exclude from our direct investments all companies that are in constant breach of international agreements related to human rights, decent work and the environment or infringe against good governance practices.

Environmental Responsibility

As a responsible Finnish banking group, the Savings Banks Group recognises its role in promoting environmental responsibility. While the Savings Banks Group's business does not have significant direct environmental impacts, we look after the environment through our day-to-day actions. We encourage our employees to use public transport, replace business trips and meetings with telephone and video conferences, and we prioritise eco-friendly alternatives in purchasing. The investments made by Sp-Fund Management Company can create indirect environmental impacts. Climate change related risks and environmental regulation may also have significant economic impacts, particularly in certain industries or with regard to geographic location. Sp-Fund Manage-ment Company aims to allocate its investments to companies that take environmental values and sustainable development into account in their operations. The reporting and follow up of the environmental aspect of our investments, for example carbon foot-print is an ongoing process. The Savings Bank Environment-Investment Fund started its operations on 31 December 2018. The fund invests its assets in companies and funds that promote sustainable use of the environment. Our investment activities take ESG (environmental, social, governance) issues into consideration, which includes an assessment of environmental impacts.

Financial Responsibility

Financial accountability refers to good profitability, capital adequacy and liquidity, good governance and responsible leadership. Savings Banks Group want to ensure that their customers and partners are able to rely on the bank's judgment and sense of responsibility in all circumstances.

To maintain financial responsibility, the Savings Banks Group's entities have to ensure their capital adequacy and liquidity even in poor economic conditions. A particular feature that applies to Savings Banks is that they take responsibility for promoting saving and financial welfare among the local population. Savings Banks only provide their customers with loans and credit that they can manage without straining their finances.

Savings Banks Group also takes a responsible attitude towards the Finnish economy. Savings Banks pay all of their taxes directly to Finland. They do not participate in controversial tax planning practices. In 2018, we paid EUR 5.8 million in income taxes. Savings Banks Group employs financial and service industry professionals around the country. Through its presence on the various committees of Finance Finland, the Group contributes actively to the development of the Finnish banking sector.

Anti-corruption and Bribery

The Savings Banks Group has a Code of Conduct that all Savings Banks Group employees must adhere to, regardless of their role, position and place of work. The Code of Conduct is part of the orientation training of new employees. The content of the Code of Conduct is communicated regularly to the personnel and it includes general operating principles on how to deal with difficult situa-tions. More detailed operating guidelines that supplement the Code of Conduct are available to all employees.

The Savings Banks Group does not condone corruption in any form, nor does the Group tolerate corruption in business activities or business partnerships. The member organisations of the Savings Banks Amalgamation cooperate with the authorities to prevent bribery and corruption.

Risk Management

The risk monitoring and compliance function also monitors non-financial risks. The compliance function is responsible for ensuring regulatory compliance. The realisation of non-financial risks could compromise the Savings Banks Group's reputation and result in potential damage to customer relationships and other stakeholder relations. Non-financial risks are addressed in the regular risk assessments conducted as part of business operations. Potential non-financial risks are also taken into account in the development of new products and services. Risk management is part of the Group's day-to-day activities, and employees receive regular training and instructions regarding risk management.

Information security

The Savings Banks Group strengthened its information security resources in 2018 by establishing a Group-wide information security function. The focus areas in the development of information security are the management of information security with respect to suppliers and outsourcing partners, cybersecurity preparedness, service continuity and ensuring information security and data protection in day-to-day work with customers. Information security is a central component of the Savings Banks Group's strategy and it is promoted by effective risk management and replicable solutions. The key regulatory frames of reference for legal compliance related to information security are the PSD2 and the GDPR.

Operations and profit by business segment

Banking services

The Banking segment includes the member Savings Banks of the Amalgamation, Central Bank of Savings Banks Finland Plc and Sp Mortgage Bank Plc. The Savings Banks provide retail banking services and Central Bank of Savings Banks Finland Plc acts as their central credit institution. Sp Mortgage Bank Plc engages in residential mortgage credit operations.

Customer experience

Savings Banks were among the leaders in Finland in 2018 with regard to the customer experience. The Savings Bank Experience is built through highly professional service, a human and respectful approach to customer encounters and the courage to respond to the customers' financial needs and act as a financial partner to customers. Going forward, Savings Banks want to continue to respond to customer needs by combining first-class personal service with convenient self-service solutions delivered across digital channels.

Savings Banks achieved excellent results among both private and corporate customers in the 2018 EPSI Rating survey. In the private customer segment, the satisfaction rating improved from the previous year and was the second-highest in Finland and the Nordic region. Savings Banks participated in the EPSI Rating survey for corporate customers for the first time. Corporate customers' satisfaction with Savings Banks exceeded the industry average by a clear margin and Savings Banks were ranked second among the surveyed banks.

In the Finnish Customer Marketing Union's annual Customer Index survey, Savings Bank was ranked among the leaders in terms of both customer loyalty and the customer experience. The survey included 56 companies representing various sectors. Savings Banks also continuously measure their success in customer negotiations. The Net Promoter Score (NPS) for negotiations improved substantially year-on-year in 2018 and stood at 81.0 (79.6).

Development of customer volume

The customer volume of Savings Banks developed favourably in 2018 in spite of a strong focus on refining the quality of the customer base. Thousands of passive customers were removed from the customer base during the year due to their active customer relationship having ended. At the end of 2018, Savings Banks had approximately 483,000 customers, with corporate customers and sole proprietors representing about 46,500 of this total. Savings Banks acquired some 31,000 new customers in 2018.

The number of customers who use Savings Banks comprehensively for their banking services also continued to see strong growth in 2018. The rate of growth of comprehensive customer relationships was 6.5 %, substantially outpacing the growth of the customer volume in general.

Sp Mortgage Bank

Sp Mortgage Bank belongs to the Savings Banks Group and its objective is to strengthen the competitiveness of the Savings Banks Group through competitive funding and promote the strategy Savings Banks Group's through its own activity. Sp Mortgage Bank is responsible for Savings Banks Group's covered bond issuance.

Sp Mortgage Bank does not have its own customer business operations or a service network; instead, the Savings Banks that belong to the Savings Banks Amalgamation intermediate and sell residential mortgage loans for Sp Mortgage Bank. The Savings Banks also see to the local customer relationship management.

During the financial year, Sp Mortgage Bank's operations proceeded as planned and the loan portfolio reached at the end of the year the amount of EUR 1,854 Million.

The Sp Mortgage Bank did not issue covered bonds during 2018. Covered bonds issued by Sp Mortgage Bank have a credit rating of AAA issued by S&P Global Ratings. S&P Global Ratings assigned a credit rating of AAA for the covered bonds issued by Sp Mortage Bank.

Central Bank of Savings Banks strengthened its role as the central credit institution

The Central Bank of Savings Banks Finland Plc is a bank owned by Finnish savings banks with main purpose of providing savings banks and the Savings Banks Group with various central credit institution services. The central credit institution services includes payment services and account operator services, payment card issuing for the customers of the member Savings Banks of the Amalgamation, and services related to liquidity management, funding and asset and liability management.

During the year 2018 SB Central Bank has supported Savings' Banks Groups implementation of stategy by supporting and developing it's basic functions as provider of credit institution services.

S&P Global Ratings (S&P) has given long-term counterparty credit rating 'A-' on SB Central Bank. Short-term investment grade is 'A-2'. The outlook is stable. Credit rating has not changed during the review period and is from April 2017.

Financial performance (comparative figures 1–12/2017)

Profit before tax of Banking operations stood at EUR 25.0 million (60.7). Net interest income was EUR 152.8 million (142.2), an increase of 7.5 % year-on-year. Net fee and commission income totalled EUR 58.1 million (56.0), up 3.8 %. Net investment and trading income was EUR -16.7 million (41.0). Investment income is presented in compliance with IFRS 9, which means that a large proportion of banks' investment assets are recognised through profit or loss and presented under net trading income. Net investment income is largely made up of realised capital gains recognised at fair value through other comprehensive income. Other operating revenue was EUR 3.0 million (2.6). Other operating revenue includes non-recurring items both in the financial year and in the comparison period.

Personnel expenses totalled EUR 63.4 million (64.0). The number of personnel in the Banking operations segment was 1,098 (1,077) at the end of the financial year. Other operating expenses grew by 9.8 % to EUR 104.8 million (95.5). The increase was attributable to higher ICT expenses. Depreciation, amortisation and impairment of property, plant and equipment and intangible assets amounted to EUR 11.1 million (12.5) for the financial year.

The balance sheet for Banking operations totalled EUR 10.9 billion (10.5), representing growth of 3.8 %. Loans and advances to customers increased by 9.5 % to EUR 8.5 billion (7.8). Loans and advances to credit institutions amounted to EUR 91.7 million (33.0). Deposits received from credit institutions remained on a par with the comparison period at EUR 228.0 million (228.5). Deposits received from customers increased by 8.1 % to EUR 6.9 billion (6.4).

Asset management and life insurance

The Asset Management and Life Insurance segment comprises Sp-Fund Management Company Ltd and Sb Life Insurance Ltd. Sp-Fund Management Company Ltd offers investment fund, asset management and investment advisory services and manages alternative investment funds. Sb Life Insurance Ltd provides life insurance policies.

At the end of 2018, Sp-Fund Management Company Ltd managed 14 investment funds and 9 alternative investment funds. The new alternative investment fund Säästöpankki Ympäristö became operational on 31 December 2018. The fund invests in companies and funds that promote the sustainable use of the environment. The total fund capital managed by Sp-Fund Management Company Ltd at the end of 2018 amounted to EUR 2.2 billion (2.4). The number of fund unit holders grew by 4.4 % and stood at 186,905 (179,068) at the end of the review period. Net subscriptions to the Savings Bank investment funds totalled EUR 45.6 million in 2018 (378.6). This made Sp-Fund Management Company Ltd the fourth-largest among the 25 Finnish fund management companies.

At the end of 2018, the largest of the Savings Bank investment funds was Savings Bank Interest Plus investment fund with capital of EUR 608.3 million. It was also the largest fund in terms of the number of unit holders at 40,958, and it accumulated the largest amount of new capital with net subscriptions of EUR 81.2 million for the year. At the end of 2018, Sp-Fund Management Company Ltd had a total of EUR 477.6 million (454.6) under individual asset management.

Life insurance savings were on a par with the previous year at EUR 798.7 million (800.5) at the end of 2018. Unit-linked insurance savings amounted to EUR 676.7 million (671.2). Life insurance premium income fell to EUR 132.4 million (169.7), a decrease of 22.0 % from the previous year. A total of EUR 70.8 million (50.4) was paid out in claims, representing a year-on-year increase of 40.4 %. The paid out claims figure includes surrenders.

Product cooperation between Taaleri and the Savings Banks Group was announced in June 2018. The first investment solution based on this cooperation, the Säästöpankki Ympäristö alternative investment fund, was launched in late 2018. Sales cooperation was initiated with POP Bank Group in June 2018. POP Banks will gradually begin selling the products of Sb Life Insurance and Sp-Fund Management Company. The cooperation started with life insurance products.

Financial performance (comparison figures 1–12/2017)

Profit before tax for the Asset Management and Life Insurance segment was EUR 21.5 million (27.1).

Net fee and commission income amounted to EUR 26.3 million (23.4), an increase of 12.4 %. The year-on-year growth in net fee and commission income was particularly due to the higher amount of capital under management.

Net life insurance income totalled EUR 13.2 million (15.6), a decrease of 15.4 %. The net investment income of the Life Insurance segment was negative at EUR -0.4 million (EUR 1.4 million). The negative net investment income was attributable to the downturn in the equity markets in the second half of 2018.

Operating expenses increased by 31.8 % to EUR 17.6 million (13.4). This increase was largely attributable to higher ICT expenses. Personnel expenses totalled EUR 7.2 million (6.7). The number personnel in the segment at the end of the financial year was 81 (79). Other operating expenses amounted to EUR 8.6 million (6.6).

The balance sheet of Asset Management and Life Insurance operations stood at EUR 840.7 million (851.0) at the end of the financial year.

Other functions

Other functions include Savings Banks' Union Coop, Sp-Koti Ltd, Savings Banks Services Ltd and other companies consolidated within the Group. Other functions do not form a reportable segment.

The franchising company Sp-Koti Ltd, focusing on real estate agency business, grew clearly more than the housing market, while the turnover grew by 35 % and the trades grew by 20 %. In the housing market, the number of trades implemented by real estate agency businesses on second-hand housing decreased by approximately 3 %. The number of companies increased by one and the number of real estate agents by 38 compared to the previous year. In addition, the number of customer guidance to Savings Banks increased by 52 per cent.

Sp-Koti included 35 companies (34), one own unit. With regard to offices and sold apartments, the chain is the third largest real estate agency business in Finland.

Material events after the closing date

On 23 January 2019, Savings Banks Group signed an agreement with the US-based Cognizant Technology Solutions for the renewal of the Group's core banking system. As part of the arrangement, Cognizant will acquire the Samlink Ltd shares held by Savings Banks Group.

The new core banking system supports Savings Banks Group's digital strategy and market growth targets. Cognizant Technology Solutions will deliver a new system based on Temenos T24 and Temenos Payment Hub (TPH) software. The new system will enhance processes and operations, making them more cost-efficient thanks to its scalability, among other factors. This is one of the largest investments ever made by Savings Banks Group. While the core of this major change project concerns the implementation of a new technological platform for basic banking functions, it also addresses the need to change the Group's business and operating models in response to a rapidly changing external environment.

The share transaction will have a slight positive impact on Savings Banks Group's operating profit for 2019.

Outlook for 2019

Outlook for the operational environment

The predictive economic indicators of the real economy point towards a continued slowing down of global economic growth in the near future. The movements of many market prices that are sensitive to business cycles—such as industrial metals and oil—support this assessment. The current basic view is that the global economy is facing a dip in growth, but a recession will be avoided for the time being. Nevertheless, it should be noted that the global operational environment is characterised by a large number of variables (including trade wars, Brexit, the situation in Italy and geopolitical risks) that may push the global economy to a sharper decline than anticipated.

At the same time, it is also possible to identify positive risks in the global economy. Economic growth in the United States has remained robust, and the strength of the U.S. economy may continue to bolster the state of the global economy going forward. Meanwhile, China has introduced stimulus measures in its monetary policy, which has usually supported the growth of the global economy. It can also be expected that the speed at which the Fed raises interest rates will become more moderate in 2019, particularly if the global growth outlook continues to weaken.

According to the ECB's latest estimate, the first interest hikes in the euro zone may take place after summer 2019. However, the euro zone's macroeconomic development in the second half of 2018 was significantly weaker than expected, and it also appears that the rate of inflation will again turn to a decrease. With this in mind, it is entirely possible that the first interest rate increases will be postponed further. A significant increase in interest rates is not expected in the euro zone in the next few years.

In the Finnish economy, the change in the economic situation and outlook is clearer than in industrialised countries on average. The changes in economic cycles in Finland are leveraged by the significant cooling down of the construction cycle. Finnish GDP growth is currently predicted to slow down to 1.4 per cent in 2019 and 1.2 per cent in 2020. The fastest phase of improving employment was already seen in the first half of 2018, and employment will only improve to a slight extent in 2019–2020. The unemployment rate will decline to 7.0 per cent towards the end of the forecasting period. Private consumption may be affected much more than expected by lower economic growth and the weaker employment outlook, or the potential rise of interest expenses.

Business outlook

The low level of market interests will still challenge the economic performance in 2019. However, the low interest rates will not jeopardise the performance or capital adequacy of the Savings Banks Group. The Savings Banks Group is solvent and the risk position of the Group is moderate.

In 2019, the business of the Savings Banks Group will focus on improving the competitiveness of the Group and implementing a customer-oriented strategy. Savings Banks are well placed to achieve this. In 2019, the Group aims to acquire a larger number of customers who will focus their banking services on a Savings Bank.

The Savings Banks Group's result before tax is estimated to be almost at the same level as in 2018. This estimate is based on the current view of economic development. The expectations include uncertainties due to economic circumstances which have an impact on the estimated result; especially with regard to loan write-downs and investment income.

Further information:

Tomi Närhinen, Managing Director
tel. +358 40 724 3896

The release of the financial statements has been audited.

Releases and other corporate information are available on the Savings Banks Group's website at *www.saastopankki.fi/saastopankkiryhma*

Formulas used in calculating the financial highlights:

Revenues	Interest income, fee income, net trading income, net investment income, net life insurance income, other operating revenue
Total operating revenue	Net interest income, net fee and commission income, net trading income, net investment income, net life insurance income, other operating revenue
Total operating expenses	Personnel expenses, other operating expenses, depreciation and impairment charges on tangible and intangible assets
Cost to income ratio	$\frac{\text{Total operating expenses}}{\text{Total operating revenue}}$
Return on equity %	$\frac{\text{Profit}}{\text{Equity, incl. non-controlling interests (average)}}$
Return on assets %	$\frac{\text{Profit}}{\text{Total assets (average)}}$
Equity/assets ratio %	$\frac{\text{Equity (incl. non-controlling interests)}}{\text{Total assets}}$

Alternative Performance Measures

European Securities and Markets Authority's Guidelines on Alternative Performance measures came into effect on 3 July 2016. An alternative performance measure is a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the IFRS framework. Alternative Performance Measures are used to reflect financial development and enhance comparability between different reporting periods.

Savings Bank Group is not using any alternative performance measures that are not directly calculated using the information presented in the Half-year Report, nor have any changes occurred in the financial highlights.

RELEASE OF FINANCIAL STATEMENT

Savings Banks Group's income statement

(EUR 1,000)	Note	1-12/2018	1-12/2017
Interest income		185,928	181,854
Interest expense		-33,224	-39,678
Net interest income	4	**152,704**	**142,176**
Net fee and commission income	5	84,486	79,159
Net trading income		-24,332	3,156
Net investment income	6	4,979	39,065
Net life insurance income	7	13,163	15,552
Other operating revenue	8	3,669	3,083
Total operating revenue		**234,670**	**282,191**
Personnel expenses		-83,561	-79,781
Other operating expenses		-101,029	-88,913
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		-13,128	-13,999
Total operating expenses		**-197,718**	**-182,693**
Net impairment loss on financial assets	9	-3,868	-13,266
Associate's share of profits		3,323	1,977
Profit before tax		**36,408**	**88,210**
Income tax expense		-5,767	-16,316
Profit		**30,640**	**71,894**
Profit attributable to:			
Equity holders of the Group		30,149	70,424
Non-controlling interests		492	1,471
Total		**30,640**	**71,894**

Savings Banks Group's statement of comprehensive income

(EUR 1,000)	1-12/2018	1-12/2017
Profit	**30,640**	**71,894**
Other comprehensive income		
Items that will never be reclassified to profit or loss		
Remeasurements of defined benefit obligation	998	-1,097
Total	**998**	**-1,097**
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	-17,360	-3,906
Cash flow hedges	-315	-1,038
Total	**-17,675**	**-4,944**
Total comprehensive income	**13,963**	**-6,041**
Attributable to:		
Equity holders of the Group	14,831	63,384
Non-controlling interests	-868	2,469
Total	**13,963**	**65,853**

Savings Banks Group's statement of financial position

(EUR 1,000)	Note	31.12.2018	31.12.2017
Assets			
Cash and cash equivalents		839,592	1,118,938
Financial assets at fair value through profit or loss		65,057	34,694
Loans and advances to credit institutions	11	91,988	33,181
Loans and advances to customers	11	8,487,276	7,753,391
Derivatives	12	51,134	53,220
Investment assets	13	1,151,199	1,260,677
Life insurance assets	14	841,700	855,422
Investments in associates and joint ventures		178	7,952
Property, plant and equipment		51,892	51,341
Intangible assets		35,268	28,725
Tax assets		13,019	3,009
Other assets		68,826	125,555
Non-current assets classified as held for sale	15	8,610	
Total assets		**11,705,740**	**11,326,105**
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss		20,575	25,369
Liabilities to credit institutions	16	228,018	228,458
Liabilities to customers	16	6,940,818	6,419,543
Derivatives	12	1,981	5,584
Debt securities issued	17	2,488,147	2,563,128
Life insurance liabilities	18	801,796	803,130
Subordinated liabilities		82,288	100,284
Tax liabilities		52,446	62,907
Provisions and other liabilities		60,874	100,181
Total liabilities		**10,676,943**	**10,308,585**
Equity			
Basic capital		20,340	20,338
Reserves		249,766	285,435
Retained earnings		733,762	685,279
Total equity attributable to equity holders of the Group		**1,003,868**	**991,053**
Non-controlling interests		24,929	26,467
Total equity		**1,028,796**	**1,017,520**
Total liabilities and equity		**11,705,740**	**11,326,105**

Savings Banks Group's statement of cash flows

(EUR 1,000)	1-12/2018	1-12/2017
Cash flows from operating activities		
Profit	30,640	71,894
Adjustments for items without cash flow effect	71,554	4,648
Income taxes paid	-19,808	-17,702
Cash flows from operating activities before changes in assets and liabilities	**82,387**	**58,841**
Increase (-) or decrease (+) in operating assets	**-724,800**	**-949,272**
Financial assets at fair value through profit or loss	77,864	136
Loans and advances to credit institutions	-67,814	3,203
Loans and advances to customers	-738,247	-817,076
Investment assets, at fair value through other comprehensive income	-19,146	
Investment assets, at amortized cost	307	
Available-for-sale financial assets		33,514
Decrease in held-to-maturity financial assets		4,660
Life insurance assets	-39,731	-112,659
Other assets	61,966	-61,052
Increase (-) or decrease (+) in operating liabilities	**394,801**	**966,376**
Liabilities to credit institutions	-440	1,409
Liabilities to customers	525,187	314,089
Debt securities issued	-83,910	520,909
Life insurance liabilities	-5,894	138,803
Other liabilities	-40,142	-8,835
Total cash flows from operating activities	**-247,612**	**75,944**
Cash flows from investing activities		
Investments in investment property and in property, plant and equipment and intangible assets	-23,571	-21,904
Disposals of investment property and property, plant and equipment and intangible assets	2,908	1,807
Total cash flows from investing activities	**-20,664**	**-20,097**
Cash flows from financing activities		
Increase in subordinated liabilities		5,724
Decrease in subordinated liabilities	-17,997	-26,155
Distribution of profits	-2,594	-2,185
Total cash flows from financing activities	**-20,591**	**-22,616**
Change in cash and cash equivalents	**-288,866**	**33,231**
Cash and cash equivalents at the beginning of the period	**1,150,760**	**610,489**
Cash and cash equivalents at the end of the period	**861,894**	**1,150,760**

Cash and cash equivalents comprise the following items:

Cash	839,592	1,118,938
Receivables from central banks repayable on demand	22,301	31,822
Total cash and cash equivalents	**861,894**	**1,150,760**

Adjustments for items without cash flow effect

Impairment losses on financial assets	-6,799	7,998
Changes in fair value	10,982	-4,580
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	15,142	17,358
Effect of associates on profit	-3,323	-1,977
Adjustments for life insurance operations	50,182	-29,686
Gain or loss on sale of investment property and property, plant and equipment and intangible assets	-395	-781
Income taxes	5,767	16,316
Total	**71,554**	**4,648**

Interest received	200,815	193,521
Interest paid	44,990	52,902
Dividends received	4,058	5,156

Savings Banks Group's statement of changes in equity

(EUR 1,000)	Basic capital	Share premium	Primary capital	Fair value reserve (available for sale)	Reserve for hedging instruments	Reserve fund	Other reserves	Total reserves	Retained earnings	Total equity attributable to equity holders of the Group	Non-controlling interests	Total equity
Equity 1 January 2017	**20,338**	**60,354**	**34,475**	**37,523**	**3,905**	**69,669**	**85,435**	**291,361**	**617,709**	**929,408**	**23,994**	**953,402**
Comprehensive income												
Profit									70,424	70,424	1,471	71,894
Other comprehensive income				-4,913	-1,038			-5,951	-1,097	-7,048	998	-6,049
Total comprehensive income				**-4,913**	**-1,038**			**-5,951**	**69,327**	**63,376**	**2,469**	**65,845**
Transactions with owners												
Distribution of profits									-2,177	-2,177		-2,177
Other changes						25		25	421	445	5	450
Total equity 31 December 2017	**20,338**	**60,354**	**34,475**	**32,611**	**2,867**	**69,694**	**85,435**	**285,435**	**685,279**	**991,053**	**26,467**	**1,017,520**

Impact of transition to IFRS 9 1 January 2018				**-19 612**				**-19 612**	**17 688**	**-1 925**	**-66**	**-1 990**
Equity 1 January 2018	**20,338**	**60,354**	**34,475**	**12,998**	**2,867**	**69,694**	**85,435**	**265,823**	**702,967**	**989,128**	**26,402**	**1,015,530**
Comprehensive income												
Profit									30,149	30,149	492	30,640
Other comprehensive income				-15,856	-315			-16,171	998	-15,173	-1,360	-16,533
Total comprehensive income				**-15,856**	**-315**			**-16,171**	**31,146**	**14,975**	**-868**	**14,107**
Transactions with owners												
Distribution of profits									-2,551	-2,551		-2,551
Other changes						66	48	114	1,371	1,485	-605	880
Change that didn't result in loss of control									829	829		829
Total equity 31 December 2018	**20,338**	**60,354**	**34,475**	**-2,858**	**2,552**	**69,760**	**85,483**	**249,766**	**733,762**	**1,003,866**	**24,929**	**1,028,795**

BASIS OF PREPARATION

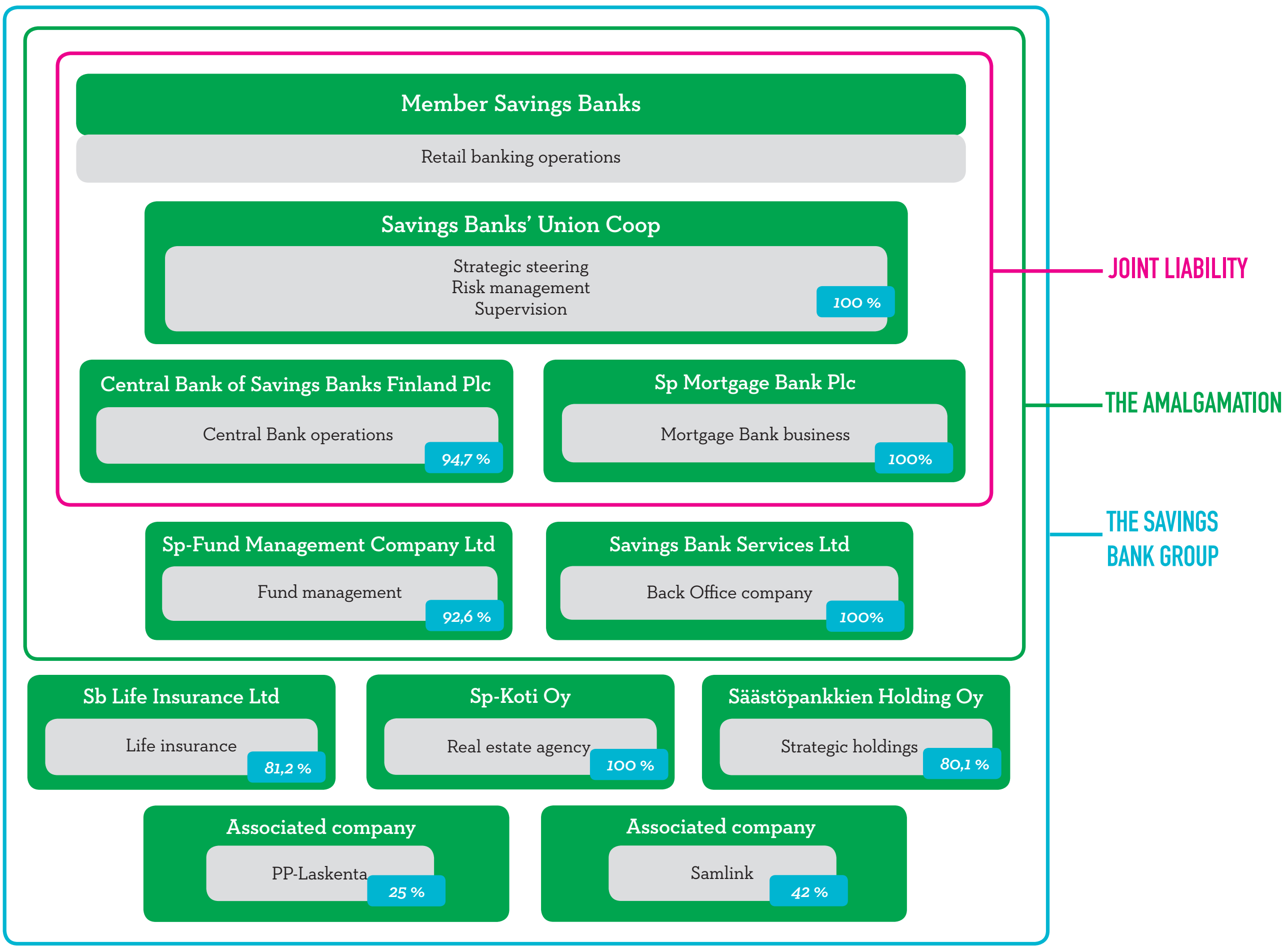
NOTE 1: DESCRIPTION OF THE SAVINGS BANKS GROUP AND THE SAVINGS BANKS AMALGAMATION

The Savings Banks Group (hereafter Group) is the most longstanding banking group in Finland. It comprises of Savings Banks that formed the Savings Banks Amalgamation, the Savings Banks' Union Coop, which acts as the Central Institution and the subsidiaries and associated companies owned by Savings Banks. Together the Savings Banks form a banking group that operates locally as well as nationally. The basic objective of the Savings Banks is to promote thrift, the financial well-being of their customers and to operate near their customers. The Savings Banks operate in the retail banking business, especially in daily banking, saving and investment products and lending. The service and product range offered is complemented with the other financial services and products provided in cooperation with the service and product companies within the Group. The service and product companies within the Group support and promote the operations of the Group via producing centralised services or having responsibility for certain products. The most significant service and product companies of the Group are Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd, Savings Bank Services Ltd and Sp-Koti Oy.

The member organisations of the Savings Banks Amalgamation (hereafter Amalgamation) form a financial entity as defined in the Act on Amalgamations, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 23 Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc as well as the companies within the consolidation groups of the above-mentioned entities, Savings Bank Services Ltd and Sp-Fund Management Company Ltd.

The structure of the Group differs from that of the Amalgamation so that the Group also includes organisations other than credit and financial institutions or service companies. The most significant of these are Sb Life Insurance Ltd and Sp-Koti Oy. The Savings Banks' Union Coop and its member Savings Banks do not have control over each other as referred to in the general consolidation accounting principles and therefore it is not possible to define a parent company for the Group.

The structure of the Amalgamation and the Group are described in the chart below (the red section represents the joint and several liability, the green section represents the Amalgamation and the blue section represents the Group).



Savings Banks' Union Coop acquired PP-laskenta Oy from Samlink Ltd in equal shares with three other banking groups on 31 August 2018. PP-Laskenta Oy's line of business is to provide financial institutions and their subsidiaries and central organisations with financial management, payroll management and risk management services as well as accounting services and related training, communication and advisory services. The Savings Banks Group was already a customer of PP-Laskenta previously and the transaction does not change any previous practices between the companies.

Savings Banks' Union Coop steers the operations of the Group and is responsible for the internal control framework. According to the Amalgamation Act Savings Banks' Union Coop acting as the Central Institution of the Amalgamation is obliged to prepare consolidated financial statements for the Group. The Board of Directors of Savings Banks' Union Coop is responsible for preparing the financial statements. The financial statements are prepared for the financial group formed by the Group. The companies consolidated into the financial statements are listed in note the 45. All figures presented hereafter are Group's figures unless otherwise stated.

Savings Banks' Union Coop's registered office is in Helsinki and its registered address is Teollisuuskatu 33, FI-00510 Helsinki.

The Group's financial statements and Annual Report are available at *www.saastopankki.fi/saastopankkiryhma* or at the premises of Savings Banks' Union Coop, address Teollisuuskatu 33, FI-00510 Helsinki.

The Board of directors of Savings Banks' Union Coop has in their meeting 14 February 2019 approved the Group's consolidated financial statements for the financial year ending 31 December 2018. The consolidated financial statements will be presented to the cooperative meeting of Savings Banks' Union Coop in the meeting scheduled for 14 March 2019.

NOTE 2: ACCOUNTING POLICIES

General

The Group's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as implemented within the EU.

The release of financial statements of 1.1.-31.12.2017 has been prepared in accordance with the IAS 34 Interim Financial Reporting -standard. Accounting principles applied in the release of financial statements are essentially the same as in the financial statement of 2017, but with the introduction of IFRS 9 the accounting principles have been renewed.

The release of the financial statements have been audited.

The Group's consolidated financial statements are prepared in euros, which is the accounting and operational currency of the Group. The financial statements are presented in thousand euros unless stated otherwise.

Critical accounting estimates and judgments

IFRS-compliant financial statements require the Group's management to exercise judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities and other information such as the amounts of income and expense. Although these estimates are based on the management's best knowledge at the time, it is possible that actual results differ from the estimates used in the financial statements.

There have not been any major changes regarding the uncertainty requiring the Group's management to exercise judgment and make estimates and assumptions other than implementation of ECL-calculation related to IFRS 9. The calculation contains several components where Group's management need to exercise judgment.

New and amended standards applied in financial year ended

Savings Banks Group has applied as from 1 January 2018 the following new and amended standards that have come into effect.

Adoption of IFRS 9 standard

IFRS 9 came into effect 1 January 2018 fully replacing the prior IAS 39 standard. The adoption of the standard resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements on the opening balances for 2018. The Group did not early adopt any of IFRS 9 in previous periods.

As permitted by the transitional provisions of IFRS 9, the Group elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

Due to IFRS 9, the most significant accounting policy changes relate to changes in classification and measurement as well as calculation of expected credit losses in accordance with IFRS 9.

The Group has elected to apply the IAS 39 hedge accounting requirements on portfolio hedging and apply IFRS 9 hedge accounting requirements only to general hedge accounting as permitted by the transitional provisions of IFRS 9.

The Group has elected to apply the IFRS 17 standards transitional provision for the Sb Life Insurance Ltd, which permits the Group to postpone the IFRS 9 transition until 1 January 2021. The financial assets of Sb Life Insurance Ltd will be booked in accordance with IAS 39 for now.

The adoption of IFRS 9 has a significant impact on the Groups accounting policies relating mainly to classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7: Financial Instruments: Disclosures. For notes disclosures, the IFRS 9 consequential amendments to IFRS 7 disclosures have only been applied to the current period. The comparative period disclosures repeat those disclosures in the prior year, therefore not being comparable in the 2018 financial statements. The effects of the adoption of IFRS 9 have been booked directly to retained earning in the 1 January 2018 opening balance.

As permitted by the IFRS 9 transitional provisions the effects of the transition, changes in classification and measurement as well as expected credit losses are booked directly to retained earnings therefore effecting the capital ratios and own funds of the Savings Bank Amalgamation. Going forward, the own funds are mainly effected by the expected credit losses booked through profit and loss. The risk-weighted assets are effected by the accounting principle changes that cause changes to carrying amounts. The Group has elected to not apply transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. All effect of IFRS 9 will therefore be accounted fully since the beginning of 2018.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the Group's business model for managing the financial assets and these instruments' contractual cash flow characteristics. Classification and measurement is described in more detail in section 3.1.2 of the accounting policies. The IAS 39 measurement categories of financial assets (fair value through profit and loss, available for sale, held-to-maturity and amortised cost) have been replaced by the IFRS 9 classification:

- Amortised cost (AC)
- Fair value through other comprehensive income (fair value reserve) (FVOCI)
- Fair value through profit or loss (FVTPL)

Classification and measurement of financial assets and liabilities

The classification and measurement of financial assets in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

(EUR 1,000)	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39 31 December 2017	Carrying amount IFRS 9 1 January 2018
Cash and cash equivalents	Loans and receivables	Amortised cost	16,684	16,684
	Loans and receivables	Fair value through profit or loss	1,102,254	1,102,254
Loans and advances to credit institutions	Loans and receivables	Amortised cost	33,181	33,174
Loans and advances to customers	Loans and receivables	Amortised cost	7,753,055	7,753,460
	Loans and receivables	Fair value through profit or loss	337	337
Derivatives	Fair value through profit or loss	Fair value through profit or loss	53,220	53,220
Investment assets	Available-for-sale financial assets	Fair value through profit or loss	592,413	592,413
	Available-for-sale financial assets	Fair value through other comprehensive income	582,508	582,508
	Fair value through profit or loss	Fair value through profit or loss	34,694	34,694
	Held-to-maturity financial investments	Amortised cost	41,763	41,404
	Available-for-sale financial assets	Amortised cost	1,000	1,000
Total assets			**10,211,107**	**10,210,146**

There were no changes to the classification and measurement of financial liabilities in IFRS 9.

The reconciliation of the carrying amounts of financial assets in accordance with IAS 39 and IFRS 9:

Financial assets

(EUR 1,000)	IAS 39 carrying amount 31 December 2017	Reclassifi-cations	Remeasu-rements	IFRS 9 car-rying amount 1 January 2018
Amortised Cost				
Cash and cash equivalents				
Balance sheet 31 December 2017	1,118,938			
Reclassification - to fair value through profit or loss (FVTPL)		-1,102,254		
Remeasurements				
Balance sheet 1 January 2018				**16,684**
Loans and advances to credit institutions				
Balance sheet 31 December 2017	33,181			
Remeasurements			-7	
Balance sheet 1 January 2018				**33,174**
Loans and advances to customers				
Balance sheet 31 December 2017	7,753,391			
Reclassification - to fair value through profit or loss (FVTPL)		-337		
Remeasurements			405,057	
Balance sheet 1 January 2018				**7,746,803**
Investment assets				
Balance sheet 31 December 2017	41,763			
Reclassification - from available for sale		1,000		
Remeasurements			-359	
Balance sheet 1 January 2018				**42,404**
Financial assets measured at amortised cost, total	**8,947,273**	**-1,101,590**	**40**	**7,845,722**
Financial assets available for sale				
Investment assets				
Balance sheet 31 December 2017	1,175,920			
Reclassifications - to fair value through other comprehensive income (equity instruments)		-2,196		
Reclassifications - to fair value through other comprehensive income (debt instruments)		-580,312		
Reclassifications - to fair value throughprofit and loss		-592,413		
Reclassifications - to amortised cost		-1,000		
Balance sheet 1 January 2018				**0**
Fair value through other comprehensive income (debt instruments)				
Investment assets				
Balance sheet 31 December 2017				
Reclassification - from available for sale		580,312		
Balance sheet 1 January 2018				**580,312**

(EUR 1,000)	IAS 39 carrying amount 31 December 2017	Reclassifications	Remeasurements	IFRS 9 carrying amount 1 January 2018
Fair value through other comprehensive income (equity instruments)				
Investment assets				
Balance sheet 31 December 2017				
Reclassification - from available for sale		2,196		
Balance sheet 1 January 2018				**2,196**
Fair value through other comprehensive income, total		**582,508**		**582,508**
Fair value through profit or loss				
Derivatives	53,220			53,220
Investment assets	34,694			34,694
Balance sheet 31 December 2017	87,914			87,914
Reclassification - from amortised cost		1,102,590		1,102,590
Reclassification - from available for sale		592,413		592,413
Balance sheet 1 January 2018	**87,914**	**1,695,003**		**1,782,917**
Fair value through profit or loss, total	**87,914**	**1,695,003**		**1,782,917**

The new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Group have been applied as follows:

- Debt instruments previously classified as available for sale but which fail the solely payments of principle and interest test
  - The Groups holds debt instruments that failed to meet the "solely payments of principle and interest" requirement for amortised cost or fair value through other comprehensive income classification. As a result, these instruments, which amounted to 42.6 million euros, were classified as fair value through profit and loss from the date of initial application.
- Mutual fund investments
  - Within the Group in accordance with IAS 39 the fund investments have been classified as available for sale. In accordance with IAS 32 the fund investments are considered debt instruments on which the cash flows are not solely payments of principal and interest. Under IFRS 9 these fund investments are therefore classified as fair value through profit and loss. At 1 January 2018 the amount affected by the classification change amounted to 532.5 million euros.
- Equity instruments classified as fair value through other comprehensive income
  - The Group has elected to irrevocably designate its strategically important equity securities as fair value through other comprehensive income. The changes in fair value of such securities will no longer be reclassified to profit or loss when they are disposed of. In accordance with IAS 39 these securities were classified as available for sale. The strategically important equity shares consist of intragroup holdings.

Under IFRS 9 the Group has no financial assets or liabilities that have been reclassified to the amortised cost category or have been reclassified out of fair value through profit and loss to fair value through other comprehensive income.

Changes to the impairment calculation

The adoption of IFRS 9 changed the accounting for loan loss impairments by replacing the IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. The expected credit loss allowance is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination, in which case the allowance is based on the 12 months' expected credit loss. Expected Credit losses are booked for all loans and other debt financial assets held at fair value through other comprehensive income or amortised cost, together with loan commitments, financial guarantee contracts and account payables.

When measuring impairment of financial assets, the Group applies expected credit losses methodology that incorporates probability of default (PD) and loss given default (LGD). The key components of the models are Probability of Default, which is based on credit rating models and Loss Given Default, which takes into account the collateral of the contract. Forward-looking information is incorporated into calculations by using different scenarios which are based on the financial information provided by the Groups economist.

If credit risk on an exposure has not increased significantly since initial recognition and exposure was not credit impaired upon origination, the Group recognises the loss allowance for that exposure at an amount equal to 12-month expected credit losses and whether the credit risk has significantly increased based on the lifetime expected credit losses. The increase of credit risk can be considered significant if the contract has minor delays in payment (30-90 days) or the credit rating has deteriorated since the origination of the exposure or of the original value. An individual Bank of the Group can use management judgement and manually book a significant increase to an individual exposure. The definition of unlikely to pay is consistent with the regulatory requirements of the Group.

On 1 January 2018, the Savings Banks Group's expected credit losses stood at EUR 43.9 million, and on 31 December 2018, the corresponding figure was EUR 36,0 million. The expected credit losses for the transition period, presented in the 2017 financial statements, have been revised due to a change in the calculation model. The impact of expected credit losses as of 1 January 2018, presented in the 2017 financial statements, was EUR 50.5 million. Following the application of the adjusted calculation model, the corresponding figure is EUR 43.9 million. As a result of the adjustment to the calculation model, the expected credit losses were reduced by EUR 6.7 million in the opening balance sheet on 1 January 2018

(EUR 1,000)	1.1.2018	1.1.2018	31.12.2018	31.12.2018
Expected credit losses of the Savings Bank Group by financial asset classification	**Capital**	**ECL**	**Capital**	**ECL**
Amortised cost (AC)	7,845,722	40,680	8,636,881	31,968
Fair value through other comprehensive income (fair value reserve) (FVOCI)	582,508	1,256	585,541	1,380
Total	**8,428,230**	**41 936**	**9,222,422**	**33,348**

Reconciliation of equity balances from IAS 39 to IFRS 9

In accordance with the transitional provisions of IFRS 9, the changes relating to IFRS 9 are booked through retained earnings and other funds within the equity. The following table reconciles the most significant changes due to IFRS 9 booked to equity including a reconciliation of impairment allowance balance from IAS 39 to IFRS 9.

(EUR 1,000)	31 December 2017	Change	1 January 2018
Fair value reserve	**32,611**		
Reclassifications			
Expected credit losses under IFRS 9 for instruments classified as fair value through other comprehensive income		1,256	
Total			**1,256**
Reclassifications			
Transfer of fair value reserve			
Debt securities		-1,983	
Shares and participations		-23,570	
Transfer of fair value reserve, total			-25,553
Total			**-25,553**
Tax effect		4,859	
Fair value reserve, total	**32,611**	**-19,438**	**13,173**
Retained earnings	**685,279**		
Reclassifications			
Reclassification of loan loss provisions			
Loan loss provision under IAS 39		29,053	
Loan loss provision (group) under IAS 39		11,084	
Reclassification of loan loss provisions, total			40,137
Expected credit losses			
IFRS 9 expected credit losses loans		-40,321	
Expected credit losses under IFRS 9 for instruments classified as amortised cost		-359	
Expected credit losses under IFRS 9 for instruments classified as fair value through other comprehensive income		-1,256	
Off-balance sheet		-1,921	
Expected credit losses, total			-43,856
Total			**-3,719**
Reclassifications			
Transfer, fair value reserve			
Debt securities		1,983	
Shares and participations		23,570	
Transfer, fair value reserve, total			25,553
Total			**25,553**
Tax effect		-2,309	
Profit (loss) for previous financial years	**685,279**	**19,525**	**704,805**
Total equity quity*	**1,017,520**	**88**	**1,017,608**

* Total equity 1 January 2018 includes all items included int the Groups equity. The reconciliation only contains the IFRS 9 effects in the fair value reserve and retained earnings.

IFRS 15 Revenue

IFRS 15 Revenue from Contracts with Customers entered into effect on 1 January 2018. The standard was endorsed for use by the EU in October 2016. It replaced the previous IAS 18 and IAS 11 standards and the related interpretations in the IFRS framework. The Savings Banks Group adopted the standard when it became mandatory on 1 January 2018. In IFRS 15, a five-step model is applied to determine when to recognise revenue, and at what amount. Revenue is recognised when (or as) a company transfers control of goods or services to a customer either over time or at a point in time.

IFRS 15 does not affect the revenue recognition from financial instruments, leases or insurance contracts, and it thereby concerns mainly various net fee and commission income items. The Savings Banks Group's three largest net fee and commission income items consist of lending, payment transactions and fund-related fees and commissions. Fees and commissions for performing an action or a service are recognised when the related actions or services are performed. Fees relating to actions or services performed over several years are amortised over the service period. With regard to services, the fulfilment of the performance obligations of the customer contract can be clearly verified, and the adoption of IFRS 15 does not entail any changes to revenue recognition. The Savings Banks Group's products or services do not involve repurchase agreements, warranties or the right of return, which would affect the timing or amount of revenue recognition.

Going forward, the recognition of interest and dividend revenue will be based on IFRS 9, and no changes are expected in revenue recognition compared to the current treatment in line with IAS 18. The adoption of IFRS 15 will not have an impact on the Savings Banks Group's income.

Amendments to IFRS 4 - Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

The amendments respond to industry's concerns about the impact of differing effective dates by allowing two optional solutions to alleviate temporary accounting mismatches and volatility. Savings Banks Group has decided to adopt a transitional provision with regard to Sb Life Insurance Ltd's financial assets. Under the provision, the adoption of IFRS 9 for the company will coincide with the introduction of IFRS 17.

Amendments to IAS 40 - Transfers of Investment Property

When making transfers of an investment property, the amendments clarify that a change in management's intentions, in isolation, provides no evidence of a change in use. The examples of evidences of a change in use are also amended so that they refer to property under construction or development as well as to completed property. The change in the standard will have no significant impact on Group's consolidated financial statement.

Annual Improvements to IFRSs (2014-2016 cycle)

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 1 and IAS 28. The impact of the changes vary by standard, but they are not significant.

IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration

When foreign currency consideration is paid or received in advance of the item it relates to – which may be an asset, an expense or income – IAS 21 The Effects of Changes in Foreign Exchange Rates -standard is not clear on how to determine the transaction date for translating the related item. The interpretation clarifies that the transaction date is the date on which the company initially recognises the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The change in the standard does not have a significant impact on the financial statements of Savings Banks Group, as the Group has very few items denominated in foreign currencies and/or operations.

Adoption of new and amended standards and interpretations applicable in future financial years

Savings Banks Group has not yet adopted the following new and amended standards and interpretations already issued by the IASB. The Group will adopt them as of the effective date or, if the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

* = not yet endorsed for use by the European Union as of 31 December 2018.

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019)

Adoption of IFRS 16 Leases

IFRS 16 Leases entered into effect on 1 January 2019. On transition, Savings Banks Group has applied a simplified approach and the comparison figures have not been adjusted.

Prior to the IFRS 16 transition on 1 January 2019, Savings Banks Group had no finance leases as referred to in IAS 17 and IFRIC 4. Savings Banks Group's new accounting policies concerning leases are described below in the section "Basis of preparation effective from 1 January 2019". On transition, the remaining lease payments were discounted to present value and recognised as lease liabilities. The discount rate used was the incremental borrowing rate, which is the interest rate at which the Central Bank of Savings Banks provides financing to the group's savings banks. The value of all right-of-use assets was measured at an amount corresponding to the lease liability. The IFRS 16 transition had no effect on profit or loss, nor did it affect retained earnings.

Impacts of the transition on Savings Banks Group's balance sheet:

(EUR 1,000)	31.12.2018
Other lease liabilities in the financial statements as at 31.12.2018	**15,905**
Discounted value of other leases 1.1.2019	13,013
Mitigations of IFRS 16	
Short-term leases	-488
Assets of low value	-810
The value of a right-of-use asset 1.1.2019	**13,013**
The value of a right-of-use liability 1.1.2019	**13,013**

Basis of preparation effective from 1 January 2019

LEASES

Savings Banks Group as the lessee

At the inception of a contract and when the terms and conditions of a contract are changed, Savings Banks Group assesses whether the contract contains a lease. This assessment is carried out for each lease component within the contract. A contract is a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. A contract conveys the right to control if:

- The contract pertains to an identified and separate asset.
- The contract conveys the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use.
- The contract conveys the right to direct the use and purpose of the identified asset.

At the commencement date of a lease, the lease liability is equal to the present value of the lease payments payable during the lease term. The leases consist of fixed payments and variable lease payments, which depend on an index. Lease liabilities are subsequently measured at amortised cost using the effective interest method. Lease liabilities are reassessed if the future considerations change as a result of a contractual change in an index or price, if the lease term or amount of residual value guarantee changes, or if a purchase option is exercised. If the amount of the lease liability is adjusted due to the reassessment, a corresponding adjustment is made to the right-of-use asset.

The lease term begins at the commencement date specified in the lease. The end of the lease term is determined by the lease. The lease term is reassessed if an option to extend the lease is exercised differently than initially assessed. If the lease term is indefinite, the end of the lease term is considered to be the earliest possible date of termination specified in the lease. The exception to this rule is properties for which the location determines the end of the lease term. In Savings Banks Group's strategy, for leased properties located in growth centres or significant regional centres, the lease term is three years. For properties in other locations, the lease term is one year. The discount rate used is the interest rate at which the Central Bank of Savings Banks provides financing to Savings Banks Group banks.

The value of a right-of-use asset at the commencement date is the lease liability plus payments made to the lessor at or before the commencement date, estimated restoration costs at the end of the lease term and initial direct costs. A right-of-use asset is subsequently measured at cost and amortised according to the lease term.

Savings Banks Group recognises leases as a right-of-use asset under "Right-of-use assets" and a liability under "Provisions and other liabilities".

Savings Banks Group's leases can be categorised by the following underlying assets:

- Machinery and equipment
- Real estate
- Apartments
- Information systems
- Others

Short-term leases and assets of low value

IFRS 16 contains two exemptions concerning recognition and measurement. Savings Banks Group has decided that leases with a term of 12 months or less and assets whose value does not exceed EUR 5,000 are not recognised as right-of-use assets and no lease liabilities are recognised for them. Savings Banks Group expenses such short-term leases and assets of low value during the lease term.

Savings Banks Group as the lessor

Savings Banks Group does not act as a lessor in finance leases. Items leased under an operating lease are presented under "Investment assets" (investment properties) or "Intangible assets" and the lease income is recognised on a straight line basis over the lease term under the income statement item "Net income from investment assets" or "Other operating revenue". In Savings Banks Group, assets leased under an operating lease include residential properties owned by a bank.

IFRIC 23 Uncertainty over Income Tax Treatments (effective for financial years beginning on or after 1 January 2019).

The interpretation brings clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether the tax authority will accept the company's chosen tax treatment. When considering this the assumption is that tax authorities will have full knowledge of all relevant information in assessing a proposed tax treatment. The change in the standard will have no significant impact on Group's consolidated financial statement.

Amendments to IFRS 9: Prepayment Features with Negative Compensation (effective for financial years beginning on or after 1 January 2019).

The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The change in the standard will have no significant impact on Group's consolidated financial statement.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures* (effective for financial years beginning on or after 1 January 2019).

The amendments clarify that a company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. The change in the standard will have no significant impact on Group's consolidated financial statement.

Plan amendment, Curtailment or Settlement (Amendments to IAS 19)* (effective for financial years beginning on or after 1 January 2019).

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, an entity uses updated actuarial assumptions to determine its current service cost and net interest for the period and the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI). The change in the standard will have no significant impact on Group's consolidated financial statement.

Annual Improvements to IFRSs (2015-2017 cycle)* (effective for financial years beginning on or after 1 January 2019).

The annual improvements process provides a mechanism for minor and non-urgent amendments to IFRSs to be grouped together and issued in one package annually. The amendments relate to IFRS 3, IFRS 11, IAS 12 and IAS 23.

Amendments to References to Conceptual Framework in IFRS Standards* (effective for financial years beginning on or after 1 January 2020)

The revised Framework codifies IASB's thinking adopted in recent standards. The Conceptual Framework primarily serves as a tool for the IASB to develop standards and to assist the IFRS Interpretations Committee in interpreting them. It does not override the requirements of individual IFRSs.

Definition of a Business (Amendments to IFRS 3)* (effective for financial years beginning on or after 1 January 2020)

The amendments narrowed and clarified the definition of a business. They also permit a simplified assessment of whether an acquired set of activities and assets is a group of assets rather than a business. The change in the standard will have no significant impact on Group's consolidated financial statement.

Definition of Material (Amendments to IAS 1 and IAS 8)* (effective for financial years beginning on or after 1 January 2020)

The amendments clarify the definition of material and include guidance for the definition. In addition, the explanations accompanying the definition have been improved. The amendments aim also to ensure that the definition of material is consistent across all IFRS Standards. The change in the standard will have no significant impact on Group's consolidated financial statement.

IFRS 17 Insurance Contracts* (effective for financial years beginning on or after 1 January 2022)

The new standard for insurance contracts will help investors and other parties to understand better insurers' risk exposure, profitability and financial position. This standard replaces IFRS 4-standard In Savings Banks Group. The insurance contracts of Sb Life Insurance Ltd are subject to the provisions of IFRS 17. The Group has already begun to prepare for the changes introduced by the new standard.

PROFIT FOR THE PERIOD

NOTE 3: SEGMENT INFORMATION

The Savings Banks Group reports information about its operating segments in compliance with IFRS 8. According to IFRS 8, the financial information regularly provided to the chief operating decision maker forms the basis for segment reporting. Thus the segment division of the information presented in the half-year report is based on the same division as is applied in management reporting.

The chief operating decision maker of the Savings Banks Group is the Board of Directors of Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation of Savings Banks. According to the rules of Savings Banks' Union Coop, the Board of Directors of the Central Institution bears the primary responsibility for allocating the resources and evaluating the performance of the Savings Banks Group.

The reportable segments of the Savings Banks Group include Banking as well as Asset Management and Life Insurance. Operations not included in the reportable segments are presented in the reconciliations.

The Banking segment comprises the member Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc and Aktia Real Estate Mortgage Bank Plc, which is consolidated in the financial statements of the Savings Banks Group as an associate. Savings Banks practice retail banking. The Central Bank of Savings Banks acts as the central bank of the Savings Banks. Sp Mortgage Bank Plc and Aktia Real Estate Mortgage Bank are engaged in mortgage banking. The most significant income items of Banking are net interest income, fee and commission income as well as investment income. The most significant expense items consist of personnel expenses and other operating expenses.

The Asset Management and Life Insurance segment comprises Sp- Fund Management Company Ltd and Sb Life Insurance Ltd. Sp-Fund Management Company Ltd is engaged in administration of mutual funds and asset management, whereas Sb Life Insurance Ltd practises life insurance operations. The most significant income items of the Asset Management and Life Insurance segment are fee and commission income, insurance premiums and investment income. The most significant expense items consist of fee and commission expenses, claims incurred, personnel expenses and other operating expenses.

Segment reporting is prepared in compliance with the accounting policies of the financial statements of the Savings Banks Group.

Internal transactions of the reportable segments are eliminated within and between the segments. Acquisition cost eliminations, non-controlling interests and other intra-group arrangements are included in the eliminations presented in reconciliations.

Pricing between the segments is based on market prices.

In accordance with IFRS 8, Savings Banks Group is required to disclose business with a single external customer that generates 10% or more of the combined revenue. The Group has no such customers for which revenue would exceed 10%.

Income statement 2018 (EUR 1,000)	Banking	Asset Management and Life Insurance	Reportable segments in total
Net interest income	152,787	-57	152,730
Net fee and commission income	58,141	26,317	84,458
Net trading income	-16,726	-398	-17,124
Net life insurance income		13,163	13,163
Other operating revenue	3,026	83	3,109
Total operating revenue	**197,228**	**39,108**	**236,336**
Personnel expenses	-63,475	-7,177	-70,652
Other operating expenses	-115,916	-10,417	-126,333
Total operating expenses	**-179,391**	**-17,594**	**-196,985**
Expected credit losses on financial assets	-3,885		-3,885
Profit before tax	**13,951**	**21,515**	**35,466**
Taxes	-1,586	-4,140	-5,727
Profit	**12,365**	**17,374**	**29,739**
Statement of financial position			
Cash and cash equivalents	839,592		839,592
Financial assets at fair value through profit or loss	44,482		44,482
Loans and advances to credit institutions	91,684		91,684
Loans and advances to customers	8,488,196		8,488,196
Derivatives	51,134		51,134
Investment assets	1,189,070		1,189,070
Life insurance assets		826,338	826,338
Other assets	160,625	14,328	174,952
Total assets	**10,864,783**	**840,666**	**11,705,449**
Liabilities to credit institutions	228,018		228,018
Liabilities to customers	6,943,977		6,943,977
Derivatives	1,981		1,981
Debt securities issued	2,488,146		2,488,146
Life insurance liabilities		810,359	810,359
Subordinated liabilities	82,200		82,200
Other liabilities	97,966	10,932	108,898
Total liabilities	**9,842,289**	**821,291**	**10,663,580**
Number of emplyees at the end of the period	**1,098**	**81**	**1,179**

Reconciliations: (EUR 1,000)	1-12/2018	1-12/2017
Revenue		
Total revenue for reportable segments	236,336	282,182
Non allocated revenue, other operations	-1,685	9
Total revenue of the Group	**234,651**	**282,191**
Profit		
Total profit or loss for reportable segments	29,739	71,517
Non allocated amounts	905	377
Total profit of the Group	**30,645**	**71,894**

	31.12.2018	31.12.2017
Assets		
Total assets for reportable segments	11,705,449	11,321,572
Non allocated assets, other operations	291	4,533
Total assets of the Group	**11,705,740**	**11,326,105**
Liabilities		
Total liabilities for reportable segments	10,663,580	10,290,034
Non allocated liabilities, other operations	13,364	18,551
Total liabilities of the Group	**10,676,943**	**10,308,585**

Income statement (EUR 1,000)	Banking	Asset Management and Life Insurance	Reportable segments in total
Net interest income	142,158	-14	142,143
Net fee and commission income	56,015	23,412	79,427
Net trading income	41,047	1,371	42,418
Net life insurance income		15,552	15,552
Other operating revenue	2,557	85	2,642
Total operating revenue	**241,777**	**40,406**	**282,182**
Personnel expenses	-63,966	-6,731	-70,696
Other operating expenses	-103,840	-6,620	-110,460
Total operating expenses	**-167,806**	**-13,350**	**-181,156**
Net impairment loss on financial assets	-13,266		-13,266
Profit before tax	**60,705**	**27,055**	**87,761**
Taxes	-10,831	-5,413	-16,244
Profit	**49,874**	**21,643**	**71,517**
Statement of financial position 2017			
Cash and cash equivalents	1,118,938		1,118,938
Financial assets at fair value through profit or loss	9,325		9,325
Loans and advances to credit institutions	32,961		32,961
Loans and advances to customers	7,754,952		7,754,952
Derivatives	53,220		53,220
Investment assets	1,298,390		1,298,390
Life insurance assets		840,060	840,060
Other assets	202,796	10,931	213,727
Total assets	**10,470,581**	**850,991**	**11,321,572**
Liabilities to credit institutions	228,458		228,458
Liabilities to customers	6,422,745		6,422,745
Derivatives	5,584		5,584
Debt securities issued	2,563,128		2,563,128
Life insurance liabilities		812,963	812,963
Subordinated liabilities	100,200		100,200
Other liabilities	149,128	7,829	156,956
Total liabilities	**9,469,243**	**820,791**	**10,290,034**
Number of emplyees at the end of the period	**1,077**	**79**	**1,156**

NOTE 4: NET INTEREST INCOME

(EUR 1,000)	1-12/2018	1-12/2017
Interest income		
Debts eligible for refinancing with Central Bank	4,408	4,366
Loans and advances to credit institutions	532	576
Loans and advances to customers	140,100	135,608
Debt securities	13,019	14,782
Derivative contracts		
Hedging derivatives	26,486	24,559
Other than hedging derivatives		216
Other	1,382	1,747
Total	**185,928**	**181,854**
Interest expense		
Liabilities to credit institutions	-3,762	-4,380
Liabilities to customers	-14,680	-18,453
Derivative contracts		
Hedging derivatives	-2,989	-2,864
Kaupankäyntitarkoituksessa pidettävistä		-1
Debt securities issued	-9,526	-11,229
Subordinated liabilities	-2,008	-2,526
Other	-260	-225
Total	**-33,224**	**-39,678**
Net interest income	**152,704**	**142,176**

NOTE 5: NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2018	1-12/2017
Fee and commission income		
Lending	22,068	20,717
Deposits	424	827
Payment transfers	33,031	31,033
Securities brokerage	993	2,012
Mutual fund brokerage	26,559	23,574
Asset management	491	145
Legal services	3,791	3,532
Custody fees	1,715	1,109
Vakuutusten välityksestä	1,809	1,773
Guarantees	1,504	1,355
Other	2,724	2,578
Total	**95,110**	**88,655**

Fee and commission expense		
Payment transfers	-3,339	-3,201
Securities	-1,204	-1,339
	-184	-123
Asset management	-744	-709
Other*	-5,152	-4,125
Total	**-10,623**	**-9,497**

*of which the most significant expenses are the shared ATM expenses amounting to EUR 1,964 (1,815) thousand.

Net fee and commission income	**84,486**	**79,159**

NOTE 6: NET INVESTMENT INCOME

(EUR 1,000)	1-12/2018	1-12/2017
Net income from financial assets at fair value through other comprehensive income (Net income from available-for-sale financial assets)		
Debt securities		
Capital gains and losses	-84	310
Transferred from fair value reserve during the financial year	3,888	4,103
Impairment losses and their reversal		-145
Total Debt securities	**3,804**	**4,267**
Shares and participations		
Capital gains and losses		1,563
Transferred from fair value reserve during the financial year		31,167
Impairment losses		-160
Dividend income	11	5,156
Total shares and participations	**11**	**37,726**
Total	**3,816**	**41,993**
Net income from investment property		
Rental and dividend income	6,997	7,106
Capital gains and losses	960	367
Other income from investment property	164	82
Maintenance charges and expenses	-4,912	-5,091
Depreciation and amortisation of investment property	-2,014	-5,353
Rental expenses arising from investment property	-31	-39
Total	**1,164**	**-2,928**
Net investment income	**4,979**	**39,065**

NOTE 7: NET LIFE INSURANCE INCOME

(EUR 1,000)	1-12/2018	1-12/2017
Premiums written		
Group's share	132,405	169,683
Insurance premiums ceded to reinsurers	-294	-253
Net investment income	-49,295	37,348
Claims incurred		
Claims paid	-70,796	-50,426
Change in provision for unpaid claims	-3,093	-2,124
Change in insurance contract liabilities		
Change in life insurance provision	6,062	-136,390
Other	-1,826	-2,286
Net life insurance income	**13,163**	**15,552**

Net investment income		
Net interest	120	192
Dividend income	476	473
Realised capital gains and losses	824	-259
Unrealised gains and losses	-49,304	27,032
Other investments	290	393
Net income from foreign exchange operation	184	-98
Net income from unit-linked customer assets	-1,886	9,615
Total	**-49 295**	**37,348**

NOTE 8: OTHER OPERATING REVENUE

(EUR 1,000)	1-12/2018	1-12/2017
Rental and dividend income from owner-occupied property	190	162
Capital gains from owner-occupied property	329	
Other income from Banking	2,387	2,323
Other	762	598
Other operating revenue	**3,669**	**3,083**

NOTE 9: IMPAIRMENT LOSS ON LOANS AND OTHER RECEIVABLES

Expected Credit Losses (ECL), Loans and advances and off-balance sheet	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	**6,263**	**4,841**	**31,137**	**42,241**
New assets originated or purchased	1,398	1,046	964	3,408
Assets derecognised or repaid (excluding write offs)	-2,223	-1,777	-3,230	-7,230
Transfers from Stage 1 to Stage 2	-688	1,708		1,020
Transfers from Stage 1 to Stage 3	-197		1,885	1,688
Transfers from Stage 2 to Stage 1	70	-378		-308
Transfers from Stage 2 to Stage 3		-553	1,689	1,136
Transfers from Stage 3 to Stage 1	504		-563	-59
Transfers from Stage 3 to Stage 2		353	-380	-27
Amounts written off			-7,509	-7,509
Net change in ECL				-7,881
Expected Credit Losses 31 December 2018	**5,127**	**5,241**	**23,993**	**34,361**

Expected Credit Losses (ECL), Investment asset	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	**1,614**			**1,614**
New assets originated or purchased	705			705
Assets derecognised or repaid (excluding write offs)	-633			-633
Net change in ECL				72
Expected Credit Losses 31 December 2018	**1,686**			**1,686**

Total change in Expected Credit Losses 1 January 2018 -31 December 2018	**7,809**

NOTE 10: CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2018 (EUR 1,000)	Amortized costs	Fair value through other comprehensive income	Fair value through profit or loss	Other financial liabilities	Non-financial assets/ liabilities	Total
Cash and cash equivalents	15,980		823,612			839,592
Financial assets at fair value through profit or loss			65,057			65,057
Loans and advances to credit institutions	91,988					91,988
Loans and advances to customers	8,486,767		508			8,487,276
Derivatives			51,134			51,134
hedging derivatives			51,134			
cash flow			3,566			
fair value			47,568			
other than hedging derivatives						
Investment assets	42,146	585,889	480,440		42,723	1,151,199
Life insurance assets*		162,787	677,373		1,540	841,700
Total assets	**8,636,881**	**748,677**	**2,098,125**	**0**	**44,263**	**11,527,946**

Financial liabilities at fair value through profit or loss			20,575			20,575
Liabilities to credit institutions				228,018		228,018
Liabilities to customers				6,940,818		6,940,818
Derivatives			1,981			1,981
hedging derivatives			1,981			
fair value			1,981			
Debt securities issued				2,488,147		2,488,147
Life insurance liabilities*			677,303	121,420	3,073	801,796
Subordinated liabilities				82,288		82,288
Total liabilities	**0**	**0**	**699,859**	**9,860,691**	**3,073**	**10,563,623**

*Items at fair value through profit or loss include investments covering unit-linked contracts and related liabilities.

31.12.2017 (EUR 1,000)	Loans and receivables	Available-for-sale	Held-to-maturity	Held-for-trading	Designated as at fair value on initial recognition	Other financial liabilities	Non-financial assets/liabilities	Total
Cash and cash equivalents	1,118,938							1,118,938
Financial assets at fair value through profit or loss					34,694			34,694
Loans and advances to credit institutions	33,181							33,181
Loans and advances to customers	7,753,391							7,753,391
Derivatives				53,220				53,220
hedging derivatives				53,220				
cash flow				4,383				
fair value				48,837				
Investment assets		1,175,920	41,763				42,994	1,260,677
Life insurance assets*		181,178			672,980		1,264	855,422
Total assets	**8,905,510**	**1,357,098**	**41,763**	**159,660**	**707,674**	**0**	**44,258**	**11,109,522**
Financial liabilities at fair value through profit or loss					25,369			25,369
Liabilities to credit institutions						228,458		228,458
Liabilities to customers						6,419,543		6,419,543
Derivatives				5,584				5,584
hedging derivatives				5,584				
fair value				5,584				
Debt securities issued						2,563,128		2,563,128
Life insurance liabilities*					671,784	128,764	2,582	803,130
Subordinated liabilities						100,284		100,284
Total liabilities	**0**	**0**	**0**	**5,584**	**697,153**	**9,440,178**	**2,582**	**10,145,497**

*Items at fair value through profit or loss include investments covering unit-linked contracts and related liabilities.

NOTE 11: LOANS AND ADVANCES

31.12.18 (EUR 1,000)	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits	91,765		91,765
Loans and other receivables	223		223
Total	**91,988**	**0**	**91,988**
Loans and advances to customers			
Tuotteittain			
Used overdrafts	84,456	-1,897	82,559
Syndicated loans and repo -agreements			
Loans	7,953,810	-28,707	7,925,103
Interest subsidized housing loans	385,273	-1,564	383,709
Loans granted from government funds			1,618
Credit cards			93,790
Guarantees			411
Other receivables			86
Total	**8,423,539**	**-32,168**	**8,487,276**
Loans and advances total	**8,515,527**	**-32,168**	**8,579,264**

31.12.17 (EUR 1,000)	
Loans and advances to credit institutions	
Deposits	32,221
Loans and other receivables	960
Total	**33,181**
Loans and advances to customers	
Used overdrafts	83,759
Syndicated loans and repo -agreements	
Loans	7,282,472
Interest subsidized housing loans	329,265
Loans granted from government funds	3,064
Credit cards	93,441
Guarantees	503
Other receivables	550
Impairment losses	-39,661
Total	**7,753,391**
Loans and advances total	**7,786,572**

Impairment losses on loans and receivables (EUR 1,000)	Measured by individual contract	Measured by group	Total
Impairments 1 January 2017	**24,856**	**6,298**	**31,155**
+ increase in impairment losses	10,286	6,087	16,373
- reversal of impairment losses	-1,657	-1,302	-2,959
- final write-offs	-4,908		-4,908
Impairments 31 December 2017	**28,577**	**11,084**	**39,661**

NOTE 12: DERIVATIVES AND HEDGE ACCOUNTING

The Savings Banks Group hedges its interest rate risk against changes both in fair value and in cash flows and applies hedge accounting on hedging relationships. Fair value hedging is applied when fixed interest rate deposits are hedged. Cash flow hedging is applied when hedging the future interest cash flow from variable rate lending.

Changes in the fair value of derivatives in fair value hedging are recognised in the income statement under Net trading income. In fair value hedging, also the hedged item is measured at fair value during the hedging period even if the item is otherwise measured at amortised cost. Changes in the fair value of the hedged item are recognised in the balance sheet as an adjustment to the corresponding balance sheet item and in the income statement under Net trading income. Interests on hedging derivatives are presented as interest income and expense depending on their nature.

The effective part of changes in the fair value of derivatives hedging cash flows are recognised in equity in the reserve for hedging instruments after adjustments for deferred taxes. The ineffective part of changes in fair value are recognised in the income statement under Net trading income. In addition, Net trading income includes changes in the time value of interest rate options which are recognised as hedging instruments as time value is not part of the hedging relationship. Interests on hedging derivatives are presented as interest income and expense depending on their nature.

31.12.2018	Nominal value / remaining maturity				Fair value	
(EUR 1,000)	Less than 1 year	1 - 5 years	More than 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging	**142,540**	**1,737,086**	**459,000**	**2,338,626**	**47,568**	**1,981**
Interest rate derivatives	115,000	1,695,000	459,000	2,269,000	45,877	290
Equity and index derivatives	27,540	42,086		69,626	1,691	1,691
Cash flow hedging		**40,000**	**10,000**	**50,000**	**3,566**	
Interest rate derivatives		40,000	10,000	50,000	3,566	
Total	**142,540**	**1,777,086**	**469,000**	**2,388,626**	**51,134**	**1,981**
Derivatives total					**51,134**	**1,981**

In the financial year 2018, EUR -394 thousand of effective cash flow hedging was recognised in other comprehensive income. The ineffective part of cash flow hedging totalled EUR -199 thousand in the financial year 2018 and was recognised in Net trading income.

Hedged cash flows are expected to affect profit during the following periods:

(EUR 1,000)	less than 1 year	1 - 5 years	more than 5 years	Total
Interest rate derivatives	938	2,541	156	3,635
Total	**938**	**2,541**	**156**	**3,635**

31.12.2017	Nominal value / remaining maturity				Fair value	
(EUR 1,000)	less than 1 year	1 - 5 years	more than 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging	**174,480**	**1,827,209**	**309,000**	**2,310,689**	**48,837**	**5,584**
Interest rate derivatives	105,000	1,755,000	309,000	2,169,000	44,651	2,475
Equity and index derivatives	69,480	72,209		141,689	4,186	3,109
Cash flow hedging	**15,000**	**20,000**	**30,000**	**65,000**	**4,383**	
Interest rate derivatives	15,000	20,000	30,000	65,000	4,383	
Total	189,480	1,847,209	339,000	2,375,689	53,220	2,247

Derivatives total	53,392	2,289

In the financial year 2017, EUR -1 298 thousand of effective cash flow hedging was recognised in other comprehensive income. The ineffective part of cash flow hedging totalled EUR 67 thousand in the financial year 2017 and was recognised in Net trading income.

Hedged cash flows are expected to affect profit during the following periods:

(EUR 1,000)	less than 1 year	1 - 5 years	more than 5 years	Total
Interest rate derivatives	1,629	2,551	457	4,637
Total	1,629	2,551	457	4,637

NOTE 13: INVESTMENT ASSETS

(EUR 1,000)	31.12.2018	31.12.2017
At fair value through other comprehensive income (Available-for-sale investments)		
Debt securities	585,541	623,796
Shares and participations	14,555	552,125
Total	**600,096**	**1,175,920**
Fair value through profit or loss		
Shares and participations	466,233	
Total	466,233	0
Fair value through profit or loss		
Debt securities	42,452	41,763
Expected Credit Losses	-306	
Total	**42,146**	**41,763**
Investment property	42,723	42,994
Investment assets	**1,151,199**	**1,260,677**

Breakdown by issuer of quotation

31.12.2018 (EUR 1,000)	Measured at fair value through other comprehensive income	Measured at fair value through profit or loss	Measured at amortised cost	Total
Quoted				
From public entities	137,239		39,452	176,691
From others	448,302	439,055	2,000	450,303
Other				
From others	14,555	27,178	1,000	15,555
Total	**600,096**	**466,233**	**42,452**	**642,548**

Available-for-sale financial assets and held-to-maturity investments

31.12.2017 (EUR 1,000)	Available-for-sale Debt securities	Available-for-sale shares and participations			Held-to-maturity investments	Total
	At fair value	At fair value	At cost*	Total	At amortised cost	
Quoted	595,490	542,941		542,941	41,763	1,180,194
From public entities	138,105				2,004	140,109
From others	457,385	542,941		542,941	39,759	1,040,085
Other	28,306	5,662	3,521	9,184		37,489
From others	28,306	5,662	3,521	9,184		37,489
Total	**623,796**	**548,603**	**3,521**	**552,125**	**41,763**	**1,217,683**

* Equity instruments which do not have a quoted price in an active market and whose fair value cannot be reliably determined.

Impairment loss on available-for-sale financial assets (EUR 1,000)	Debt securities	Shares and participations	Total
Impairment losses 1 January 2017	1,239	778	2,017
+ increase in impairment loss	145	160	305
- reversal of impairment loss	-1,256	-138	-1,394
Impairment losses 31 December 2017	**128**	**800**	**928**

NOTE 14: LIFE INSURANCE ASSETS

(EUR 1,000)	31.12.2018	31.12.2017
Investments covering for unit-linked policies		
At fair value through profit or loss		
Investment funds	378,111	390,543
Asset management portfolio	124,186	123,027
Other unit-linked covering assets	174,385	157,613
Investments covering for unit-linked policies total	**676,681**	**671,183**
Other investments		
At fair value through profit or loss		
Debt securities	692	1,797
Total	**692**	**1,797**
Available-for-sale financial assets		
Debt securities	2,673	3,403
Shares and participations	160,114	177,775
Total	**162,787**	**181,178**
Other investments total	**163,479**	**182,975**
Total life insurance investments	**840,160**	**854,158**
Other assets		
Other receivables	1,290	962
Accrued income	250	302
Total	**1,540**	**1,264**
Total life insurance assets	**841,700**	**855,422**

Breakdown of Life Insurance debt securities recognised at fair value through profit or loss, shares and participations as well as derivatives by issuer of quotation

(EUR 1,000)	31.12.2018			31.12.2017		
	Debt securities	Shares and participations	Derivatives	Debt securities	Shares and participations	Derivatives
Quoted	692	676,681		1,797	671,183	
From others	692	676,681		1,797	671,183	
Total	**692**	**676,681**	**0**	**1,797**	**671,183**	**0**

Available-for-sale life insurance financial assets

31.12.2018	Available-for-sale debt securities	Available-for-sale shares and participations
(EUR 1,000)	At fair value	At fair value
Quoted	2,673	155,209
From others	2,673	155,209
Other than quoted		4,905
From others		4,905
Total	**2,673**	**160,114**

31.12.2017	Available-for-sale debt securities	Available-for-sale shares and participations
(EUR 1,000)	At fair value	At fair value
Quoted	3,403	172,900
From others	3,403	172,900
Other than quoted	0	4,875
From others		4,875
Total	**3,403**	**177,775**

NOTE 15: NON-CURRENT ASSETS HELD FOR SALE

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

On 23 January 2019, Savings Banks Group has signed an agreement together with Cognizant Technology Solutions about renewing its core banking system. As a part of this agreement, Congnizant will buy Oy Samlink AB's shares from the Savings Banks Group. By the end oh the financial period, the negotiations had proceeded in a way, that in Savings Banks Groups' financial statement treats Samlink's holding as non-current assets held for sale.

(EUR 1,000)	31.12.2018	31.12.2017
Assets		
Associates	8,610	
Total	**8,610**	**0**

The non-current assets classified as held for sale do not have any liabilities as of 31.12.2018.

LIABILITIES

NOTE 16: LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31.12.2018	31.12.2017
Liabilities to credit institutions		
Liabilities to central banks	38,000	38,000
Liabilities to credit institutions	190,018	190,458
Total	**228,018**	**228,458**
Liabilities to customers		
Deposits	6,896,963	6,375,524
Other financial liabilities	6,149	2,401
Change in the fair value of deposits	37,706	41,618
Total	**6,940,818**	**6,419,543**
Liabilities to credit institutions and customers	**7,168,836**	**6,648,001**

NOTE 17: DEBT SECURITIES ISSUED

(EUR 1,000)	31.12.2018	31.12.2017
Measured at amortised cost		
Bonds	1,244,130	1,270,313
Covered bonds	997,099	996,430
Other		
Certificates of deposit	246,918	296,386
Debt securities issued	**2,488,147**	**2,563,128**
Of which		
Variable interest rate	516,040	608,858
Fixed interest rate	1,972,108	1,954,270
Total	**2,488,147**	**2,563,128**

The Group has not had any delays or defaults in respect of its issued debt securities.

NOTE 18: LIFE INSURANCE LIABILITIES

(EUR 1,000)	31.12.2018	31.12.2017
Other than unit-linked contract liabilities		
Guaranteed-interest insurance contracts	121,420	128,764
Unit-linked contract liabilities		
Liabilities for unit-linked insurance contracts	472,591	515,265
Liabilities for unit-linked investment contracts	204,712	156,519
Reserve arising from liability adequacy test		
Other liabilities		
Accrued expenses and deferred income	2,397	1,944
Other	677	638
Life insurance liabilities	**801,796**	**803,130**

Liabilities related to insurance policies are measured in compliance with the Finnish Accounting Standards. The measurement principles are described in more detail in the accounting policies of the official financial statements (note 2).

In liability adequacy test, the adequacy of liabilities for insurance policies is compared to the liabilities derived from the internal model. The adequacy test is described in more detail in the accounting policies.

OTHER NOTES

NOTE 19: FAIR VALUES BY VALUATION TECHNIQUE

Financial instruments are presented in the Group's balance sheet at fair value or at amortized cost. The classification of financial assets and liabilities by valuation technique as well as the criteria for measurement methods and for determining fair value are described in the accounting policies (Note 2).

The fair values of financial instruments are primarily determined using quotations on a publicly traded market or market prices received from third parties. If quoted market prices are not available, balance sheet items are mainly measured by discounting future cash flows using market interest rates at the balance sheet date. In respect of cash and deposits payable on demand, the nominal value is considered equivalent to the fair value.

Investment property in the Group's financial statements is measured at cost less depreciation and impairment. The fair value of investment property is presented in the notes. Fair values are determined on the basis of market prices which are as comparable as possible or a valuation model which is based on net income from investment property. An independent appraiser's opinion on the valuation is sought for the most material properties.

The Savings Banks Group does not have assets measured at fair value on a non-recurring basis.

Fair value hierarchy

Level 1 consists of financial assets, for which the value is determined based on quotes on a liquid market. Market is considered liquid if the prices are available easily and regularly enough. Level 1 includes quoted bonds as well as other securities and listed shares and derivatives which are quoted on public.

Level 2 includes financial assets for which there is no quotation directly available on an active market and whose fair value is estimated using valuation techniques or models. These are based on assumptions which are supported by verifiable market information such as the listed interest rates or prices of similar instruments. This group includes e.g. currency and interest rate derivatives as well as commercial papers and certificates of deposit.

Level 3 includes financial assets whose fair value cannot be derived from public market quotations or through valuation techniques or models which are based on observable market data. Level 3 comprises unquoted equity instruments, structured investments and other securities for which there is currently no binding market quotation available. The fair value at level 3 is often based on price information received from a third party. Furthermore, level 3 includes the fair value determined for the Group's investment property.

Transfers between levels

Transfers between the levels of the fair value hierarchy are considered to take place on the date when an event causes such a transfer or when circumstances change.

In the financial year 2018, there were no transfers between levels 1 and 2.

31.12.2018	Carrying amount	Fair value by hierarchy level			
Financial assets (EUR 1,000)		Level 1	Level 2	Level 3	Total
Measured at fair value					
At fair value through profit or loss					
Banking	1,349,043	1,328,512		20,531	**1,349,043**
Asset Management and Life Insurance*	677,373	676,681		692	**677,373**
Other operations**	20,575	20,575			**20,575**
Derivative contracts					
Banking	51,134		51,133		**51,134**
Available-for-sale financial assets					
Banking	585,889	571,252	10,475	5,347	**587,074**
Asset Management and Life Insurance*	162,787	151,888		10,899	**162,787**
Other operations					

* including fair value of investments covering unit-linked policies, which are reported on level 1.
** The other investors' share of the consolidated mutual funds.

31.12.2018	Carrying amount	Fair value by hierarchy level			
Financial assets (EUR 1,000)		Level 1	Level 2	Level 3	Total
Measured at amortised cost					
Banking, Loans and other advances	42,146	42,704		1,000	43,704
Banking, Investment assets	8,594,736		10,400,870		10,400,870
Total financial assets	**11,483,683**	**2,791,613**	**10,462,478**	**38,468**	**13,292,560**
Investment property					
Banking	42,723			69,567	69,567
Total financial assets	**42,723**	**0**	**0**	**69,567**	**69,567**

31.12.2018	Carrying amount	Fair value by hierarchy level			
Financial liabilities (EUR 1,000)		Level 1	Level 2	Level 3	Total
Measured at fair value					
At fair value through profit or loss					
Asset Management and Life Insurance*	677,303	677,303			677,303
Other operations**	20,575	20,575			20,575
Derivative contracts					
Banking	1,981		1,981		1,981
Measured at amortised cost					
Banking	9,739,271	2,161,228	6,922,896	664,002	9,748,125
Total financial liabilities	**10,439,130**	**2,859,106**	**6,924,877**	**664,002**	**10,447,985**

* Includes liabilities for unit-linked insurance and investments contracts which are reported on level 1 in accordance of the underlying investment.
** The other investors' share of the consolidated mutual funds.

Changes at level 3

Reconciliation of changes in financial instruments at level 3

Financial assets at fair value through profit or loss (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 31 December 2017	**8,772**	**1,797**	**10,569**
Effect of IFRS 9 on the opening balance sheet	**8,867**		**8,867**
Carrying amount 1 January 2018	**17,639**	**1,797**	**19,436**
Purchases	3,784	840	4,624
Sales	-1,668	-1,813	-3,481
Matured during the period	-33		-33
Changes in value recognised in income statement, realised	70	16	86
Changes in value recognised in income statement, unrealised	-810	-148	-958
Siirrot tasolta 1 ja 2	1,550		1,550
Carrying amount 31 December 2018	**20,531**	**692**	**21,223**

Changes in value recognised in the income statement are presented in the item "Net trading income" and "Net life insurance income".

Available-for-sale financial assets (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 31 December 2017	**29 817**	**6 682**	**36 499**
Effect of IFRS 9 on the opening balance sheet	**-10 593**		**-10 593**
Carrying amount 1 January 2018	**19,224**	**6,682**	**25,906**
Purchases	1,375	4,193	5,568
Sales	-3,833	-161	-3,994
Matured during the period	-5,240		-5,240
Changes in value recognised in income statement, realised	110	10	120
Changes in value recognised in income statement, unrealised		-30	-30
Changes in value recognised in comprehensive income statement	215	206	421
Transfers from level 1 and 2	1,574		1,574
Transfers to level 1 and 2	-8,079		-8,079
Carrying amount 31 December 2018	**5,347**	**10,899**	**16,245**

Changes in fair value recognized in the income statement during the year are included in the item "Net investment income". Unrealized changes in fair value are booked in the equity fair value reserve through the other comprehensive income.

Sensitivity analysis of financial instruments at level 3 (EUR 1,000)		
31.12.2018	Carrying amount	Negative effect of hypothetical changes' on profit
At fair value through profit or loss		
Banking	20,531	-3,080
Asset Management and Life Insurance	692	-104
Total	**21,223**	**-3,183**
Fair value through other comprehensive income		
Banking, liabilities	5,347	-802
Asset Management and Life Insurance	10,899	-1,635
Total	**16,245**	**-2,437**
Total	**37,468**	**-5,620**

The above table shows the sensitivity of fair value for level 3 instruments in the event of market changes. Interest-bearing securities have been tested by assuming 1 percentage points parallel shift of the interest rate level in all maturities. For non-interest sensitive instrumetns the market prices are assumed to change by 15 percentage. For derivatives it is assumed that the possible change in value equals to the fair value of the derivative.

31.12.2017	Carrying amount	Fair value by hierarchy level			
Financial assets (EUR 1,000)		Level 1	Level 2	Level 3	Total
Measured at fair value					
At fair value through profit or loss					
Banking	9,325	552		8,772	9,325
Asset Management and Life Insurance*	672,980	671,183		1,797	672,980
Other operations**	25,369	25,369			25,369
Derivative contracts					
Banking	53,220		53,220		53,220
Available-for-sale financial assets					
Banking	1,175,920	1,136,538	9,986	29,817	1,176,341
Asset Management and Life Insurance	181,178	174,496		6,682	181,178

* Including fair value of investments covering unit-linked policies, which are reported on level 1.
** The other investors' share of the consolidated mutual funds.

31.12.2017	Carrying amount	Fair value by hierarchy level			
Financial assets (EUR 1,000)		Level 1	Level 2	Level 3	Total
Measured at amortised cost					
Investments held-to-maturity					
Banking	41,763	43,828			43,828
Loans and receivables					
Banking	8,905,510		10,463,054	4,245	10,467,298
Total financial assets	**10,223,865**	**2,027,106**	**9,515,552**	**49,485**	**11,592,143**
Investment property					
Banking	42,994			69,247	69,247
Total financial assets	**42,625**	**0**	**0**	**68,410**	**68,410**

31.12.2017	Carrying amount	Fair value by hierarchy level			
Financial liabilities (EUR 1,000)		Level 1	Level 2	Level 3	Total
Measured at fair value					
At fair value through profit or loss					
Asset Management and Life Insurance*	671,784	671,784			671,784
Other operations**	25,369	25,369			25,369
Derivative contracts					
Banking	5,584		5,584		5,584
Measured at amortised cost					
Banking	9,311,414	2,190,258	6,605,525	523,591	9,319,374
Total financial liabilities	**10,014,150**	**2,887,411**	**6,611,109**	**523,591**	**10,022,111**

* Includes liabilities for unit-linked insurance and investments contracts which are reported on level 1 in accordance of the underlying investment.
** The other investors' share of the consolidated mutual funds.

Changes at level 3

Reconciliation of changes in financial instruments at level 3.

Financial assets measured at fair value through profit or loss (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 1 January 2016	**8,811**	**1,537**	**10,347**
Matured during the period	-300		-300
Changes in value recognised in income statement, realised	257		257
Changes in value recognised in income statement, unrealised	4	260	264
Carrying amount 31 December 2017	**8,772**	**1,797**	**10,568**

Changes in value recognised in the income statement are presented in the item "Net trading income".

Derivatives (net) (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 1 January 2017	**1,239**		**1,239**
Changes in value recognised in income statement, unrealised	-172		-172
Transfers from level 1 and 2	-1,067		-1,067
Carrying amount 31 December 2017	**0**	**0**	**0**

Changes in value recognised in the income statement are presented in the item "Net trading income".

Available-for-sale financial assets (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 1 January 2017	**28,684**	**5,076**	**33,760**
Purchases	4,485	1,807	6,292
Sales	-3,040	-160	-3,200
Matured during the period	-3,884		-3,884
Changes in value recognised in income statement, realised	1	1	2
Changes in value recognised in income statement, unrealised	-113		-113
Changes in value recognised in comprehensive income statement	551	-42	509
Transfers from level 1 and 2	5 682		5 682
Transfers to level 1 and 2	-2,548		-2,548
Carrying amount 31 December 2017	**29,817**	**6,682**	**36,499**

Changes in fair value recognized in the income statement during the year are included in the item "Net investment income". Unrealized changes in fair value are booked in the equity fair value reserve through the other comprehensive income.

Sensitivity analysis of financial instruments at level 3 (EUR 1,000)		Effect of hypothetical changes' on profit
31.12.2017	Carrying amount	Negative
At fair value through profit or loss		
Banking	8,772	-218
Asset Management and Life Insurance	1,797	-1
Total	**10,569**	**-219**
Available-for-sale financial assets		
Banking	29,817	-634
Asset Management and Life Insurance	6,682	-1,272
Total	**36,499**	**-1,906**
Total	**47,068**	**-2,125**

The above table shows the sensitivity of fair value for level 3 instruments in the event of market changes. Interest-bearing securities have been tested by assuming 1 percentage points parallel shift of the interest rate level in all maturities. For non-interest sensitive instrumetns the market prices are assumed to change by 15 percentage. For derivatives it is assumed that the possible change in value equals to the fair value of the derivative.

NOTE 20: OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The derivative contracts of the Savings Banks Group are subject to either ISDA Master Agreement or the Master Agreement of the Federation of Finnish Financial Services. Under these agreements, derivative payments may be offset by payment transaction on each payment date as well as in the event of counterparty default or bankruptcy. In addition, it is possible to agree on collateral on a counterparty-specific basis in the terms and conditions of the agreement. These derivatives are presented in the statement of financial position on a gross basis.

30.12.2018				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts				51,133		23,302	27,831
Total				**51,133**	**0**	**23,302**	**27,831**

Liabilities							
Derivative contracts				1,981		289	1,693
Total				**1,981**	**0**	**289**	**1,693**

31.12.2017				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Cash held as collateral	Net amount
Assets							
Derivative contracts				52,143		33,588	18,555
Total				**52,143**	**0**	**33,588**	**18,555**

Liabilities							
Derivative contracts				5,584		399	5,185
Total				**5,584**	**0**	**399**	**5,185**

NOTE 21: COLLATERALS

(EUR 1,000)	31.12.2018	31.12.2017
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Pledges	28,392	25,585
Loans *	1,782,148	1,485,159
Other	27,047	12,750
Collateral given	**1,837,587**	**1,523,494**
Collateral received		
Real estate collateral	8,090,076	7,372,032
Securities	34,996	38,370
Other	87,919	76,222
Guarantees received	61,318	59,162
Collateral received	**8,274,309**	**7,545,786**

*Loans that have given as collateral to Sp Mortage Bank's secured bonds.

NOTE 22: OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2018	31.12.2017
Guarantees	61,382	59,277
Commitments related to short-term trade transactions	628,996	596,311
Other	7,035	7,607
Off balance-sheet commitments	**697,414**	**663,195**

NOTE 23: RELATED PARTIES

The Board of Savings Banks' Union Coop has defined the related parties of the Savings Banks Group. The related parties of the Savings Banks Group's comprise the entities consolidated in the Group's financial statements, associated companies and key management personnel as well as their close family members. In addition, related parties comprise entities which the key management personnel and/or their close family members control. The key management personnel of the Savings Banks Group comprise the members and deputy members of the Supervisory Board, the members of the Board of Directors, the Managing Director and his deputy as well as the Executive Board of Savings Banks' Union Coop.

Loans and guarantees to related parties have been granted under the terms and conditions which apply to the corresponding customer loans and guarantees.

2018 (EUR 1,000) Transactions with related parties	Key management personnel*	Close companies**	Associates and joint arrangements	Total
Assets				
Loans	7,291	505	6,781	14,577
Total assets	**7,291**	**505**	**6,781**	**14,577**
Liabilities				
Deposits	3,097	3,105	2,461	8,662
Other liabilities	1,894	529	4,496	6,920
Total liabilities	**4,991**	**3,634**	**6,957**	**15,582**
Off balance-sheet commitments				
Loan commitments	650	2,313	2,553	5,516
Total	**650**	**2,313**	**2,553**	**5,516**
Revenue and expense				
Interest income	40	64	122	226
Interest expense	-5	-1		-6
Insurance premiums	133	206		338
Fee and commission income	6	56	58	121
Other expenses			-45,095	-45,095
Total	**174**	**325**	**-44,914**	**-44,415**

* Including key management personnel and their close family members

** Including entities which the key management personnel or their close family members control

(EUR 1,000) Key management personnel compensation	1-12/2018	1-12/2017
Short-term employee benefits	3,874	2,671
Other long-term benefits	368	316
Total	**4,242**	**2,987**

2017 (EUR 1,000) Transactions with related parties	Key management personnel*	Close companies**	Associates and joint arrangements	Total
Assets				
Loans	7,100	887	7,325	15,311
Total assets	**7,100**	**887**	**7,325**	**15,311**
Liabilities				
Deposits	4,960	2,138	2,806	9,905
Other liabilities	1,114	139	4,821	6,073
Total liabilities	**6,074**	**2,277**	**7,627**	**15,979**
Off balance-sheet commitments				
Loan commitments	570	229	4,732	5,531
Total	**570**	**229**	**4,732**	**5,531**
Revenue and expense				
Interest income	52	17	135	204
Interest expense	-15	2		-13
Insurance premiums	505	53		558
Fee and commission income	7	3	60	69
Fee and commission expense				
Other expenses			-41,135	-41,135
Total	**549**	**75**	**-40,940**	**-40,316**

* Including key management personnel and their close family members

** Including entities which the key management personnel or their close family members control

CAPITAL ADEQUACY INFORMATION

NOTE 24: SUMMARY OF REGULATORY CAPITAL, RWA AND CAPITAL RATIOS

Pillar III disclosure information

The Pillar III disclosure information regarding risk management objectives and policies of the Savings Bank Group are descriped in the Risk Management and Capital adequacy management note. Corporate governance disclosure ingormation and remuneration are included to the Corporate Governance note. The Amalgamation's consolidated capital adequacy, own funds and capital requirement are presented according to the EU Regulation No 575/2013 in notes 47-60.

The Amalgamation comprises the Savings Banks' Union Coop, Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp-Fund Management Company Ltd, as well as the companies within the consolidation groups of the above-mentioned entities. Savings Banks' Union Coop acts as the central institution of the Amalgamation.

Capital requirement for the credit risk is calculated with standard method. The capital requirement for the operational risk is calculated with the basic method. The capital requirement relating to market risk is calculated with the basic method on the foreign exchange position.

Capital adequacy's main items

Own Funds (EUR 1,000)	31.12.2018	31.12.2017
Common Equity Tier 1 (CET1) capital before regulatory adjustments	986,758	969,674
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-38,524	-30,591
Common Equity Tier 1 (CET1) capital	**948,235**	**939,082**
Additional Tier 1 (AT1) capital before regulatory adjustments	0	0
Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0
Additional Tier 1 (AT1) capital	**0**	**0**
Tier 1 capital (T1 = CET1 + AT1)	**948,235**	**939,082**
Tier 2 (T2) capital before regulatory adjustments	29,736	45,483
Total regulatory adjustments to Tier 2 (T2) capital		
Tier 2 (T2) capital	**29,736**	**45,483**
Total capital (TC = T1 + T2)	**977,970**	**984,565**
Risk weighted assets	**5,385,564**	**5,165,694**
of which: credit and counterparty risk	4,815,965	4,601,921
of which: credit valuation adjustment (CVA)	72,423	72,541
of which: market risk	38,332	39,879
of which: operational risk	458,844	451,354
Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.6 %	18.2 %
Tier 1 (as a percentage of total risk exposure amount)	17.6 %	18.2 %
Total capital (as a percentage of total risk exposure amount)	18.2 %	19.1 %
Capital requirement		
Total capital requirement	977,970	984,565
Capital requirement total*	593,940	569,379
of which: Pillar 2 additional capital requirement	26,928	25,828
Capital buffer	384,031	415,186

*The capital requirement of 10.5% is formed by the statutory minimum capital adequacy requirement of 8%, the capital conservation buffer of 2.5% according to the Act on Credit Institutions, and the country-specific countercyclical capital requirements of foreign exposures.

NOTE 25: RECONCILIATION OF OWN FUNDS

Reconciliation of own funds

(EUR 1,000)	31.12.2018	31.12.2017
Total shareholders' equity (IFRS)	**1,028,795**	**1,017,520**
Deductions	-42,037	-47,846
CET1 capital before statutory adjustments	**986,758**	**969,674**
Profit for the period	-1,852	-2,607
Cash flow hedging	-3,753	-2,867
Intangible assets	-28,682	-23,608
Difference in deferred tax assets	-4,237	-1,510
Adjustment for the transition period in CET1 capital		
Total CET1 capital	**948,235**	**939,082**

NOTE 26: MINIMUM CAPITAL REQUIREMENT

Credit and counterparty risk	31.12.18	31.12.18	31.12.17	31.12.17
Exposure class (EUR 1,000)	Risk weighted assets	Capital requirement	Risk weighted assets	Capital r equirement
Exposures to central governments or central banks	117	9		
Exposures to regional governments or local authorities	456	36	498	40
Exposures to public sector entities				
Exposures to multilateral development banks	64	5	161	13
Exposures to international organisations				
Exposures to institutions	33,212	2,657	38,535	3,083
Exposures to corporates	1,035,938	82,875	1,002,963	80,237
Retail exposures	858,435	68,675	850,380	68,030
Exposures secured by mortgages on immovable property	2,147,289	171,783	1,943,450	155,476
Exposures in default	61,471	4,918	53,963	4,317
Exposures associated with particularly high risk	9,002	720	8,080	646
Exposures in the form of covered bonds	5,242	419	5,147	412
Items representing securitisation positions				
Exposures to institutions and corporates with a short-term credit assesment				
Exposures in the form of units or shares in collective investment undertakings (CIUs)	434,121	34,730	469,694	37,575
Equity exposures*)	85,254	6,820	87,942	7,035
Other items	145,364	11,629	141,109	11,289
Credit risk total	4,815,965	385,277	4,601,921	368,154
Credit valuation adjustment (CVA)	72,423	5,794	72,541	5,803
Market risk	38,332	3,067	39,879	3,190
Operational risk	458,844	36,708	451,354	36,108
Total	**5,385,564**	**430,845**	**5,165,694**	**413,256**

NOTE 27: TOTAL EXPOSURE

Credit and counterparty risk

Exposure class (EUR 1,000)	Balance sheet items	Off balance sheet items	Derivatives	Total
Exposures to central governments or central banks	1,524,154	23,256		1,547,410
Exposures to regional governments or local authorities	29,466	7,363		36,830
Exposures to public sector entities				
Exposures to multilateral development banks	11,120			11,120
Exposures to international organisations				
Exposures to institutions	21,558	1,347	83,739	106,643
Exposures to corporates	1,025,812	186,175		1,211,987
Retail exposures	1,173,363	335,189		1,508,552
Exposures secured by mortgages on immovable property	6,179,991	141,646		6,321,636
Exposures in default	56,135	51		56,185
Exposures associated with particularly high risk	6,001			6,001
Exposures in the form of covered bonds	52,423			52,423
Items representing securitisation positions				
Exposures to institutions and corporates with a short-term credit assesment				
Exposures in the form of units or shares in collective investment undertakings (CIUs)	458,226			458,226
Equity exposures	47,380			47,380
Other items	162,039			162,039
Total	**10,747,668**	**695,026**	**83,739**	**11,526,433**

Credit and counterparty risk *

Exposure class (EUR 1,000)	Balance sheet items	Off balance sheet items	Derivatives	Total
Exposures to central governments or central banks	1,658,126	22,048		1,680,174
Exposures to regional governments or local authorities	35,098	4,070		39,168
Exposures to public sector entities				
Exposures to multilateral development banks	51,511			51,511
Exposures to international organisations				
Exposures to institutions	30,697	1,418	87,642	119,757
Exposures to corporates	1,004,238	135,782		1,140,020
Retail exposures	1,164,262	322,311		1,486,573
Exposures secured by mortgages on immovable property	5,585,622	144,055		5,729,677
Exposures in default	48,507	65		48,572
Exposures associated with particularly high risk	5,387			5,387
Exposures in the form of covered bonds	39,244			39,244
Items representing securitisation positions				
Exposures to institutions and corporates with a short-term credit assesment				
Exposures in the form of units or shares in collective investment undertakings (CIUs)	527,127			527,127
Equity exposures	50,068			50,068
Other items	158,471			158,471
Total	**10,358,358**	**629,749**	**87,642**	**11,075,748**

*The figures in the table have been corrected for 2017.

Savings Bank