SAVINGS BANKS GROUP'S

Board of Directors' Report and
Consolidated IFRS Financial Statements
31 December 2018

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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.

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 II 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 II 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 II 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 II -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 (independent of Savings Banks)

Jan Korhonen (Suomenniemen Säästöpankki)

Marja-Leena Tuomola (independent of Savings Banks)

Pauli Aalto-Setälä (independent of Savings Banks)
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 2018, 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:

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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	**7**	**152,704**	**142,176**
Net fee and commission income	8	84,486	79,159
Net trading income	9	-24,332	3,156
Net investment income	10	4,979	39,065
Net life insurance income	11	13,163	15,552
Other operating revenue	13	3,669	3,083
Total operating revenue		**234,670**	**282,191**
Personnel expenses	14	-83,561	-79,781
Other operating expenses	15	-101,029	-88,913
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	16	-13,128	-13,999
Total operating expenses		**-197,718**	**-182,693**
Net impairment loss on financial assets	17	-3,868	-13,266
Associate's share of profits	26	3,323	1,977
Profit before tax		**36,408**	**88,210**
Income tax expense	18	-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	20	839,592	1,118,938
Financial assets at fair value through profit or loss	21	65,057	34,694
Loans and advances to credit institutions	22	91,988	33,181
Loans and advances to customers	22	8,487,276	7,753,391
Derivatives	23	51,134	53,220
Investment assets	24	1,151,199	1,260,677
Life insurance assets	25	841,700	855,422
Investments in associates and joint ventures	26	178	7,952
Property, plant and equipment	27	51,892	51,341
Intangible assets	28	35,268	28,725
Tax assets	29	13,019	3,009
Other assets	30	68,826	125,555
Non-current assets classified as held for sale	31	8,610	
Total assets		**11,705,740**	**11,326,105**
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss	32	20,575	25,369
Liabilities to credit institutions	33	228,018	228,458
Liabilities to customers	33	6,940,818	6,419,543
Derivatives	23	1,981	5,584
Debt securities issued	34	2,488,147	2,563,128
Life insurance liabilities	35	801,796	803,130
Subordinated liabilities	36	82,288	100,284
Tax liabilities	29	52,446	62,907
Provisions and other liabilities	37	60,874	100,181
Total liabilities		**10,676,943**	**10,308,585**
Equity			
Basic capital	38	20,340	20,338
Reserves	38	249,766	285,435
Retained earnings	38	733,762	685,279
Total equity attributable to equity holders of the Group	**38**	**1,003,868**	**991,053**
Non-controlling interests	38	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

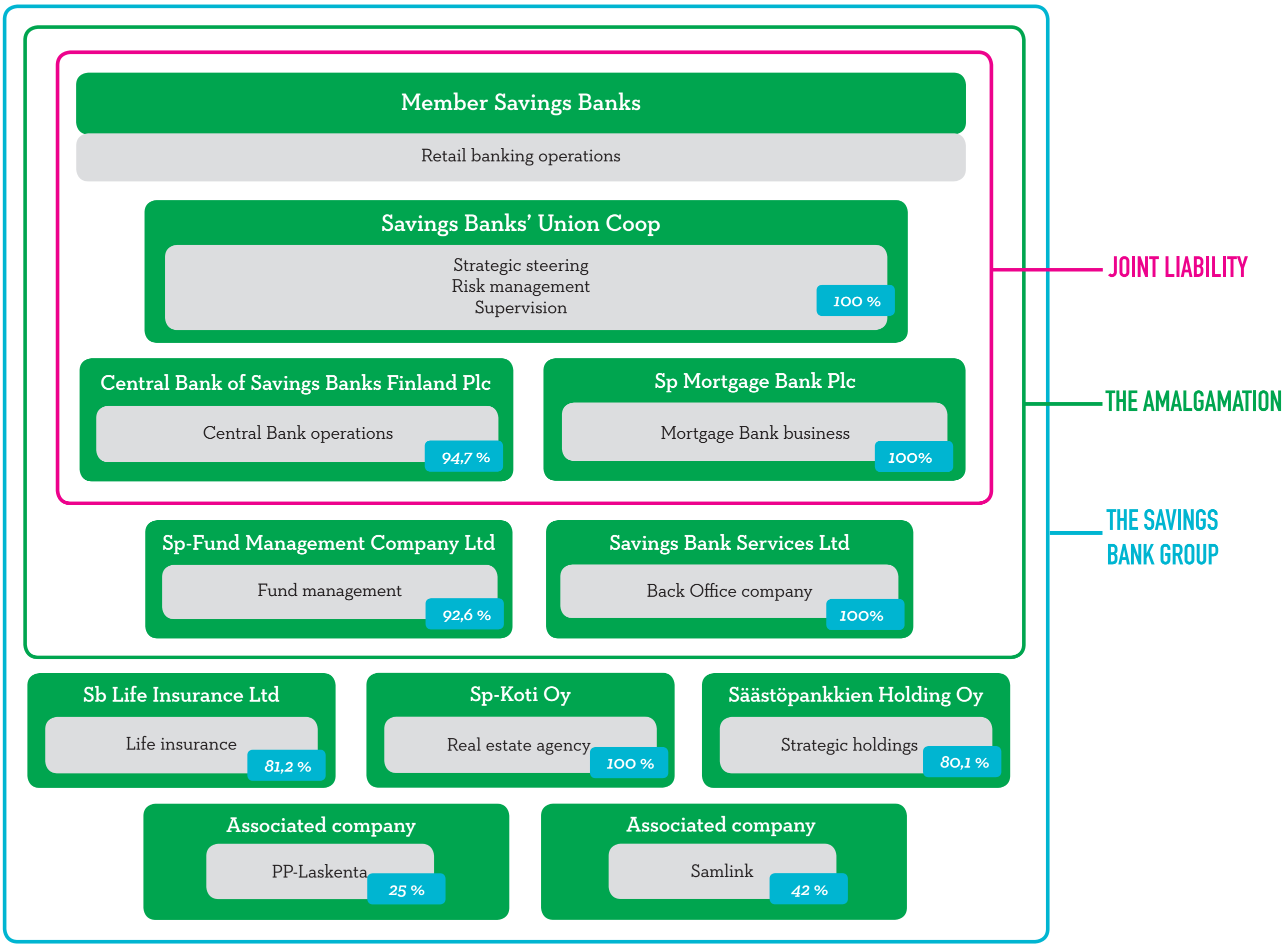
NOTE 1: DESCRIPTION OF THE SAVINGS BANKS GROUP AND THE SAVINGS BANKS AMALGAMATION

The Savings Banks Group (hereinafter the "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 (hereinafter the "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 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

1. General

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

In accordance with the principles of the Act on the Amalgamtion of Deposit Banks as well as IAS 8 concerning accounting policies, changes in accounting estimates and errors, the Board of Directors of the Savings Banks' Union Coop confirms any accounting policy for which no guidance is available in the international financial reporting standards. The consolidation principles of the Group are discussed in more detail in the section "Consolidation principles".

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 thousands of euros unless otherwise stated.

Assets and liabilities denominated in a foreign currency outside the euro zone are converted into euros at the European Central Bank's average rate on the date of the financial statements. The exchange rate differences taking place during valuation are recognised as Net income from foreign exchange operations under Net trading income in the income statement. Exchange rate differences resulting from life insurance operations are included in Net life insurance income.

The Group's consolidated financial statements are prepared based on original acquisition costs, except for financial assets and liabilities recognized at fair value through profit or loss, financial assets or liabilities recognized at fair value through profit or loss, and the hedged items of fair value hedges (hedged risk), which are measured at fair value.

Assets and liabilities are offset and the net amount reported in balance sheet only if the Group has a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis.

2. Consolidation principles

Technical parent company

According to the Act on the Amalgamation of Deposit Banks, the Group's consolidated financial statements must be prepared as a combination of the financial statements or group financial statements of the Savings Banks' Union Coop and its member credit institutions. In addition, the consolidated financial statements include organisations over which the above-mentioned organisations exercise joint control.

The Savings Banks' Union Coop and its member Savings Banks do not exercise control over each other. It is therefore not possible to define a parent company for the Group. The so-called technical parent company referred to in the Group's IFRS financial statements is formed out of 22 member Savings Banks, which jointly exercise control over the other organisations consolidated in the Group's IFRS financial statements. The technical parent company's mutual ownership, intercompany business transactions, mutual receivables and liabilities, internal distribution of profits and intercompany margins are eliminated.

The Group's basic capital consists of the Savings Banks' basic capital and share capital of the Savings Banks in the form of a limited liability company, excluding Nooa Savings Bank Ltd, which is a subsidiary jointly owned by the other member Savings Banks. According to Section 11 of the Savings Banks Act the basic capital is not repaid. The share capital is treated in accordance with the Act of Limited Liability Companies.

Subsidiaries

Group subsidiaries are entities over which the Group has control.

The Group has control in an entity if the Group has power over the entity and is exposed to the entity's variable returns or is entitled to its variable returns and the Group is able to use its power over the entity and thereby affect the amount of returns received. Control is obtained on the basis of voting rights.

The Group's mutual ownership is eliminated using the acquisition method. An asset used in the acquisition, the assets of the acquired entity and the assumed liabilities are valued at fair value at the time of acquisition. The part of the acquisition cost that exceeds the Group's share of the fair value of the net assets of the acquired company at the time of acquisition is recognised as goodwill. Negative goodwill is fully recognised as income at the time of acquisition.

All intra-group transactions, receivables, liabilities and unrealised profits as well as internal distribution of profits are eliminated when preparing the Group's consolidated financial statements.

The subsidiaries, associated companies and joint ventures acquired during the financial year are consolidated starting on the date when the Group acquired control or joint control. Similarly, the subsidiaries, associated companies and joint ventures which are sold during the financial year are consolidated until the control or significant influence ceases.

The Group has applied the exemption for first-time adopters in IFRS 1 First-time Adoption of International Financial Reporting Standards not to apply IFRS 3 Business Combinations retrospectively to prior business combinations that occurred before 1 January 2013. Subsidiaries acquired since 1 January 2013 are treated in accordance with IFRS 3 Business Combinations.

Structured entities

Structured entities are entities which have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity. Structured entities are characterised by having a narrow and well-defined objective and often insufficient equity to finance their activities without sub-ordinated financial support.

Within the Group, the entities identified as structured entities consist of mutual funds which are managed by Sp-Fund Management Company Ltd, a member of the Group, and over which the Group is considered to have the type of control as specified above. The funds to be consolidated on the basis of control are those in which the Group entities' ownership exceeds 40% as a longer-term investment and which Sp-Fund Management Company Ltd manages. Fund holdings are reviewed twice a year, on 30 June and 31 December. The ownership of companies within the Savings Banks Group must exceed 40% before the fund is consolidated in the Group's financial statements.

For the consolidated funds, the share of investors other than the Savings Banks Group is presented in the Group's financial statements as a liability. Upon initial recognition, the liability has been classified to be measured at fair value through profit or loss.

Associated companies and joint arrangements

Associated companies are entities over which the Group has significant influence but no control. Significant influence emerges, in principle, when the Group holds 20–50 per cent of the company's voting rights or when the Group otherwise has significant influence over the company.

An associated company is consolidated in the Group's financial statements using the equity method, meaning that the associated company's income statement and balance sheet are not included in the Group's income statement and balance sheet in full. The consolidated balance sheet presents the Group's share of the associated company's equity in the item Investments in associates, whereas the Group's share of the associated company's profits is presented in the consolidated income statement under Associate's share of profits. Under the equity method, on initial recognition the investment is recognised at cost, and the carrying amount is increased or decreased to recognise the Group's share of the profit or loss of the investee after the date of acquisition.

Joint arrangements are arrangements where two or more parties have joint control. Joint arrangements are divided into joint ventures and joint operations. Joint ventures are consolidated in the Group's financial statements using the equity method. Mutual real estate companies are consolidated in the Group's financial statements as joint operations, and their assets and liabilities are consolidated in the Group's balance sheet in accordance with the share of ownership.

Non-controlling interests

Non-controlling interests in equity, profit for the year and other items within the comprehensive income statement are presented separately in the Group's income statement, comprehensive income statement and balance sheet. Loss for the year is also allocated to non-controlling interests even if doing so would result in a negative non-controlling interest.

The share of non-controlling interests in subsidiaries is valued either at fair value or at proportionate share of the subsidiary's net assets. The valuation principle is defined separately for each acquisition.

3. Financial instruments

3.1. Financial assets and liabilities

IFRS 9 Financial Instruments entered into force on 1 January 2018. More information on the transition is provided in the section Adoption of New IFRS Standards and Interpretations.

3.1.1. Initial recognition

A financial asset or liability is recognised on the balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument. A regular way purchase or sale of financial assets is recognised and derecognised by the Savings Banks Group using trade date accounting.

When a financial asset or liability is recognised initially, it is measured at its fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. These transaction costs are recognised through profit or loss. Immediately following the initial recognition, for financial assets that are measured at fair value through other comprehensive income items and measured at amortised cost, expected credit loss (ECL) is recognised, due to which the book loss is recognised through profit or loss in conjunction with the initial recognition of the loan.

3.1.2. Classification of financial assets and the determination of classification

BUSINESS MODEL ASSESSMENT

The Savings Banks Group defines the business model in a manner that best reflects the principle of how groups of financial assets are managed in accordance with the business principle applied.

The business model refers to how the Savings Banks Group manages its financial assets in order to generate cash flows. That is, the business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Consequently, this assessment is not performed on the basis of scenarios that the entity does not reasonably expect to occur, such as so-called "worst case" or "stress case" scenarios. If cash flows are realised in a way that is different from the entity's expectations on the date that the entity assessed the business model, that does not give rise to a prior period error in the entity's financial statements nor does it change the classification of the remaining financial assets held in that business model as long as the entity considered all relevant information that was available at the time that it made the business model assessment.

ASSESSMENT OF CASH FLOW CRITERIA

The business model assessment is followed by the assessment of the contractual cash flow characteristics of the financial asset, which is used as the grounds for deciding on the classification of the financial asset.

For the purpose of testing cash flow criteria, principal refers to the fair value of the financial asset at initial recognition, which can change during the term of the contract. Contractual interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin.

When assessing cash flow criteria, it is determined whether the contractual cash flows are solely payments of principal and interest on the principal amount outstanding, for example, interest only consists of consideration for the time value of money, credit risk and other basic lending risks. If the terms of the contract include factors that cannot be considered typical terms for lending, the financial asset is classified as measured at fair value through profit or loss.

The Savings Banks Group uses the following classes of financial assets in accordance with IFRS 9:

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

AMORTISED COST

A financial asset is measured at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

SALES OF FINANCIAL ASSETS CLASSIFIED AS MEASURED AT AMORTISED COST

Financial assets that are held within a business model whose objective is to hold assets in order to collect contractual cash flows are managed to realise cash flows by collecting contractual payments over the life of the instrument. That is, the entity manages the assets held within the portfolio to collect those particular contractual cash flows (instead of managing the overall return on the portfolio by both holding and selling assets). In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, it is necessary to consider the frequency, value and timing of sales in prior periods, the reasons for those sales and expectations about future sales activity.

MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of interest and payments of principal

The Group may irrevocably designate an equity instrument as measured at fair value through other comprehensive income at the time of the instrument's initial recognition. Financial assets that are equity instruments classified as measured at fair value through other comprehensive income are measured at fair value in the Group's accounting and the change in value is recognised, less deferred taxes, in the statement of comprehensive income. Dividends from equity instruments are recognised in profit or loss when the right to receive payment is established. Capital repayments from the share are recognised in the statement of comprehensive income.

Debt instruments are measured at fair value and changes in value, less deferred taxes and expected credit loss, are recognised in the statement of comprehensive income.

For debt instruments, the gain or loss on the transfer or sale of a financial asset measured at fair value through other comprehensive income is recognised through profit or loss. For equity instruments, unrealised gains or losses accrued in the fair value reserve are not transferred to be recognised through profit or loss at any stage. Instead, the recognition is made through retained earnings under equity.

FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

All items that are not measured at amortised cost or recognised at fair value through other comprehensive income are recognised at fair value through profit or loss. However, a financial asset may, at initial recognition, be irrevocably designated as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

Also classified as measured at fair value through profit or loss are debt instruments for which the cash flow criteria cannot be considered to be met. The Savings Banks Group assesses the cash flow criteria separately for each instrument to determine whether the contractual terms of the item give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

CHANGES IN THE CLASSIFICATION OF FINANCIAL ASSETS

On initial recognition, a financial asset is entered into one of three measurement classes. Debt instruments are reclassified when, and only when, the Group changes the business models applied in the management of financial assets. The Group expects that such changes will be highly infrequent.

CHANGES IN CONTRACTUAL CASH FLOWS

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset in accordance with IFRS 9, the entity shall recalculate the gross carrying amount of the financial asset and shall recognise a modification gain or loss in profit or loss.

3.1.3. Derecognition of financial assets and liabilities

A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire or the financial asset is transferred and the transfer qualifies for derecognition.

A financial asset is considered to be transferred if, and only if, the Group either:

- transfers the contractual rights to receive the cash flows of the financial asset; or
- retains the contractual rights to receive the cash flows of the financial asset, but assumes a contractual obligation to pay the cash flows to one or more recipients in an arrangement that meets the conditions stipulated by IFRS 9. A contract can be considered to meet the conditions for such an arrangement if:
  - There is no obligation to pay amounts to the eventual recipients unless equivalent amounts are collected from the original asset
  - The selling or pledging of the original asset is prohibited by the terms of the transfer contract

When transferring a financial asset, the transfer qualifies for derecognition only if:

- The significant risks and rewards of ownership are transferred; or
- The significant risks and rewards of ownership are not transferred or they have been retained, but control has been transferred.

A financial liability is derecognised from the statement of financial position when, and only when, it is extinguished, i.e. when the obligation specified in the contract is discharged or cancelled or expires. An exchange between an existing borrower and lender of debt instruments with substantially different terms must be accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount and the consideration paid is recognised in profit or loss.

3.2. Determining fair value

Fair value is the price that would be attained if the asset was sold or would be paid to transfer the liability from one market party to another in a standard business transaction taking place on a valuation day.

A financial instrument's fair value is based on price quotations obtained from active markets or, if active markets do not exist, on the company's own valuation methods. A market is considered active if price quotations are readily and regularly available and if they reflect real and regularly occurring arm's-length market transactions. Current bid price is used as the quoted market price of financial assets. If the market has a well-established valuation technique for a financial instrument for which there is no direct market price available, the fair value is based on the commonly used valuation model and on the market quotations of the input data used in the model.

If there is no well-established valuation technique in the market, the fair value is determined based on a specific valuation model created for the product in question. The valuation models are based on widely used measuring techniques, incorporating all the factors that market participants would consider when setting a price. The valuation prices used include market transaction prices, the discounted cash flow method, as well as the fair value of another substantially similar instrument at the reporting date. The valuation methods take into account an estimate of credit risk, applicable discount rates, early repayment option, and other such factors that may impact reliable deter-mination of the fair value of the financial instrument.

The fair values of financial instruments are divided into three hierarchical levels, depending on how the fair value is defined:

- Fair values quoted in active markets for identical assets or liabilities (Level 1)
- Fair values that are determined using other input data than the quoted prices at Level 1, which are observable for the assets or liabilities either directly (e.g. prices) or indirectly (e.g. derived from prices) (Level 2)
- Fair values that are determined using input data which is essentially not based on observable market data (Level 3).

The fair value hierarchy level into which an item measured at fair value is fully classified is determined by the input data which is at the lowest level and is significant in respect of the whole item. The significance of input data is evaluated considering the whole item which is valued at fair value.

3.3. Impairment

The IFRS 9 provisions on impairment are based on an expected credit loss model and they deviate from the earlier model, which was based on an actual credit loss model. The calculation of expected credit losses includes financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income, debt instruments, loan receivables, guarantees and loan commitments. Expected credit losses are not calculated on shares and holdings nor financial assets measured at fair value through profit or loss.

Impairment is assessed in two ways. As a rule, expected credit losses are recognised by assessing the probability of default for the next 12 months or, alternatively, based on the lifetime expected credit loss.

The Savings Banks Group calculates expected credit loss (ECL) for low-risk credit using the Loss Rate model (ECL = Loss Rate * EAD). Low-risk counterparties include the public sector, financial institutions and state-guaranteed student loans. For other credit and securities, the calculation is based on the PD/LGD model (ECL = PD * LGD * EAD).

Loss Rate model components:

- Loss rate %, i.e. the calculation is based on percentage figures established for each counterparty. Determined by the counterparty's sector code.
- EAD, short for Exposure at Default, is the annual average. Due to upcoming instalments, it is usually lower than the contract balance.
- As a rule, the assigned stage is stage 1.

The components used in the PD/LGD model:

- PD % (Probability of Default) is based on external and internal credit ratings.
- LGD % (Loss Given Default) takes into consideration the contract's available collateral at the time of default.
- EAD (Exposure At Default). The amount takes into consideration instalments and advance repayments, calculated for the term of the contract and for the year, for products for which early repayment has been modelled. Off-balance sheet items are considered to remain fixed until the end of the lifecycle of the contract. The undrawn commitment component is included in the calculation in full.

In calculating expected credit losses (ECL), the Savings Banks Group assigns contracts to one of three stages when the credit risk changes from the time of initial recognition. A receivable may migrate between stages according to creditworthiness:

Stage 1: 12-month ECL

- If credit risk has not significantly increased since the loan was originated, the expected credit loss on non-defaulted exposures is calculated based on 12-month expected credit loss.

Stage 2: Lifetime ECL – not credit-impaired

- If credit risk has significantly increased since the loan was originated, impairment on exposures that are not credit-impaired is calculated based on lifetime expected credit loss.

Stage 3: Lifetime ECL – credit impaired

- If the contract is assessed as credit-impaired, impairment is recognised based on lifetime expected credit loss. Stage 3 consists of exposures involving one or more occurred negative events impacting cash flows.

Occurred loss: Is deducted from the balance sheet and the proportion of the exposure recognised as a loss is no longer included in the calculation of expected losses.

In selecting the stage, the situation at the time of reporting is always compared to the situation at the time the contract was originated or acquired. The assessment of potential changes in credit risk takes into consideration all relevant and available information that can be obtained without unreasonable effort and cost. The contract's credit risk has increased significantly (the contract migrates from stage 1 to stage 2) when the contract involves payments that are more than 30 days past due (backstop), the contract's PD increases either by 10 basis points or 2.5 times its original value, or the contract is subject to forbearance (performing). The contract migrates to stage 3 when the contract is defaulted, i.e. when the contract or customer has a credit rating of D, the contract is more than 90 days past due, the contract is subject to (non-performing) forbearance or a forbearance concession has been made for the contract at the time of application. ECL calculation applies the same definition of default that the Group applies in its lending rules. A contract may migrate to a better stage after it has met the criteria for the stage in question for a period of time specified by the Group (known as the probation period).

The calculation takes the time value of money into consideration by discounting the expected credit loss calculated for the contract. The effective interest rate is the contractual interest rate and it is calculated on the gross carrying amount in stages 1 and 2 and on the adjusted carrying amount in stage 3 on the reporting date.

Four different scenarios are calculated for each contract using economic scenarios established by the Savings Banks Group's Chief Economist. The scenarios are the base scenario (50%), a mild downside (8%), a more extreme downside (2%) and an optimistic scenario (40%). The carrying amount entered in the books is calculated by applying weights to the various scenarios.

Expected credit losses are recognised as impairment under Impairment losses on financial assets in the income statement. Final credit losses are also recognised under the same item in the income statement.

3.4. Hedging and derivatives

For hedging relationships under general hedge accounting (cash flow hedging and fair value hedging), the Savings Banks Group has adopted IFRS 9, while for macro hedging, the Group will continue to apply IAS 39 hedge accounting until the macro hedging supplement enters into effect.

Derivatives are measured at fair value starting from the contract date in the financial statements, and fair value changes are recognised in the balance sheet and income statement or in other comprehensive income.

The Savings Banks Group hedges its interest rate risk from changes in fair value and cash flow and applies hedge accounting to hedging relationships. Fixed-rate borrowing is hedged for fair value changes, whereas the future interest of variable rate lending is hedged for cash flow changes. The Group applies the EU-approved "carve-out" model of IAS 39 hedge accounting, which makes it possible for derivatives or their components to be combined and used as hedging instruments. In the Group, the EU-approved carve-out model is applied to fixed-rate borrowing. The aim is to stabilise net interest income and to neutralise potential change in the fair value of assets and liabilities.

Changes in the fair value of derivatives hedging fair value are recognised in the income statement under "Net trading income". When hedging fair value, the hedged item is also measured at fair value during hedging even if it would otherwise be measured at amortised cost. A change in the hedged item's fair value is recognised in the balance sheet as an adjustment to the balance sheet item and in the income statement under "Net trading income". Interest on hedging derivatives is presented as interest income and expense depending on their nature

The effective portion of the fair value changes of derivatives hedging cash flow is recognised in the reserve for hedging instruments in equity, adjusted with deferred taxes. The ineffective portion of fair value change is recognised directly in the income statement under Net trading income. Changes in the time value of interest rate options that have been recognised as hedging instruments are also recognised as net trading income, because time value is not part of the hedging relationship. Interest on hedging derivatives is presented as interest income and expense depending on their nature.

The cumulative change in the reserve for hedging instruments resulting from valuation of a hedging derivative is recognised in profit or loss as an adjustment of the hedged cash flow simultaneously with recognising the hedged cash flow. In the case of cash flow hedging, the hedged item is not measured at fair value.

When hedge accounting begins, the hedging relationship between the hedged item and the hedging derivative is documented, along with the risk management objectives and the strategy for initiating hedging. The effectiveness of the hedging relationship is assessed on a continuous basis and always on reporting dates.

3.5. Financial assets from reference period

In accordance with IAS 39, financial assets are classified into four categories for valuation (31.12.2017):

- Financial asset at fair value through profit or loss
- Available-for-sale financial assets
- Held-to-maturity investments
- Loans and other receivables

Financial liabilities are divided into two categories for valuation:

- Held-for-trading financial liabilities
- Other financial liabilities

For assets associated with the life insurance business, the Group applies a transition provision permitted by IFRS 4, under which the transition to IFRS 9 can take place on 1 January 2022, coinciding with the mandatory application of IFRS 17. Accordingly, in the 2018 financial statements, the financial assets of the life insurance business are subject to profit or loss impacts pursuant to IAS 39.

Classification in the Savings Banks Group's balance sheet is independent of the IAS 39 categories. Different valuation bases can therefore be applied to assets and liabilities recognised on the same line in the balance sheet. The classification of financial assets and liabilities recognised in the balance sheet into valuation categories is set out in Note 19.

Upon initial recognition, all financial assets and financial liabilities are recognised at fair value. In the case of assets and liabilities recognized at fair value through profit or loss, the transaction costs are recognised directly in the income statement at the time of acquisition. In the case of other financial instruments, transaction costs are included in the acquisition cost.

Financial assets and liabilities are netted in the balance sheet if the Group has a legally enforceable right to off-set in regular business operations as well as in the case of failure-to-act, insolvency and bankruptcy, and it intends to realize the items in net terms. The Group has not netted financial assets and liabilities in its balance sheet.

Financial assets are derecognised when the contractual rights to the cash flows of the financial item within financial assets expire or when the rights are transferred to another party in such a way that the risks and rewards have essentially been transferred. Financial liabilities are derecognised when their obligations have been settled and they have expired.

Financial assets recognized at fair value through profit or loss

Financial assets and financial liabilities recognised at fair value through profit and loss are further divided into financial instruments held for trading and financial instruments that are classified to be recognised fair value through profit or loss upon initial recognition.

Assets held for trading consist of listed financial instruments and derivatives that were made for hedging purposes, but which do not qualify for hedge accounting. The Group does not engage in significant trading activity on its own account, and therefore it has a very limited supply of assets held for trading. Among financial liabilities held for trading are derivative contracts that do not qualify for hedge accounting and whose fair value is negative.

Some financial assets and financial liabilities that are not held for trading purposes are subject to the option included in IAS 39 to classify financial instruments as at fair value through profit or loss. Within the Group, compound financial instruments are classified into this category; they contain an embedded derivative that is not separated from the master contract. In addition, the interests of other investors than the Savings Banks Group in the assets and liabilities of the consolidated funds are classified as at fair value through profit or loss in order to avoid accounting asymmetries arising from their treatment.

Financial instruments recognised at fair value through profit and loss are recognised in the balance sheet at fair value, and the changes in their fair value are recognised in the income statement under Net trading income.

In addition in life insurance business, investments covering unit-linked contracts are classified as financial assets at fair value through profit or loss, and they are presented in the balance sheet under Life insurance assets. Investments covering unit-linked contracts are managed at fair value.

Held-to-maturity financial assets

Held-to-maturity financial assets include interest-bearing financial assets whose payments are fixed or determinable, which mature on a specified date and are owned by the Savings Banks Group and which the Group is able to and firmly intends to hold to maturity.

Financial assets classified as held-to-maturity are measured at amortised cost or at cost less impairment losses if there is objective evidence of the impairment.

Loans and other receivables

Financial assets classified as loans and receivables are non-derivative financial assets which include fixed or determinable payments and are not quoted in an active market.

Loans and other receivables are initially recognised at fair value, taking into account directly attributable transaction costs. After initial recognition, loans and receivables are measured at amortised cost.

Available-for-sale financial assets

Financial assets that are not classified into the above categories are classified as available-for-sale financial assets.

Available-for-sale financial assets are measured at fair value. However, unlisted equity financial assets are valued at acquisition cost or at acquisition cost less impairments. Changes in the fair value of available-for-sale financial assets, adjusted for deferred taxes, are recognised through other comprehensive income in the fair value reserve in equity. Exchange gains and losses resulting from items denominated in a foreign currency are not recognised in the fair value reserve but directly in profit or loss. In the case of disposal, sale or write-down, value change is derecognised from the fair value reserve to Net investment income in the income statement.

Other financial liabilities

Other financial liabilities are recognised in the balance sheet at fair value at the time of contract conclusion and subsequently using the effective interest method at amortised cost. Excluding derivative contracts, all financial liabilities are recognised at amortised cost in the balance sheet.

Derivative financial instruments and hedge accounting

Derivative financial instruments are valued at fair value in the financial statements, and value changes are recognised in the balance sheet and income statement or in other comprehensive income.

The Group hedges its interest rate risk from changes in both fair value and cash flow and applies hedge accounting for the hedge relationships. Fixed rate borrowing is hedged for fair value changes, whereas the future interest of variable rate lending is hedged for cash flow changes. The Group applies the EU-approved "carve-out" model of IAS 39 hedge accounting, which makes it possible for derivatives or their components to be combined and used as hedging instruments. In the Group, the EU-approved carve-out model is applied to fixed-rate borrowing. The aim is to stabilise net interest income and to neutralise potential change in the fair value of assets and liabilities.

Changes in the fair value of derivatives hedging fair value are recognised in the income statement under "Net trading income". When hedging fair value, the hedged item is also measured at fair value during hedging even if it would otherwise be measured at amortised cost. A change in the hedged item's fair value is recognised in the balance sheet as an adjustment to the balance sheet item and in the income statement under "Net trading income". Interests on hedging derivatives are recorded as interest income and expense depending on their nature.

The effective portion of the fair value changes of derivatives hedging cash flow is recognised in the reserve for hedging instruments in equity, adjusted with deferred taxes. The ineffective portion of fair value change is recognised directly in the income statement under Net trading income. Changes in the time value of interest rate options that have been recognised as hedging instruments are also recognised as net trading income, because time value is not part of the hedging relationship. Interests on hedging derivatives are recorded as interest income and expense depending on their nature.

The cumulative change in the reserve for hedging instruments resulting from valuation of a hedging derivative is recognised in profit or loss as an adjustment of the hedged cash flow simultaneously with recognising the hedged cash flow. In the case of cash flow hedging, the hedged item is not measured at fair value.

Impairment loss on financial assets

Loans and receivables

The impairment losses of loans and other receivables are recognised on an individual and collective basis. Impairment losses are assessed individually if the debtor's total exposure is significant. Otherwise, impairments are assessed collectively.

Impairment losses on loans and receivables are recognised when objective evidence has emerged that the capital or interest of the loan or receivable will not be received, and the corresponding collateral is not sufficient to cover the amount. Evaluation of objective evidence is based on evaluation of the client's inability to pay and sufficiency of collateral. When recognising impairment, the collateral is measured at the amount it is likely to yield on realisation. Impairment loss is determined by the difference between the book value of the receivable and the present value of the estimated recoverable future cash flows, taking into account the fair value of the collateral. Estimated future cash flows are discounted using the receivable's original effective interest rate.

When calculating impairment of receivables on a collective basis, loans and receivables are classified into groups, after which the need for impairment losses is assessed collectively. The classification of receivables into groups is based on similar credit risk characteristics in order to assess the need for group-specific impairment losses on assets for which grounds for impairment have not yet been identified on an individual receivable basis.

Impairment losses on loans and receivables are recognised in the deduction account and offset against loans and receivables. In the income statement, impairment losses are recognised in the item impairment losses on loans and receivables. If it later appears that the impairment is not permanent, it is reversed.

Loans and receivables whose recovery is deemed impossible are recognised as credit losses. Credit losses are recognised in the deduction account. Non-recoverable loans and receivables are recognised as permanent credit loss, and the impairment is cancelled when the normal recovery process is completed and the final amount of loss on an individual loan or receivable can be calculated.

Held-to-maturity financial investments

If objective evidence emerges at the reporting date that the value of a debt instrument classified as held-to-maturity has decreased, the debt instrument is subjected to an impairment test.

If during the review the value is found to be impaired, impairment is recognised in the income statement under "Net investment income". Impairment loss is determined by the difference between the book value and the present value of the estimated recoverable future cash flows. Estimated future cash flows are discounted using the receivable's original effective interest rate.

Available-for-sale financial assests

If objective evidence emerges at the reporting date that the value of a security classified as an available-for-sale financial asset may be impaired, the security is subjected to an impairment test. If during the review the value is found to be impaired, the loss accumulated in the fair value reserve is recognised in the income statement under "Net investment income".

Objective evidence of impairment of an investment in an equity instrument includes e.g. serious financial difficulties of the issuer or debtor as well as information about significant, negative changes in the technology or market environment or in the economic or legal environment in which the issuer operates. Such evidence suggests that the acquisition cost of an investment in an equity instrument may not be recovered. Also, a significant or prolonged decline of the fair value of an investment in an equity instrument below its acquisition cost is objective evidence of impairment. The management of the Group has determined that a decline in fair value is significant when it is more than 30% below the instrument's acquisition cost and long-term when the impairment has continuously lasted for more than 18 months.

Impairment loss on an equity investment is recognised as the difference between the acquisition cost and the fair value at the reporting date less any earlier impairment losses on that an item which have been recognised in the income statement. Impairment losses on an investment in an equity instrument which is classified as available-for-sale are not reversed through profit or loss; instead, the subsequent change in value is recognised in the fair value reserve.

The impairment test of an available-for-sale non-equity financial instrument, such as a bond, is mainly based on the future cash flows. A decrease in fair value which is solely due to the rise of risk-free market interest rate does not give rise to impairment loss recognition. Instead, growth of the counterparty's credit risk premium may be a sign of impaired ability to pay.

For debt securities, impairment loss is determined by the difference between the book value and the present value of the estimated recoverable future cash flows. Reversal of impairment is recognised in profit or loss.

4. Leases

A lease is an agreement whereby the lessor conveys to the lessee the right to use an asset for the agreed period for a payment or a series of payments. Leases are classified as finance leases or operating leases, depending on the substance of the rental transaction. A lease is a finance lease if it transfers a significant proportion of the risks and rewards related to ownership to the lessee. Otherwise, it is an operating lease.

The Group does not act as a lessor in finance lease agreements. Assets leased out on an operating lease are recognised in investment assets (investment property) or in property, plant and equipment, and the rental income is recognised in the income statement as equal instalments over the lease term in net income from investment property or in other operating income. Within the Group, assets leased out on an operating lease include e.g. bank-owned residential apartments.

The Group does not have assets leased on a finance lease. The rental cost of assets leased on operating lease is recognised as an expense under other operating expenses in the income statement as equal instalments over the lease term. The Group acts as a lessee for e.g. office premises, printers and laptops.

5. Employee benefits

Employee benefits include short-term employee benefits, termination benefits, post-employment benefits and other long-term employee benefits. IAS 19 Employee Benefits determines the accounting treatment of employee benefits.

Short-term employee benefits include e.g. wages, salaries and benefits, annual leave, bonuses, extra insurances and loans granted with an interest rate lower than the market rate. Short-term employee benefits are expected to be paid in full within 12 months after the end of the financial year during which employees perform the work concerned.

Termination benefits are based on the termination of employment, not on the work performed. These benefits consist of redundancy benefits.

Post-employment benefits are paid after the termination of employment. They consist of pensions or other benefits payable after the termination of employment, such as life insurance or health care. Pension plans relating to post-employment benefits are classified as defined benefit plans or defined contribution plans.

For defined contribution plans, the Group pays fixed pension contributions to pension insurance companies. The Group has no legal or actual obligation to make additional payments in case the pension insurance company is not able to make the benefit payments. The most significant contribution-based plan is the basic employee insurance (TyEL) subject to the Pensions Act. Independent pension insurance companies are responsible for this pension scheme within the Group.

The Group also has defined benefit plans, for which the Group still has obligations after making the payments for the financial period. For benefit-based pension plans, the present value of obligations arising from the plan at the reporting date less the fair value of plan assets is presented as a liability.

The Group uses a professionally qualified actuary to determine the essential obligations arising from post-employment benefits. The calculation is performed using the projected unit credit method. When calculating the present value of the pension obligation, the discount rate is determined on the basis of the market return on high-quality corporate bonds at the reporting date.

Other long-term employee benefits are based on long-term employment. Such benefits include e.g. paid vacation and bonuses or gifts, which are granted on the basis of accumulated years of service.

6. Life insurance assets and liabilities

Classifying insurance policies into insurance and investment contracts

Life insurance policies granted by the Group are classified as either insurance contracts or investment contracts. Insurance policies classified as insurance contracts include those with a significant insurance risk or where the policyholder has the right or the opportunity to amend the agreement in such a way that he becomes entitled to a discretionary share of the company's surplus. Purely unit-linked insurance policies which do not have a significant insurance risk are classified as investment contracts.

The Group's insurance contracts are treated in the Group's financial statements in accordance with IFRS 4 Insurance Contracts. Policies classified as investment contracts (asset management policy), on the other hand, are treated in accordance with IAS 39. Reinsurance contracts are treated in accordance with IFRS 4 as insurance contracts.

Liabilities for insurance and investment contracts

Insurance liabilities are recognised in accordance with the Finnish Accounting. The actuarial basis of calculation used when determining insurance contract liability complies with the requirements of national regulations. The basis includes assumptions about biometric factors, operating costs and the interest rate.

Insurance contract liability for unearned premiums and the liability for outstanding pensions are defined based on insurance savings, which consist of premiums paid, credits, debits and value changes, supplementing it with future interest and operating expense. The discount rate for insurances entitling the policyholder to discretionary benefits is at maximum 0.5 per cent. The average discount rate is 0.1 per cent.

Outstanding claims provisions other than the liability for outstanding pensions are short-term liabilities which consist of reported but not settled claims and incurred but not reported claims. Liability for the reported but not settled claims is valued at nominal value, whereas liability for incurred but not reported claims is calculated on an actuarial basis.

Reinsurance-related receivables and liabilities are measured similarly to the cedant's liabilities and assets. Should the company have any due receivables, these receivables would incur impairment in profit or loss.

Liability arising from investment contracts is measured in accordance with the market value of the assets related to the investment contracts.

Adequacy test of liabilities for insurance policies

According to IFRS 4, an insurer shall assess at each reporting date whether the recognized insurance liabilities are adequate, using current estimate of future cash flows from insurance contracts. Liability adequacy test is performed on the insurance contracts of the Group which are valued according to IFRS 4. In the liability adequacy test, the liability book value based on the national principles for insurance contracts is compared with the present value of all of the cash flows related to the insurance contracts including a risk margin. If the liability adequacy test shows that the liability calculated based on the Finnish accounting principles is, as a whole, less than the market value of liability, then an add-on equal to the difference between the two liabilities is added to the liability of the Group.

The life insurance business' equity principle

The objective of the Group's life insurance business is in the long term to provide the insurance savings with discretionary benefits a total benefit (before charges and taxes) equivalent to the level of return on the Finnish government's long-term bond yields. For savings insurance policies, the target is to achieve a level of return equivalent to that of 5-year bonds, whereas for pension insurances the target level for return equals 10-year bonds.

The total benefit of an investment policy refers to the technical or annual interest of the insurance contract and to the additional interest credited to the contract.

7. Intangible assets

An intangible asset is an identifiable asset that has no physical substance. The intangible assets of the Group include e.g. computer softwares and software licenses.

An intangible asset is recognised in the balance sheet only if it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the acquisition cost of the asset can be measured reliably. The future economic benefits may include sales revenue on services or goods, cost savings or other benefits resulting from the Group utilising the asset.

The initial measurement is done at cost. The cost comprises the purchase price, including all costs that are directly attributable to preparing the asset for its intended use. The acquisition cost does not include the costs of using the asset, staff training expenses or administration and other general overhead costs.

After initial recognition, an intangible asset is recognised at its cost less accumulated amortisation and impairment. Intangible assets are amortised on a straight-line basis over the cause of their known or estimated useful lives. The useful life of intangible assets is reviewed annually.

Amortisation begins when the asset is available for use. An intangible asset that is not yet available for use is tested for impairment annually.

Estimated useful lives are mainly as follows:

Information systems purchased from a third party	3-5 years
Basic systems	5-10 years
Other intangible assets	2-5 years

Intangible assets are recognised in the item Intangible Assets in the balance sheet. Amortisation and impairment losses are recognised in the income statement under Depreciation, amortisation and impairment of property, plant and equipment and intangible assets.

8. Property, plant and equipment and investment property

The Group's property, plant and equipment include e.g. owner-occupied property as well as machinery and equipment. In addition, the Group has investment properties which produce rental income.

The Group's properties are divided according to the purpose of use into owner-occupied properties and investment properties. The purpose of investment property is to produce rental income or capital appreciation. Some of the properties are used partly as an investment and partly in own or personnel use. If these parts could be sold separately, the Group accounts for them separately according to the purpose of use. If the parts cannot be sold separately, the property is treated as an investment property only if an insignificant part of the property is used by the Group or the personnel. The division is done in proportion to the square meters used for different purposes.

Property, plant and equipment are recognised under the item Property, plant and equipment and investment property under the item Investment assets in the balance sheet. Investment property relating to life insurance business is recognised under Life Insurance assets in the balance sheet.

In the income statement, income related to owner-occupied property is recognized under Other operating income and related cost under Operating expenses. Amortisation and impairment losses are recognised in the income statement under Depreciation, amortisation and impairment of property, plant and equipment and intangible assets.

In the income statement, net income from investment property, including amortisation and impairment on investment property, is included in "Net investment income" and that related to life insurance under "Net life insurance income".

Property, plant and equipment and investment property are measured at cost less depreciation and impairment. The acquisition cost includes all costs that are directly attributable to the acquisition of the asset. Assets are depreciated on a straight-line basis over the cause of their estimated useful lives. Land is not depreciated. Costs generated after the original acquisition are capitalised in the carrying amount of the asset only when it is probable that the asset will generate greater economic benefits than was initially estimated.

Estimated useful lives are in mainly as follows:

Buildings	10-50 years
Technical equipment in buildings	3-8 years
Renovations in rented premises	3-10 years
Machinery and equipment	3-10 years

The residual values and useful lives of the assets are reviewed at each reporting date and adjusted to reflect expected changes in economic benefit, if necessary.

Gains and losses resulting from decommissioning and disposal of Property, plant and equipment are presented under other operating income and expenses in profit or loss. Gains and losses generated by investment property are presented under net investment income. Capital gain or loss is determined by the difference between the selling price and the remaining acquisition cost.

9. Provisions and contingent liabilities

Provisions are recognised when the Group has a legal or constructive obligation as a result of a past event and it is probable that the obligation will be settled and the management can reliably estimate the amount of the obligation. Where part of the obligation is expected to be reimbursed by another party, the reimbursement shall be recognised as a separate asset when it is virtually certain that reimbursement will be received. Provisions are reviewed at each reporting date and adjusted if necessary. Provisions are measured at the present value of the amount that is expected to meet the obligation.

If the above obligation exists but the requirements for recognition are not fulfilled, the obligation is a contingent liability. Contingent liabilities are not recognised in the balance sheet; instead, it is presented in the notes to the financial statements. A contingent liability shall also be assessed separately at each reporting date.

10. Taxes

The Group's income taxes include the current tax of the member companies, adjustments to previous years' taxes and changes in deferred tax balances. Taxes are recognised in profit or loss, except when they are directly related to equity or other comprehensive income. In that case, also the tax is recognised in those items.

Deferred taxes are calculated based on taxable temporary differences between accounting and taxation. Deferred tax assets and liabilities are offset for each company. Deferred tax assets and liabilities arising from consolidation are not offset. Deferred tax is measured in accordance with IAS 12 based on the effective tax rates at the reporting date which are applicable when the deferred tax is expected to be converted to income tax. A change in deferred tax resulting from a change in tax rates is recognised in the income statement or in other comprehensive income if the tax was recognised there in previous financial periods.

Tax assets arising from confirmed unused tax losses are recognised if it is probable that future taxable profit will be available and the assets can be utilised.

11. Revenue recognition

Interest income and expense

Interest income and expense are accrued over maturity using the effective interest rate method. Using this method, the income and expenses arising from an instrument are accrued in relation to the residual receivable and liability in the balance sheet until maturity. Interest income and expense related to life insurance financial assets are recognised under "Net income from life insurance" in the income statement.

When a financial asset is impaired, the original effective interest rate is used when calculating interest income. Interest is calculated for the loan balance less impairment.

Fee and commission income

Fee and commission income is generally recognised on an accrual basis. Fees and commissions for performing an operation or service are recognised as income when the operation or service is completed. Fees and commissions accruing over several years are recognised for the amount attributable to the current financial year. Fees and commissions that are considered an integral part of the effective interest of a financial instrument are recognized as an adjustment to the effective interest. However, fees and commissions for financial instruments measured at fair value through profit or loss are recognised as income at the time of the initial recognition of the instrument.

Net trading income

Capital gains and losses, valuation gains and losses, and dividend income from financial instruments recognized at fair value in profit or loss are recognised in net trading income. In addition, this item includes net income from foreign exchange operations, net income from fair value hedge accounting and change in expected credit losses from debt securities measured at amortised cost.

Net investment income

Net investment income includes net income from financial assets that are recognized at fair value through profit or loss (capital gains and losses, expected credit losses and dividend income) and net income from investment property (rental and dividend income, capital gains and losses, maintenance charges and expenses, depreciation and amortization and rental expenses).

Net life insurance income

Net life insurance income includes premiums written, net investment income for life insurance, including e.g. net income from investment property, interest income and expense, as well as dividend income. Furthermore, claims incurred and changes in insurance contract liabilities are recognised in this item.

Other operating revenue

Other operating revenue includes rental and dividend income as well as capital gains from owner-occupied property and other operating income.

12. Adoption of new IFRS standards and interpretations

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 entered into effect.

IFRS 9 Financial Instruments

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	Remeasure-ments	IFRS 9 carry-ing 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			-6,252	
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 through profit or 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	Reclassifi-cations	Remeasure-ments	IFRS 9 carry-ing 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	40,679	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**	**41,935**	**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)	31.12.2017	Change	1.1.2018
Fair value reserve	**32,611**		
Remeasurements			
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.

13. Adoption of new and amended standards 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 that date is not 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

Adoption of IFRS 16 Leases

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

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 IFRS 16 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	14,311
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.

NOTE 3: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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.

The critical estimates of the Group concern the future and key uncertainties related to estimates at the reporting date, and they relate in particular to determining fair value, impairment of financial assets, life insurance liabilities, assumptions used in actuarial calculations, recognition of deferred tax on confirmed tax losses, and the present value of pension obligations.

There have been no other significant changes to uncertainties related to accounting estimates and judgments except for the ECL model implemented due to the adoption of IFRS 9. The model is described below.

Determining fair value

The management must consider whether an individual financial instrument is actively traded and whether the market price obtained is a reliable indication of the financial instrument's fair value. In addition, the management must assess the criteria for determining when the market for financial instruments is not active. The management's judgment is also required when a financial instrument's fair value is determined using valuation techniques. If observable input data is not available in the market for the basis of the valuation models used, the management must assess what other input data is used when calculating fair value. Determination fair value is discussed in more detail in section "Determining fair value in the accounting policies".

Determination of expected credit losses

The models used in the calculation of expected credit losses include estimates and assumptions that may deviate from actual outcomes. The calculations involve several discretionary factors that require the management's judgement. The most significant of these factors are as follows:

- Criteria used to assess the significant increase of credit risk
- The bank's internal credit rating model, which determines the probability of credit loss for receivables
- The calculation models for expected credit losses, which include assumptions regarding the behaviour of receivables in various economic scenarios
- The macroeconomic scenarios included in the calculation of expected credit losses and their impact on the amount of expected credit losses
- The anticipation of the amounts and timing of future cash flows, the realisable value of collateral and the assessment of the borrower's financial situation.

Impairment of financial assets

The management must also regularly assess whether there is objective evidence of impairment of loans and receivables. Impairment testing on receivables is performed on an individual or collective basis. Impairment of an individual receivable is based on the management's estimate of the future cash flows of the receivable. Identification of objective criteria and estimation of future cash flows require the management's estimates. The principles of impairment of individual and collective receivables are presented in more detail in section "Impairment loss on financial assets" in the accounting policies.

Impairment testing of other financial assets, not recognised at fair value through profit or loss, is performed at least at each reporting date. Impairment loss is recognised in profit or loss if there is objective evidence of the impairment. For available-for-sale equity instruments, impairment is also recognized if it is considered to be significant or prolonged. The management must determine when impairment is considered significant or prolonged. More detailed principles in relation to the impairments of other financial instruments are presented in section "Impairment loss on financial assets" in the accounting policies.

Impairment of non-financial assets

At each reporting date, the Group assesses whether there is evidence of impairment of incomplete assets. Impairment testing is also carried out whenever there is any indication of impairment. Assessment of impairment of incomplete intangible assets requires the management's judgment.

A more detailed description of determining impairment is presented in section Impairment of non-financial assets in the accounting policies.

Actuarial calculations

Liabilities arising from insurance contracts involve several discretionary factors and estimates, such as assumptions about future interest rates, mortality, and probability of disability and future cost levels. The principles used to calculate life insurance liabilities are described in more detail in section Liabilities for insurance and investment contracts in the accounting policies.

Deferred tax assets

Deferred tax assets arising from tax losses are recognised to the extent that they are expected to be offset against future taxable profits. Recognition of deferred tax assets requires the management to assess the probability and amount of future taxable profit of companies with unused tax losses.

Present value of pension obligation

The present value of pension obligation is based on actuarial calculations, which include a number of discretionary assumptions related to e.g. discount rate, future increases in salaries, wages and pension, as well as inflation. Changes in actuarial assumptions affect the carrying amount of pension obligations.

RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT POLICIES OF THE GROUP

NOTE 4: CORPORATE GOVERNANCE POLICIES

Savings Banks' Union Coop General Meeting

The highest decision making authority in the Savings Banks' Union Coop (hereinafter the "Central Institution") belongs to the members participating in the general meeting. The general meeting confirms, among other things, , the supervision fees collected from the members of the Savings Bank's Group and the principles behind the fees, based on the proposal of the Board of Directors.

Supervisory Board

The general meeting elects the members of the Supervisory Board and their personal deputies for the term extending until the next ordinary general meeting. The Supervisory Board consists of 9-35 members.

The Supervisory Board had 22 members and each member has a deputy member. The Chairman of the Supervisory Board has been Mr. Eero Laesterä with Mr. Juha Viljamaa and Mrs. Kirsi Hedman acting as vice-chairman. The members of the Supervisory Board are Chairmen of the boards of Savings Banks and the deputies are deputy Chairmen of the Savings Banks' board of directors.

The Supervisory Board is responsible for monitoring the governance of the Central Institution by the Board of Directors and the Managing Director making sure that the operations are managed with sound and professional manners, pursuant to the Cooperatives Act, and in the interest of the Central Institution and the Savings Banks Group. The Supervisory Board confirms, based on the proposal of the board of directors, the principles of the Savings Bank Group, the strategy, the principles for capital adequacy management and other common objectives and policies.

The Supervisory Board has confirmed its rules of procedure, which define the duties and meeting practices of the Supervisory Board.

Board of Directors

The general meeting elects the members of the Board of Directors for the term extending until the next ordinary general meeting. According to the Central Institution rules, the Board of Directors consists of six to nine members. The annual general meeting selects the members for the term of one year. The Chairman and the deputy Chairman are appointed in the organising meeting of the Board of Directors.

The members of the Board of Directors consists largely of directors of savings banks and the representation of all size of saving banks as well as Swedish speaking banks is ensured. The Board of Directors must comply with the regulation set by the Act of the Credit institution, ECB Banking Supervision and Finnish Financial Supervisory Authority regarding the competence and independence requirements for the Central Institu-tion. Each member of the Board of Directors must present enough accurate information, so that their competence and independence can be justified. The principles concerning diversity have been taken into consideration in the composition of the Board of Directors. Each member of the Board are expected to have enough time to work for the Central Institution. The Board of Directors within the Saving Banks's Group are accounted to be one membership.

The principles concerning diversity has been taken into consideration in the composition of the Board of Directors, which have been approved 18.3.2015. The objective is to ensure the competence and diversity of the Board of Directors required by a sound corporate culture, to preserve the value through effective moni-toring of business operations and to increase the value with insight and strategic thinking. The nomination committee assess regularly the composition of the Board of Directors and give recommendation for the possible changes. The Board of Directors assess regularly through the self-assessment the members of the Board and their competence. The share of female board members was 38 per cent in 2018. By the decision of the Savings Banks Union Coop General meeting at 15.3.2018, the members of the Board of Directors were Mr. Kalevi Hilli (chairman), Mr. Toivo Alarautalahti (vice-chairman), Mr. Pauli Aalto-Setälä, Ms. Pirkko Ahonen, Mrs. Sanna Ahonen, Mr. Peter Finne, Mr. Jussi Hakala, Mr. Jan Korhonen and Mrs. Marja-Leena Tuomola The Directors are CEOs of the Savings Banks, except Mr. Aalto-Setälä, Mrs. Ahonen and Mrs. Tuomola, who are the independent members of the Board of Directors.

The Board of Directors is responsible for leading the operations of the Central Institution in accordance with the provisions of the Cooperatives Act, the Act on the Amalgamation of Deposit Banks as well as the rules of the Central Institution. The Board of Directors is also responsible for guiding the operations of the Amalgamation, formulating a strategy for the Savings Banks Group and developing intra-group collaboration.

The Board of Directors has confirmed its rules of procedure, which define the duties and meeting practices of the Board of Directors.

Committees

The Supervisory Board has appointed Nomination Committee and Remuneration Committee, and the Board of Directors has elected Audit Committee and Risk Committee. The Supervisory Board and the Board of Directors have approved the rules of procedure for the committees they each have appointed.

The task of the Nomination Committee is to prepare a recommendation regarding the members of the governing bodies of the Central Institution and the Savings Banks' service companies, along with their re-muneration.

The Remuneration Committee prepares recommendations for remuneration policies and systems of the Managing Director's and the members of the management reporting directly to managing Director's in member credit institutions and other member organisations of the Amalgamation. Furthermore, the Committee shall prepare remuneration guidelines and schemes.

The task of the Audit Committee is to assist the Board of Directors of the Central Institution in ensuring that the Central Institution, the Amalgamation and the Group apply a comprehensive and appropriately organised accounting, accounting practices and financial reporting. The Committee also supports the Board of Directors in ensuring that the Amalgamation and the Group, to the extent necessary, possess adequate and appropriately organised internal controls, internal audit systems and audit procedures. It furthermore makes sure that the operations and internal controls of the member organisations are organised as required by law, regulations and good management and governance practices; it also supervises the internal control operations.

The task of the Risk Committee is to assist the Board of Directors of the Central Institution in matters concerning risk strategies and risk-taking and to monitor that the Amalgamation complies with the risk strategies as approved by the Board of Directors of the Central Institution. The Risk Committee monitors and ensures the efficiency and adequacy of the capital adequacy management process within the Amalgamation and evaluates the adequacy of the policies, controls and processes related to these risks. The Committee assists the Remunaration Committee in creating adequate compensation systems.

In addition, the Board of Directors of the Central Institution has appointed an Asset and Liability committee to assist the Risk Committee in its area of responsibilities and to plan and co-ordinate the funding of the Amalgamation together with the Central Bank of Savings Bank Finland's Treasury.

Managing Director

The Board of Directors elects the Central Institution's Managing Director and his/her deputy. The Managing Director's tasks include the day-to-day management of the Central Institution according to the provisions of the Cooperatives Act, implementing the Savings Banks Group's strategy in line with the Board's guidelines and provisions, preparing issues for presentation to the Board of Directors and assisting the Board of Directors in the preparation of issues to be taken up by the Supervisory Board and the general meeting.

The Managing Director of the Central Institution is Mr. Tomi Närhinen and his deputy is Mrs. Anita Aalto.

Audit

The Central Institution has one auditor, which must be an audit firm approved by the Finnish Central Chamber of Commerce. This auditor also audits the combined financial statements as defined in the Amalgamation Act.

The auditor is appointed by the general meeting. The auditor's term of office ends at the conclusion of the regular cooperative meeting following the appointment.

The auditor responsible for the Savings Banks Group's Central Institution is the audit firm KPMG Oy Ab. The firm has appointed Mr. Petri Kettunen, APA, as the auditor in charge.

Legal structure of the Savings Banks Amalgamation and Savings Banks Group

The Savings Banks Amalgamation and Savings Banks Group have been described in more detail in note 1 to the financial statements.

Members of the Savings Banks' Union Coop

As of 31 December 2018, the Savings Banks' Union Coop members were:

Aito Säästöpankki Oy
Avain Säästöpankki
Ekenäs Sparbank
Eurajoen Säästöpankki
Helmi Säästöpankki Oy
Huittisten Säästöpankki
Kalannin Säästöpankki
Kiikoisten Säästöpankki
Kvevlax Sparbank
Lammin Säästöpankki
Liedon Säästöpankki
Länsi-Uudenmaan Säästöpankki
Mietoisten Säästöpankki
Myrskylän Säästöpankki
Nooa Säästöpankki Oy
Närpes Sparbank Ab
Pyhärannan Säästöpankki
Someron Säästöpankki
Suomenniemen Säästöpankki
Sysmän Säästöpankki
Säästöpankki Optia
Säästöpankki Sinetti
Ylihärmän Säästöpankki
Central Bank of Savings Bank Finland Plc
Sp Mortgage Bank Plc

Risk management and internal control framework of the Savings Banks Amalgamation

In accordance with the Amalgamation Act, the Central Institution of the Amalgamation is supervised by the Finnish Financial Supervisory Authority. Its member credit institutions are supervised by the Finnish Financial Supervisory Authority and the Central Institution. The Financial Supervisory Authority ensures that the Central Institution monitors and guides the operations of the member credit institutions in accordance with the provisions of the Amalgamation Act and that the member organisations comply with their legal obligations.

The Central Institution ensures that the Amalgamation members conduct their business according to the laws, decrees and regulations concerning financial markets as well as in line with their own rules and Arti-cles of Central Institution and the guidelines issued by the Central Institution by virtue of Section 17 of the Amalgamation Act. The Central Institution also monitors the financial standing of the member organisations.

The Central Institution must have reliable governance that makes efficient risk management possible along with internal controls commensurate with Amalgamation operations and sound risk-management systems. The principles to be followed in the risk management of the Savings Banks Amalgamation are included in the risk and solvency management principles approved by the Central Institution's Board of Directors, de-scribed in the notes to risk management.

Pursuant to the Amalgamation Act, the aggregate amount and liquidity of the Amalgamation`s own funds are monitored at the amalgamation level on a consolidated basis. The Central Institution is responsible for monitoring the operations of the member credit institutions and giving them guidance in risk management, reliable governance and internal control needed to secure their liquidity and solvency. It also guides the members in the preparation of consolidated financial statements based on uniform accounting principles. The Central Institution may also establish general operating principles for the member credit institutions to observe in operations that are considered important for the Amalgamation.

Each member credit institution operates independently relying on its own resources. A member institution may not take risks that could put the Amalgamation in danger in terms of the members' combined solvency or liquidity.

The Amalgamation must comply with the requirements regarding minimum consolidated own funds, laid down in the Act on Credit Institutions. As a minimum, the member institutions of the

Amalgamation must maintain aggregate own funds that are sufficient to cover the combined risks, specified in the Act on Credit Institutions, of the member institutions. The consolidated own funds of the member institutions must also be sufficient considering the consolidated customer risks and significant ownerships of the member institution of the Amalgamation.

The internal control system comprises financial and other controls. Internal control is the part of management and operations intended to ensure

- The achievement of goals and objectives
- Economical and efficient processes
- Management of risks related to operations
- The reliability and validity of financial and other management information
- Compliance management
- Adequate security of operations, data as well as company and customer assets, and
- Appropriate and adequate manual and automated information systems in support of business operations.

Internal control, for which all functions and organisational levels take responsibility, is part of the operational activities; it is an integral part of daily operations. Crucial for a working and effective control system is that an appropriate internal control structure and control measures have been defined for all business levels, including adequate guidelines, control measures, follow-up and reporting.

The Central Institutions Board of Directors is primarily responsible for organising, implementing and secur-ing the functioning of the internal control system. The Central Institution's Board of Directors 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:

- Risk control
- Compliance
- 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 Group's business lines.

The Board of Directors monitors the business performance and associated risks of the Amalgamation regularly and decides on reporting, procedures as well as qualitative and quantitative indicators used to assess the efficiency and performance of the operations. The Central Institution is tasked with the Amalgamation-level risk control and financial reporting.

To carry out this responsibility, the Central Institution's Supervisory Board and Board of Directors appoint the committees laid down in the Act on Credit Institutions and any other committees they consider necessary to support their work. They also confirm the organisation of the Central Institution's management and describe the main areas of responsibility.

The Board of Directors of the member credit institutions are responsible for arranging internal controls for their own organisations in accordance with legislation, government regulations and the internal guidelines of their own Board of Directors and the Board of Directors of the Central Institution. The member credit institutions of the Savings Banks Amalgamation must make appropriately organised internal control a part of their daily business operations.

The Central Institution's executive management has a functional responsibility for the operations of the Amalgamation's Central Institution under authorisation of the Savings Banks' Union Coop's Board of Directors.

At the Amalgamation level, the Central Institution's executive management is responsible for:

- Developing and maintaining measures, guidelines and instructions leading to reliable governance that enables efficient risk management, internal controls commensurate with Amalgamation operations and secure functioning of the controls
- Reporting on and controlling the quality and development of various risk areas
- Ensuring efficient and all-around functioning of the practical measures of internal controls
- Ensuring that any shortcomings and development needs of internal control are documented and reported for corrective actions to the members of the man-agement responsible for internal control in each entity, and
- Ensuring that the Central Institution's Board of Directors and Supervisory Board are aware of the functioning of the internal controls and can verify their own responsibilities in an efficient and comprehensive manner.

Internal control is supported by appropriate reporting, which is used to monitor the quality, scale and di-versity of operations, and by descriptive reporting to monitor operations, performance and risks associated with operations. Reporting shall be reliable, clear and up to date. Reporting on financial, risk management and compliance activities is prepared centrally and separately from business activities.

Member credit institutions' solvency and its control

The minimum own funds of a member credit institution may, with the consent of the Central Institution, be lower than what is required by the Act on Credit Institutions. The Central Institution may not give such con-sent to a member institution that has failed to comply with the Central Institution's guidelines referred to in Section 17 of the Amalgamation Act, unless the failure is insignificant. Such consent may be given for three years as a maximum. The member institution must, however, secure its solvency by having own funds in the amount of at least 80% of the amount required by the Act on Credit Institutions. The Central Institution may also allow a member institution to exceed the customer risk limits laid down in the Act on Credit Institutions. The Central Institution may allow, for the maximum period of three years at a time, that an individual customer risk of a member credit institution is up to 40% of the institution's own funds, while the relevant limit set in the Act on Credit Institutions is 25%. Customer risks of credit institutions and investment service companies are regulated separately in the Amalgamation Act. Similarly, the maximum percentages regarding ownership in business associations may, with the Central Institutions consent, be raised to 25% and 75%, respectively, of own funds, while the Act on Credit Institutions has set the limits at 15% and 60%.

Moreover, the Central Institution may decide that its member credit institutions are not subject to the solvency requirements set for credit institutions in Part 6 of the EU Capital Requirements

Regulation and other EU regulations based on it.

The Central Institution may also decide that the provisions of Chapter 9 of the Act on Credit Institutions and the EU Capital Requirements Regulation regarding qualitative risk management of credit institutions and their consolidation groups do not apply, partly or fully, to its member credit institutions and companies in their consolidation groups.

The Central Institution may grant the above waiver provided it meets the requirements laid down in Section 17 of the Amalgamation Act and the Finnish Financial Supervisory Authority's regulations based on the Act along with other legal requirements, and that the Financial Supervisory Authority, based on the above, has granted to the Central Institution the authority to make such decisions. The Central Institution may not grant such waiver to a member credit institution which has significantly and repeatedly failed to comply with the Central Institution's guidelines referred to in Section 17 or other obligations regarding its risk management.

Joining the Savings Banks Amalgamation; withdrawal from membership

Members of the Central Institution may include credit institutions whose rules or Articles of Association are in line with the provisions of the Amalgamation Act and whose rules or Articles of Association the Central Institution has approved. Admission of new members is decided upon by the General Meeting.

A member credit institution has a right to withdraw its Central Institution membership. Regardless of withdrawal, the aggregate amount of the member companies` own funds must remain at the level required by the Amalgamation Act.

A member credit institution may also be removed from the Central Institution membership in accordance with the Cooperatives Act. A member may also be expelled if it has failed to comply with the Central Insti-tution's guidelines issued by virtue of Section 17 of the Amalgamation Act in a manner that puts the liquidity or solvency management or the application of uniform accounting principles or their monitoring in the Amalgamation at a significant risk. Expulsion is also possible if a member institution acts materially in breach of the Amalgamation's general operating principles confirmed by the Central Institution.

The provisions of the Amalgamation Act governing the payment liability of a member credit institution also apply to a former member institution if less than five years have passed from the end of the calendar year of the member credit institution's withdrawal or expulsion when a demand regarding payment liability is made on the member credit institution.

Financial statements and audit of the Savings Banks Group

The Savings Banks Group's financial statements combine the financial statements of all its significant member organisations. Pursuant to the Amalgamation Act, the Savings Banks Group's financial statements must be prepared in accordance with the international accounting standards referred to in the Accounting Act. As per these standards, the financial statements must include all other significant organisations belonging to the Savings Banks Group. The Finnish Financial Supervisory Authority has issued detailed instructions regarding the preparation of the Savings Banks Group's financial statements. The principles followed in preparing the financial statements are described in the Note 2 of the financial statements.

Member credit institutions have no obligation to publish an interim report as referred to in Section 12 of Chapter 12 of the Act on Credit Institutions.

The Central Institution is obliged to advise its member credit institutions in applying uniform accounting principles. The member credit institutions must give the Central Institution the information needed for the consolidation. Furthermore, the Central Institution and its auditor have a right to request a copy of a member Credit Institution's audit documentation for auditing the consolidated financial statements.

The financial statements are presented to the ordinary general meeting of the Savings Banks`Union Coop.

Payment liability of the central institution and mutual responsibility of member credit institutions

According to the Amalgamation Act, the Central Institution must, as a supporting measure, pay to a mem-ber credit institution an amount needed to prevent its liquidation. The Central Institution is also liable for a debt a member credit institution cannot pay from its own funds.

The member credit institutions must pay to the Central Institution their share of the amount the Central Institution has paid either to another member credit institution as a supporting measure or to the creditor of another member credit institution as payment for a debt for which the creditor has not been able to obtain payment from the member credit institution. In the event of the Central Institution's insolvency, member credit institutions also have an obligation to pay unlimited additional amounts towards the Central Institution's debt, as provided in the Cooperatives Act.

Each member institution's liability of the amount of the Central Institutions payment is divided between the member credit institutions in proportion to their latest confirmed balance sheet totals. In each financial year, the combined annual payments collected from a member credit institution as a supporting measure to prevent another member's liquidation may not exceed, in total, five thousandths of its latest confirmed balance sheet total.

Deposit Guarantee Fund and Investors' Compensation Fund

According to the legislation concerning the Deposit Guarantee Fund, the deposit banks of the Savings Banks Amalgamation are considered to constitute a single bank in respect of deposit protection. The Deposit Guarantee Fund reimburses a maximum of EUR 100,000 to an individual account holder who has receivables from deposit banks belonging to the Savings Banks Amalgamation.

Under the legislation concerning the Investors' Compensation Fund, the Savings Banks Amalgamation is also regarded as a single bank for the purposes of compensation protection. The Investors' Compensation Fund's assets may be used to compensate an investor's receivables from organizations belonging to the Savings Banks Amalgamation to a maximum of EUR 20,000.

Remuneration

The Amalgamation's remuneration policy is compliant with the European Union and national regulations and the Finnish Financial Supervisory Authority's guidelines. The remuneration system of our personnel and management is based on current legislation, financial regulations and recommendations as well as the Finnish corporate governance rules.

The Savings Banks Amalgamation's decisions on the remuneration system of personnel and management are based on Chapter 8, "Governance and control systems", of the Act on Credit Institutions.

By 'remuneration systems' it is meant the decisions, contracts, policies and procedures that are followed in rewarding the management and personnel. The remuneration system includes both the rewarding method and the processes related to its development and implementation. The remuneration system is developed actively and taking a long-term view in order to secure the Amalgamation's competitiveness, good economic growth, inventiveness, commitment and availability of new competent persons.

The remuneration policies are in line with Savings Banks Group`s business strategy, goals and values and serve its long-term interests. The principles cover the remuneration system of the executive management of the member institutions of the Amalgamation along with the roles and responsibilities of the remuneration system. The implementation of the principles is ensured through a clear remuneration system, guid-ance that is documented consistently and comprehensively as well as clearly defined decision-making and reporting levels. The Board of Directors of each member credit institution or other member company is responsible for the remuneration principles and system of their own organization with the executive man-agement carrying out the implementation in accordance with the principles. The remuneration system is consistent with the good and efficient risk management of the member credit institutions and member companies of the Amalgamation and is always implemented within the framework of the Amalgamation's current risk-management principles. Remuneration does not encourage risk-taking that would exceed the sustainable risk level defined on the basis of the risk-bearing capacity of the member credit institutions or the Savings Banks' Union Coop. The remuneration do not lead to the situations where there might be a conflict of interest with saving bank , Saving's Banks' Union Coop, the management, the representative of the staff or another customer.

The Central Institution's Board of Directors decides, on the proposal of the Remuneration Committee, on the remuneration principles of the Savings Banks Amalgamation. The Central Institution's Remuneration Committee monitors and controls the functioning and competitiveness of the remuneration systems of the member credit institutions and companies ensuring their ability to support short and long-term goals of the Amalgamation, and prepares proposals to the Board of Directors for the development of the remuneration system.

The Remuneration Committee consists of minimum four members. The Committee is formed by three members chosen by the Supervisory Board from among its own members plus one member independent of the Savings Banks. The Committee may also use various experts who may be invited to participate in committee meetings. The make-up and work of the Committee have been organised in such a way as to allow the committee to assess independently the incentives and other impacts of the remuneration systems on the risk, capital and liquidity management.

The Savings Banks Amalgamation's Risk Committee issues a statement to the Remuneration Committee concerning the extent to which the Amalgamation remuneration systems consider the risk, capital and liquidity requirements as well as the likely timing and accumulation of income. The statement is based on on-going risk monitoring and control along with the qualitative assessment of each member organisation's remuneration systems.

The Central Institution's executive management assists the remuneration committee, the Board of Directors and the Audit Committee according to its mandate. The internal audit unit of an Amalgamation member credit institution or company prepares an annual assessment for the Board of Directors of the credit institution or company regarding compliance with the remuneration system. The internal audit of the Cen-tral Institution prepares for its Board of Directors an amalgamation-level assessment of the compliance with the remuneration system based on the company assessments. Essential findings are reported to the Central Institutions' Audit Committee and Remuneration Committee.

The remuneration of functions independent of business operations is controlled by the board of the mem-ber credit institution, member company or the Central Institution. Such remuneration may not depend on the outcome of the business unit which they control, but must be based on the achievement of the goals set for the control.

However, the Savings Banks Group does not apply the provisions of Chapter 8, Sections 9, 11 and 12, of the Act on Credit Institutions to those employees whose variable remuneration for one year does not exceed EUR 50,000. The variable remuneration for one year does not either exceeds 100% of the employee's total fixed remuneration.

Total compensation, which is the basis of remuneration, is divided into fixed and variable compensation. The variable compensation includes both short and long-term remuneration. If the amount of variable compensation exceeds EUR 50,000, it is taken into account that at least half of the compensation must be affected in non-cash form. If a person who, based on his/her job description, is assigned to a group whose professional duties may cause significant risk to a member credit institution or the company ("person affecting risk profile"), is proposed to be paid more than EUR 50,000 annually, the provisions of the Act on Credit Institutions on deferring the payment of variable remuneration are applied. A significant proportion – at least 40% of the defined variable remuneration total – is deferred and paid in 3—5 years, at the earliest. When determining the length of deferral, the person's risk profile and the nature of the business are taken into consideration.

The Savings Banks Group has identified significant risk-takers who can impact a bank's risk profile or through their actions cause considerable financial risk to a bank. The persons affecting the risk profile of the Amalgamation include the Managing Directors and other people participating in the management and decision-making in the member credit institutions, Central Institution or other member organisations along with other people with a major impact on the company's risk exposure, including people associated with functions independent of business operations. The Savings Banks' Union Coop gathers up-to-date information about significant risk-takers. Each group member is responsible for the accuracy and timeliness of its own information.

Remuneration already paid may be recovered fully or in part if the recipient has been found guilty of abuse or has intentionally jeopardised the company's future business or violated any law.

The salaries, wages and remuneration of the financial year are shown in the note 14 of the financial statements titled "Personnel expenses".

NOTE 5. RISK MANAGEMENT AND CAPITAL ADEQUACY MANAGEMENT

General principles and objectives for risk management

The Group is a financial group comprising 23 Savings Banks and their central institution, the Savings Banks' Union Coop, as well as their subsidiaries and associated companies. The Group does not form a financial and insurance conglomerate as defined in the Act on the Supervision of Financial and Insurance Conglomerates.

The member organizations of the Amalgamation form a financial entity as defined in the Amalgamations Act, 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 independent, local and regional Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, Sp-Fund Management Company Ltd, along with Savings Bank Services Ltd, which is 100 % owned by the Savings Banks' Union Coop.

The Savings Banks' Union Coop acts as the Central Institution of the Amalgamation. According to the Amalgamation Act the Central Institution has the right to steer and the obligation to monitor the operations of the member credit institutions. The Central Institution conducts its tasks of steering and monitoring on both the Amalgamation and the member credit institution levels. The Board of Directors of the Central Institution has approved the most significant risk strategies and other operating principles. It also decides on the use of necessary means of control according to the Group's operating principles. 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 has complemented with the other financial services and products provided in cooperation with the service and product companies within the Group. The most significant service and product companies of the Group are Central Bank of Savings Banks, Sp Mortgage Bank Plc, Sp Life Insurance, Sp Fund Management Company, Säästöpankkipalvelut Oy and Sp Koti.

The risk and capital adequacy management processes are regulated by the Act on Credit Institutions, the Act on Insurance Companies, the Amalgamations Act, directly binding EU regulations together with the regulations and guidelines of the FIN FSA. According to the Amalgamations Act the minimum consolidated capital adequacy and liquidity of the companies within the Amalgamation shall be controlled on a consolidated basis at the Amalgamation level.

The membership of the Amalgamation includes the responsibility for the operations of the Amalgamation and its member institutions. The responsibility means that each of the member institution in their decision-making takes into account the effect on the operations of their own organization as well as on the operations of the other member institutions within the Amalgamation. Each Savings Bank takes risks within its own funds, capital adequacy and liquidity and operates within its own risk-bearing capacity.

The objective for the Amalgamation's risk management is to recognize the threats and possibilities affecting the implementation of the Amalgamation's strategy.

The objective of the capital adequacy management is to ensure the risk-bearing capacity of the Amalgamation and its member organizations as well as the continuity of their operations. The Amalgamation's strategy defines the objectives for risk-bearing capacity and risk appetite together with other risk management objectives in relation the business objectives.

The Amalgamation has efficient corporate governance ensuring adequate risk management as well as adequate internal control and risk management framework. The corporate governance, internal control and risk management framework must comply with legislation and the regulations and guidelines issued by the authorities. The principles of the corporate governance are described in more detail in Note 4 Corporate governance policies.

The Group conducts retail banking, central credit institution services, mortgage credit banking, investment and asset management, life insurance and real estate brokerage. The most significant risks affecting the banking segment are credit, interest rate and liquidity risks. The life insurance business is affected by the market, insurance and counterparty risks. Business and operational risks including legal and compliance risks arise within all business areas.

Risk management principles and governance

Risk management framework includes identifying, assessing, measuring, mitigating and monitoring risks arising from the Amalgamation's business operations. The purpose of risk management is to minimize the likelihood of unforeseeable losses or reputational risk in order to ensure the implementation of the Group's strategy.

Risk and capital adequacy management enables the identification, assessment and measurement of risks, limiting them to a level of the Amalgamation's risk appetite. The capital needed for the various risk areas and business lines is determined in a reliable and independent manner and allocated systematically. This is done based on current and planned risk-taking and taking into account the requirements of appropriate liquidity management.

The Central Institution is responsible for the risk and capital adequacy management and the adequacy and maintenance of the risk management framework at the Amalgamation level. The Central Institution gives the member organizations guidelines in risk management, corporate governance and internal control in order to ensure their liquidity and capital adequacy. The Central Institution also gives guidelines to the member organizations regarding the accounting principles for preparation of Group's consolidated financial statements. The Central Institution monitors that the member institutions within the Amalgamation comply with internal operating principles and follow the rules of good banking practices in their customer relationship. The Central Institution approves the principles for the internal control framework. The risk management strategy is based on the objectives and business strategy, risk management instructions and guidelines and authorization structure approved by the Board of Directors together with the risk and follow-up reporting related to the most significant business lines.

The member institutions are responsible for the risk management framework and the risk and capital adequacy management within their own organizations in relation to the nature, scale and complexity of their business. The basis for risk management within the Amalgamation is that a member institution does not take such significant risks in its operations that it would jeopardise the liquidity and/or the capital adequacy of the member institution. When each member institution operates within its risk-bearing capacity and ensures its' liquidity and capital adequacy even during less favourable economic conditions, also the liquidity and the capital adequacy of the Amalgamation are ensured. The Board of Directors of the member institution defines the risk appetite by approving the risk area specific risk strategies, risk limits and other thresholds. The monitoring follows the implementation of the risk strategies and reporting of the risk limits and other thresholds conducted independently from the business operations.

In order to ensure the adequacy of the risk management within the Amalgamation the Board of Directors of the Central Institution has set a Risk Committee. The task of the Risk Committee is to assist the Board of Directors of the Central Institution in matters concerning risk strategies and risk-taking and to monitor that the Amalgamation complies with the risk strategies as approved by the Board of Directors of the Central Institution. The Risk Committee monitors and ensures the efficiency and adequacy of the capital adequacy management process within the Amalgamation and evaluates the adequacy of the policies, controls and processes related to these risks. Risk Committee congregates monthly.

The task of the Asset and Liability Committee is to assist the Board of Directors and Risk Committee in their areas of responsibilities and ensure that the structural liquidity and market risk including interest rate and investment risk of the Amalgamation remain at the level that ensures the continuity of the Amalgamation's operations. In addition, the Asset and Liability Committee plans and co-ordinates the funding and liquidity management of the Amalgamation together with the Central Bank of Savings Bank's Treasury.

The Central Institution has established the following functions, independent of business operations, to ensure an efficient and comprehensive internal control system for all member organizations of the Amalgamation:

- Risk Control
- Compliance
- Internal Audit

The task of the independent Risk Control unit is to ensure and monitor that the risk management framework of the Amalgamation is adequate in relation to the nature, scale, complexity and risk level of the Amalgamation's business operations. The Risk Control unit assists the Board of Directors and senior management of the Amalgamation in their task to arrange adequate risk management framework and monitor the functionality and efficiency of the risk management framework.

The Compliance unit ensures that the Amalgamation complies with the legislation and authorities' regulation and guidelines. The Compliance unit is responsible for monitoring that the Amalgamation complies with the internal guidelines, ethical guidelines given to the personnel and other guidelines applied within the financial markets.

The Internal Audit monitors that the internal audit of all the institutions belonging to the Amalgamation and the Group is appropriately arranged. As an independent unit Internal Audit ensures that the Board of Directors, Supervisory Board and senior management of the Central Institution has a fair and comprehensive view of the profitability, efficiency, adequacy of internal control and level of risk positions of the Group's, Amalgamation's and its member institutions.

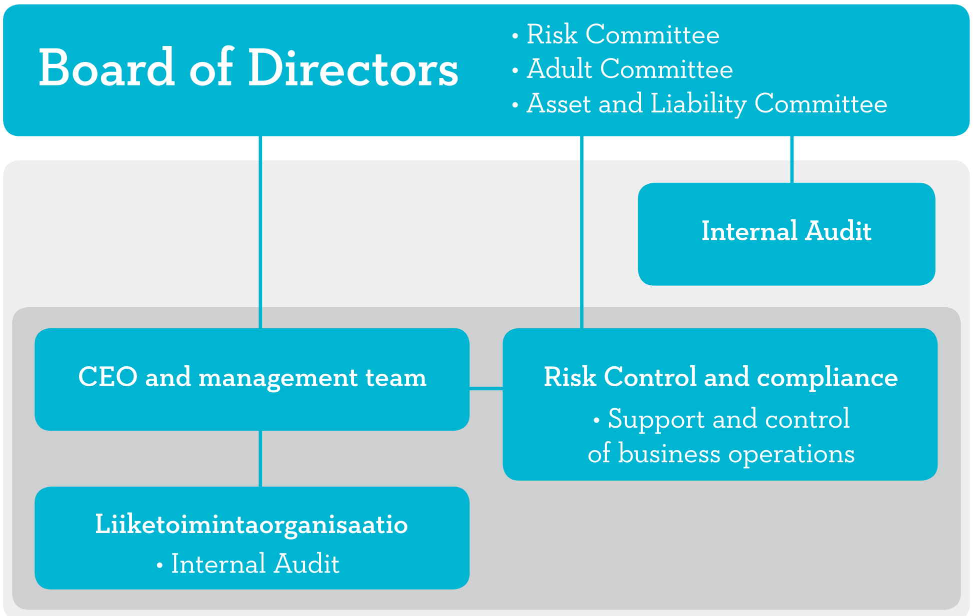


Chart: Risk management governance of the Central Institution

The Boards of Directors of the Amalgamation's member organizations are responsible for arranging the internal control framework within their own organizations in accordance with legislation, government regulations and the guidelines of the Board of Directors of the Central Institution. The CEOs together with the other senior management of the member organizations are responsible for arranging internal controls for their own organizations in accordance with legislation, government regulations and the internal guidelines of their own Board of Directors and the Board of Directors of the Central Institution.

The methods of risk management in the Amalgamation are maintained and developed by Central Institution's Risk Control unit. The objective is to ensure that the risk management covers all material risks, including any new and previously unidentified risks.

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 made decisions is monitored through approval and verification process, controls and reconciliations together with adequate monitoring and reporting.

Risk strategies and limit structure for each risk area have been established at the Amalgamation and member organization level. The risk strategies are complemented by the operational guidelines of the Board of Directors of the Central Institution. The risk strategies include the identification, measurement and assessment of risks and the description of limits, monitoring and reporting of the risks.

The risk positions are regularly reported to the Board of Directors of the Central Institution. The Board also approves the framework for risk appetite by setting risk limits and other thresholds for different risk areas at the Amalgamation level.

Pillar III disclosure principles

The Amalgamation's Pillar III disclosure principles has been established in accordance with the effective legislation and authorities' regulations and also taking into account the Amalgamation' long term strategy and business plan. The objective of the Pillar III disclosure principles is to ensure that the amount and quality of the published information is adequate in relation to the nature, scale, complexity and risk level of the Amalgamation's business operations and taking into account the specific features of the Amalgamation's business operations. To achieve this objective, the Amalgamation assesses the materiality of the information from the stakeholder point of view and evaluates what can be classified as proprietary or confidential information. The Savings Banks Amalgamation publishes all relevant information of the business and various risk areas, which are based on a selected business strategy.

The Amalgamation's Board of Directors approves the Pillar III disclosure principles and the Central Institution's management prepares the disclosure principles. The principles are updated at least annually or whenever the Amalgamation's operating environment, business model, regulatory and/or regulatory framework change materially. The Pillar III information of 2018 is published in the separate Pillar III-report. However, the Amalgamation assesses the need for more frequent publication if the market conditions, financial performance or change in the risk position would require that.

Capital adequacy management

The objective of the capital adequacy management process is to ensure that the quantity and quality of capital are adequate and in proportion with the nature, scale and complexity of the Amalgamation's operations and with all the risks resulting from its business operations and operating environment. To achieve this objective, the Amalgamation identifies and assesses the risks associated with its business operations and ensures that its risk-bearing capacity is adequate when compared to the sum of all risks. The Amalgamation's capital adequacy management is based on the capital adequacy requirements and internal assessment process of capital adequacy defined in the Capital Requirements Directive (CRD IV) and Regulation (CRR) Pillar I of the European Parliament and of the Council. In the internal assessment process, the Amalgamation estimates the amount of capital need to cover any unforeseen losses resulting from risks outside of Pillar I.

The Board of Directors of the Central Institution has the responsibility for the management of the Amalgamation's capital adequacy. The Board of Directors of the Central Institution approves the basis, objectives and principles for the Amalgamation's capital adequacy management. The Board of Directors also confirms the overall requirements for the measurement and assessment of capital adequacy and the overall principles for the management process of capital adequacy. In practice, this means that the Board of Directors approves the risk strategies and defines target levels for the capital needed to cover all material risks caused by the Amalgamation's business operations and changes in the operating environment. The Board of Directors monitors regularly the profitability and risk profile of the Amalgamation and makes the decisions on necessary reporting and procedures together with the qualitative and quantitative measures that have used to assess the efficiency and profitability of the operations.

The Board of Directors of the Central Institution has set a quarterly followed threshold for the capital ratio. The long-term minimum requirement for the CET1 capital is 18%

Stress test

The Amalgamation uses stress tests to assess its own risk position and the adequacy of its capital. The purpose of stress tests is to estimate how different exceptionally serious but possible situations may affect the profitability, capital adequacy and adequacy of own funds. Stress tests have designed to identify the key risks to the Amalgamation and to assess how vulnerable its structure is to the occurrence of those risks. The objective of the capital adequacy management is also to maintain and develop the quality of the risk management framework.

Capital contingency plan

The Amalgamation's capital contingency plan has done in order to be prepared for unforeseeable events that may threaten its capital adequacy. The capital contingency plan includes target and follow up levels set by the Board of Directors for the quantity and quality of the capital, that are to be monitored and controlled quarterly by the Risk Control unit of the Central Institution. In the event that capital adequacy falls to the level of or below the early warning threshold, the Risk Control unit of the Central Institution shall analyze the reasons causing the situation and report the findings to the Board of Directors's Risk Committee and Board of Directors who will make the necessary decision on the activation of the contingency plan.

Pillar I capital requirement

The biggest capital requirements for the credit and counterparty risk are coming from the exposures secured by mortgages on immovable properties, corporate and retail exposures. The standard method is used to calculate the capital requirement to the credit risk of Savings Banks. The capital requirement to operational risk has calculated by the basic method. The capital requirement relating to market risk is calculated with the basic method on the foreign-exchange position.

Pillar I capital requirement (EUR 1,000)	31.12.2018	31.12.2017
Exposures to central governments or central banks	9	
Exposures to regional governments or local authorities	36	40
Exposures to public sector entities		
Exposures tu multilateral development banks	5	13
Exposures to international organisations		
Exposures to institutions	2,657	3,083
Exposures to corporates	82,875	80,237
Retail exposures	68,675	68,030
Exposures secured by mortgages on immovable property	171,783	155,476
Exposures in default	4,918	4,317
Exposures associated with particularly high risk	720	646
Exposures in the form of covered bonds	419	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)	34,730	37,575
Equity exposures	6,820	7,035
Other items	11,629	11,289
Capital requirements for credit and counterparty credit risk	**385,277**	**368,154**
Capital requirement for credit value adjustment (CVA)	**5,794**	**5,803**
Capital requirement for market risk	**3,067**	**3,190**
Capital requirement for operational risk	**36,708**	**36,108**
Own funds in total	**430,845**	**413,256**

Own funds and capital ratio

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 984.2 million (939.1). Savings Banks Amalgamation does not have additional Tier 1 capital. The growth in CET1 capital was due to the profit for the period. 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 (5164.7), 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 (569.4) 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 II requirement of set by the Financial Supervisory Authority and
- The country-specific countercyclical CET1 capital requirements of foreign exposures.

The Finnish Financial Supervisory Authority is responsible for domestic macro prudential decision making after hearing the Bank of Finland, Ministry of Finance and Ministry of Social Affairs and Health. Decisions on the activation of macro prudential instruments are taken on a quarterly basis expect for decisions on O-SII buffers, risk weights for loans secured by mortgages on immovable property (CRR Article 124 and 164) and systematic risk Buffer. Decisions on the activation of these instruments have taken at least once a year.

In the beginning of the year 2018 Credit Institution Act was updated to include a new macro prudential 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 decision made by the FIN-FSA Board to lower the maximum LTC ratio from 90 % to 85 % for residential mortgage loans other than first-home loans came into effect on 1 July 2018. In the year 2018 FIN-FSA decided not to impose countercyclical buffer requirement (CCyB) on credit institutions, and therefore CCyB remained at zero. CCyB can vary from 0-2.5% of risk-weighted assets. FIN-FSA did not impose additional O-SII capital requirement for Savings Banks Amalgamation.

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.

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	**0**	**0**
		0
Tier 1 capital (T1 = CET1 + AT1)	**948,235**	**939,082**
Tier 2 capital before regulatory adjustments	29,736	45,483
Total regulatory adjustments to Tier 2 capital	0	0
Tier 2 (T2) capital in total	**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

Solvency ratio	31.12.2018	31.12.2017
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)	18.2 %	19.1 %

Capital requirement	31.12.2018	31.12.2017
Total capital requirement	977,970	984,565
Capital requirement total*	593,940	569,379
of which: Pillar II 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 II 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 % (8.1). 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.

(EUR 1,000)	31.12.2018	31.12.2017
Tier 1 capital	948,235	939,082
Leverage ratio exposure	11,035,250	10,640,780
Leverage ratio	8.6 %	8.8 %

Pillar III note includes the information in accordance with the EU's Capital Requirements Regulation (575/2013) regarding the capital adequacy of the Amalgamation.

Resolution plan

The Directive of the European Parliament and of the Union 2014/59/EU on the recovery and resolution framework of credit institutions 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 implement 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 II -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.

Banking segment

Credit and counterparty risks

The credit risk is the most significant risk of the Banking segment. The management and monitoring of the credit risk plays a major role when ensuring the adequacy of capital compared to business risks and losses caused by risk occurrence.

Credit risk is defined as a possibility that a counterparty may not meet its contractual obligations. The largest source of credit risk is lending, but credit risk (counterparty risk) may also occur from other types of receivables, such as bonds, short-term debt securities and derivative instruments, as well as off-balance sheet commitments, such as unused credit limits, and guarantees.

The key customer groups for Banking segment are retail customers, corporate (small to medium) customers, forestry and agricultural customers. The major part of Banking segment funds are granted as loans to the customers.

Management of credit risk

The Board of Directors of the Central Institution steers the Banking segment's credit risk management, the methods used, as well as their monitoring and reporting by approving the credit risk strategy, other guidelines and by setting the risk limits and other thresholds. The Risk Control unit of the Central Institution monitors that the member institutions comply with these principles.

The Risk Control unit of the Central Institution is responsible for the maintenance and updating of the approved credit risk strategy in cooperation with the Risk Committee set by the Central Institution's Board of Directors. The strategy is updated at least annually or whenever the Amalgamation's operating environment, business model, regulatory and/or regulatory framework change materially.

The credit risk strategy is supported by operational level instructions and guidelines issued by the Central Institution's Board of Directors'. The most important instructions are credit underwriting policy, collateral guidelines, guidelines for the recognition and management of problem customers, guidelines for the impairment and credit loss process and guidelines for collateral price follow up for real estates. The general credit guidelines also covering mortgage credit banking. Each credit institution and other company within the Amalgamation have operational level instructions and guidelines, which are approved by the Board of Directors of member credit institutions and are based on the Amalgamation-level guidelines.

The objective for the credit risk management is to restrict the effect of the risks arising from the exposure on the profitability and capital adequacy at the acceptable level. The Board of Directors of the Central Institution defines and confirms the risk limits and thresholds used for monitoring and controlling the lending portfolio by customer and industry group as well as the quality of portfolio at the Amalgamation level. The total amount of limits set on the level of member credit institution cannot exceed the limit set on the Amalgamation level.

The business strategies and the credit-underwriting policies approved by the Boards of Directors of the Amalgamation's member institutions define the maximum exposure limits to the member credit institution specific risk concentrations and steer the lending by customer groups, industries and credit ratings. The member institutions mainly grant credits within their operational areas ensuring one of the essentials features for the lending of the Savings Banks: local and comprehensive knowledge of their customers.

In the Savings Banks the Board of Directors makes the most significant credit decisions. Each Board of Directors delegates the necessary lending authorities to the banks' senior management/ management team/credit committee and other named persons involved in the lending. The credit decisions are made according to the credit-underwriting policy as approved by the Board of Directors. The main principle is decision making by two persons having lending authorization. The credit decisions are based on the customers' credit worthiness, ability to pay and other criteria, for example regarding acceptable collaterals, applied to credit decision making. The loans are mainly granted with acceptable collaterals. The collaterals are valued at fair value conservatively and their fair values are regularly monitored using both statistical information and bank's comprehensive knowledge about its operating area. The Board of Directors approves the instructions and guidelines for the valuation of the different collateral types and their collateral value applied in lending. The collateral values are conservatively defined maximum amount for each collateral type and the evaluation of the fair value of the collateral is always done on a case-by-case basis.

The credit risk is been regularly assessed by monitoring, for example, the amount of loans in arrears and the amount of non-performing loans. The customer account managers monitor the loan and collateral position of the customer based on the payment behavior and customers other activity. The Board of Directors receives regular reporting on customer exposures and non-performing loans. The reporting includes, among other things, the risk position and its development by customers, industries and credit ratings.

Credit and counterparty risk (EUR 1,000)	31.12.2018			
Exposure group	Total exposure	Guarantees	Financial guarantees	Other guarantees
Exposures secured by mortgages on immovable property	6,321,636			6,313,443
Retail exposures	1,979,993	455,043	39,344	1,136
Exposures to corporates	1,242,741	56,348	8,027	891
Exposures to institutions	104,625			
Exposures to central governments or central banks	1,092,864			
Exposures in the form of units or shares in collective investment undertakings (CIUs)	458,226			
Exposures in default	74,326	2,186	394	38
Othe exposure groups in total	286,767		186	
Total	**11,561,179**	**513,576**	**47,951**	**6,315,508**

Credit and counterparty risk (EUR 1,000)	31.12.2017			
Exposure group	Total exposure	Guarantees	Financial guarantees	Other guarantees
Exposures secured by mortgages on immovable property	5,729,677	0	0	5,722,593
Retail exposures	1,886,460	391,827	38,015	1,071
Exposures to corporates	1,162,353	43,837	7,716	927
Exposures to institutions	117,296	0	0	0
Exposures to central governments or central banks	1,292,571	0	0	0
Exposures in the form of units or shares in collective investment undertakings (CIUs)	527,127	0	0	0
Exposures in default	72,273	2,179	180	41
Othe exposure groups in total	328,169	0	213	0
Total	**11,115,925**	**437,843***	**46,125**	**5,724,631***

*The figure for the year 2017 have been corrected.

Credit portfolio

The loan portfolio of the Banking segment was EUR 8,424 million at the end of 2018 (7,762) and increased with EUR 662 million compared to previous year-end. The lending to retail customers was 74 % (75), to corporate customers 19 % (18) and to agricultural and others customers 7 % (7).

Breakdown of loans by customer groups (EUR 1,000)			
Customer group	30.12.18	31.12.17	muutos %
Retail customers	6,223,029	5,792,227	7.4 %
SME corporate customers	1,492,768	1,404,823	6.3 %
Agricultural and other customers	708,421	565,146	25.4 %
Total	**8,424,218**	**7,762,196**	**8.5 %**

The mortgage lending was EUR 5,480 million at the end of 2018 (5,035) with growth of 8.8 % during the year (8.3).

The lending to the retail customers is mainly granted against residential collateral and, where necessary other collateral types are used. The lending to the retail customers is operated via the balance sheets of the Savings Banks excluding the Visa credit cards operated by Central Bank of Savings Banks.

Retail portfolio

The credit worthiness of a retail customer is based on the local Savings Banks' comprehensive customer knowledge and the assessment of the customers' ability to pay. The credit decision is mainly based on the customers' sufficient repayment ability. The customers' ability to pay, the credit scoring of the application together with the loan-to-value ratio forms the basis for the credit decision and the risk-based pricing.

According to the IFRS 9 Financial instruments standard effective for reporting periods beginning on or after 1 January 2018 retail exposures are classified into 9 different risk-rating classes instead of the earlier 14.

Retail customer ratings are mainly good or excellent. The ratings improved during 2018 due to for example faster and more efficient debt collection.

Retail exposures by rating distribution

31.12.2018, M€						% of portfolio	
Description	12 kk PD	Stage 1	Stage 2	Stage 3	Total	31.12.18	31.12.17
1 Excellent	0.0 % - 0.32 %	370	1	0	371	6.0 %	7.3 %
2 Good	0.33 % - 0.43 %	1,318	17	3	1,337	21.5 %	9.4 %
3 Good	0.44 % - 0.99 %	1,755	51	6	1,812	29.1 %	30.9 %
4 Average	1.0 % - 1.91 %	1,458	89	11	1,559	25.0 %	31.2 %
5 Average	1.92 % - 3.73 %	596	123	10	728	11.7 %	14.3 %
6 Weak	3.74 % - 7.78 %	111	67	11	188	3.0 %	1.0 %
7 Past due but not impaired	7.79 % - 9.85 %	52	86	48	186	3.0 %	5.2 %
8 Past due but not impaired	9.86 % - 22.3 %	3	13	21	37	0.6 %	0.6 %
D Non-performing	100.0 %	0	0	5	5	0.1 %	0.1 %
Total		**5,663**	**446**	**115**	**6,223**	**100.0 %**	**100.0 %**

Corporate portfolio

In corporate lending the Savings Banks targets at the micro and small businesses, self-employed entrepreneurs, forestry and agricultural customers that are mainly located within the operating area of Savings Banks.

The credit risk management for these corporate, forestry, and agricultural customers are based on the customer adviser's customer analysis and internal credit rating.

For corporate customers the credit decisions and risk-based pricing of the credit are based on the analysis of customers' financial statements, customers' financial position, ability to pay, competitive positioning, credit scoring of the application and the loan-to-value ratio of the application. Additionally, the impact of intended investment on the customers' financial position is evaluated.

Self-employed entrepreneurs and sole traders are mainly classified as part of the retail exposures. Exception to this reclassification are those customer relationships where specific competences are required, in these cases the customer is included in the corporate customer group. Corporate customers includes limited liability companies, joint-stock companies and limited partnerships, associations and public entities.

According to the IFRS 9 Financial instruments standard effective for reporting periods beginning on or after 1 January 2018 retail exposures are classified into 9 different risk-rating classes instead of the earlier 14.

Corporate exposures by rating distribution

31.12.2018, M€						% of portfolio	
Description	12 kk PD	Stage 1	Stage 2	Stage 3	Total	31.12.18	31.12.17
1 Excellent	0.0 % - 0.45 %	333	17	0	351	15.9 %	0.9 %
2 Good	0.46 % - 0.65 %	461	36	1	498	22.6 %	8.1 %
3 Good	0.66 % - 0.84 %	273	35	11	318	14.5 %	20.4 %
4 Average	0.85 % - 1.22 %	452	103	11	565	25.7 %	28.9 %
5 Average	1.23 % - 2.43 %	185	96	21	303	13.8 %	22.5 %
6 Weak	2.44 % - 4.85 %	34	40	15	89	4.0 %	5.6 %
7 Past due but not impaired	4.86 % - 8.93 %	13	27	14	54	2.4 %	11.7 %
8 Past due but not impaired	8.93 % - 21.0 %	1	4	8	13	0.6 %	1.4 %
D Non-performing	100.0 %	0	0	10	11	0.5 %	0.5 %
Total		**1,751**	**358**	**93**	**2,201**	**100.0 %**	**100.0 %**

Number of housing cooperatives has significantly increased during the year 2018. This has an influence on both better rating distribution of corporate exposures and low increase in expected credit loss compared to portfolio increase. Risk class 1 includes public sector exposures, which have not been rated previously.

Concentration risks

The credit risk concentrations referred to in the credit risk strategy may arise when the loan portfolio contains large amounts of loans and other exposures to the following:

- Single counterparty
- Groups consisting of single counterparties and their interest groups
- Certain industries
- Against certain collateral
- With identical maturity
- Same product/instrument

The total amount of credit granted by the Amalgamation or an individual member credit institution to a single customer and/or customer group must not exceed the maximum amounts set in the Credit Institutions Act or other acts, or the regulations given by the Financial Supervisory Authority or other regulatory authority. The concentration risks caused by an individual counterparty are restricted with limits and guidelines related to the maximum customer exposure, both on the Amalgamation and the member credit institution levels. The Amalgamation does not have any large exposures, which would be exceed the limit of 10 % of group's own assets set by EU capital adequacy regulation.

The largest counterparties of the Amalgamation are various government papers and derivate counterparties due to maintain the liquidity reserves. The 20 largest exposures are together 1.7 % of the total lending portfolio. The largest industries in the corporate portfolio are real estate and construction, which are 60.8 % of the total corporate portfolio.

Corporate exposures by industry

Industry (EUR 1,000)	31.12.2018	31.12.2017
Basic industries, fisheries and mining	6.3 %	6.4 %
Industry	5.8 %	5.9 %
Energy, water and waste disposal	1.1 %	1.4 %
Construction	8.8 %	8.9 %
Trade	7.6 %	8.3 %
Hotels and restaurants	3.0 %	3.3 %
Transport	3.2 %	3.9 %
Financing	1.6 %	1.3 %
Property	51.9 %	48.9 %
Research, consulting and other business service	5.7 %	6.2 %
Other services	4.9 %	5.4 %
Total	**100.0 %**	**100.0 %**

Certain concentration risks arise from the local and regional operative model of the Savings Banks. At the Amalgmation level single counterparty concentration risks are also managed with risk limits and thresholds set, monitored and reported for certain industries.

Non-performing loans and payment delays

The non-performing loans, payment delays and expected credit losses are followed regularly at the level of member credit institutions and at the level of the Amalgamation. The non-performing loans of the Amalgamation levelled with the previous year and were approx. 1.7 % (1.2) of the loan portfolio. In certain circumstances if the customer would otherwise face financial difficulties in the future the customer may be granted a change in the terms and conditions of the loan, for example interest-only period or restructuring the loan. The reason for these arrangements is to ensure the customers' ability to pay and avoid possible credit losses. The prerequisite for granting any forbearance measures to the loans is that the customers' financial difficulties are estimated to be short-termed and temporary. The Amalgamations forbearance in total was EUR 21.7 million euros (26.6)

Payment delays and non-performing loans (EUR 1,000)	31.12.2018	Share (%)	31.12.2017	Share (%)
Payment delays, over 30 days	139,730	1.7 %	110,305	1.4 %
of which: 30-89 days	74,130	0.9 %	43,867	0.6 %
of which: over 90	65,600	0.8 %	66,438	0.9 %
Forberance in total	21,692	0.3 %	29,293	0.4 %

Expected credit losses (ECL)

Expected credit losses have calculated in 2018 based on IFRS 9 standards, hence they are not completely comparable with previous years IAS 39 standards' calculations.

Expected credit losses have calculated on the contract level and those have divided by three different stages based on the condition of contract. In addition to the customer and contract information, the calculation will take into account future economic developments as estimated by the Savings Banks Group Chief Economist.

Chief Economist is producing assumptions used to calculate the Probability of Default for different scenarios. The future value of real estate collaterals are depending on the assumptions of Chief Economist about real estate price movements within different scenarios. Basic, mild and deep recession scenarios are the same as used in the ICAAP calculations. Note 2 Accounting policies includes the further description about ECL model.

The contract is in stage 1, if credit risk has not increased significantly since initial recognition, expected credit loss is calculated based on 12 months credit loss. The contract will be switched to stage 2, if credit risk has increased significantly since initial recognition and expected credit loss has calculated based on lifetime of the credit. Lastly, stage 3 has used if contract has defaulted. Then expected credit loss has calculated based on lifetime of the credit. Stage 3 includes exposures, which have one or more actual events that have negative impact on cash flows. All the stage 3 ECL amounts are evaluated at least quarterly.

Exposures is returning to stage 1, when it has fulfilled the stage 1 requirements for past 12 months. The same can be implemented for returning to stage 2 from stage 3. All returned exposures from stage 3 to stage 2 are under the monthly evaluations of expected credit losses.

The total amount of stage 3 exposures at its starting point was EUR 18.1 million and expected credit losses for those were EUR 0.8 million. These contracts have resettled due to the weaker financial position of customer or guarantees.

Loans and receivables whose recovery is deemed impossible are recognized as credit losses. Credit losses have recognized in the deduction account. Non-recoverable loans and receivables are recognized as permanent credit loss and the impairment is cancelled when the normal recovery process is completed and the final amount of loss on an individual loan or receivable can be calculated.

Impairment losses on loans and receivables decreased during 2018 and were EUR 34.3 million at the end of the year (42.2). Expected credit losses are 0.39 % (0.54) of the credit portfolio, moreover, share of retail customers is 0.32 % and corporate customers 0.62 %. Amount of expected credit losses are EUR 22.2 million for retail customers, EUR 10.0 million for corporate customers and the other exposures EUR 1.7 million.

Number of housing cooperatives within the corporate credit portfolio has increased with 33 % during the year 2018. The expected credit losses are low for housing cooperatives due to both good credit ratings and comprehensive guarantees. This increase in share of housing cooperatives has brought done the share of expected credit losses in the credit portfolio.

Note 2 presents more about the level movements of expected credit losses.

The credit portfolio is having mainly well-guaranteed contracts and the large part of portfolio has excess guarantees. The share of collateral shortfall is in average 1.53 % for retail and 3.21 % corporate customers.

	Stage 1		Stage 2		Stage 3		Total	
Customer group	Expo-sure €	Collateral shortfall %	Expo-sure €	Collateral shortfall %	Expo-sure €	Collateral shortfall %	Expo-sure €	Collateral shortfall %
Retail customers	5,663	1.43 %	446	2.18 %	115	3.97 %	6,223	1.53 %
Corporate customers	1,203	3.08 %	225	3.03 %	65	6.07 %	1,493	3.21 %
Other	548	19.96 %	133	32.26 %	28	25.77 %	708	22.50 %
Total	**7,414**	**3.07 %**	**803**	**7.40 %**	**207**	**7.56 %**	**8,424**	**3.59 %**

Market risk

Market risks in banking activities arise from the banking books of the member credit institutions consisting of lending and borrowing, wholesale market funding and investment and liquidity portfolios.

In general, market risk refers to the impact of a change in market prices on the market value of financial assets and liabilities. The most important market risk in banking activities is the interest rate risk in the banking book, which has measured through both net present value and net interest income. The principles of managing interest rate risk in the banking book have described below in the section "Interest rate risk in the banking book."

The member credit institutions of the Amalgamation do not, as a rule, engage in trading for own or customers' account. The use of derivatives is limited to hedging purposes. A member credit institution may have a so-called small trading book as defined in article 94 of the EU capital adequacy regulation. According to the definition, business related to the trading book associated with the balance sheet or off-balance sheet items of the institution must generally not exceed 5% of the total assets or be less than EUR 15 million in total. It may never be more than 6% of the total assets and no more than EUR 20 million in total. The member credit institution must arrange for regular monitoring of the small trading book limit.

Investment and liquidity portfolios

The market risk in the investment and liquidity portfolios consists of the investments' price, interest rate and currency risks. Changes in stock prices, interest rates and exchange rates affect the value and yield of the investment portfolio. The market risk in the investment portfolio has measured and followed by investment class, counterparty and sector. The investment portfolio's development and largest counterparties have reported on a regular basis to the Board of Directors and the Risk Committee.

The risks in the investment and liquidity portfolios have managed by diversifying the investments by investment class, counterparty, sector and geography.

Investment portfolio*	31.12.2017		31.12.2017	
(EUR 1,000)	Fair value	Share (%)	Fair value	Share (%)
Debt securities	651,399	51.9 %	657,193	49.5 %
Other securities	10,756	0.9 %	13,030	1.0 %
Shares	47,308	3.8 %	50,198	3.8 %
Share funds	79,290	6.3 %	81,113	6.1 %
Mixed funds	9,951	0.8 %	22,542	1.7 %
Interest funds	321,676	25.6 %	390,534	29.4 %
Hedge funds	0	0.0 %	191	0.0 %
Structured investments	12,240	1.0 %	10,776	0.8 %
Other investments	53,351	4.2 %	38,132	2.9 %
Properties	69,567	5.5 %	64,557	4.9 %
Total	**1,255,538**	**100 %**	**1,328,266**	**100 %**

* Classification of one fund changed from interest funds to other investments.

The table below presents the sensitivity analysis of the investment portfolio:

Risk factor (EUR 1,000)	Change	31.12.18	31.12.17
Interest	+ 1%	-28,348	-30,929
Share	-10 %	-10,054	-10 538
Investment properties	-10 %	-7,409	-6,582
Structured products	-10 %	-4,921	-6,229
Other investments	-10 %	-2,791	-2,045

Equity risk arises primarily from the liquidity and investment portfolios of member credit institutions. At the Amalgamation level, approximately 7% (11) of the equity portfolio consists of equity holdings necessary for operations. Other equity shareholdings are mainly publicly unlisted.

Equity portfolio (EUR 1,000)	31.12.2018	31.12.2017
Listed shares	13,502	15,640
Unlisted shares	33,806	34,559
Total	**47,308**	**50,199**

Currency risk refers to the impact of changes in foreign exchange rates on the bank's result or own funds. Minor foreign exchange risk may arise from the notes and coins in currencies, fund investments in the investment portfolio and the payments transactions handled by Central Bank of Savings Banks. Open currency risk has not allowed in deposits from the customers or in the liquidity buffer of the member credit institutions. The currency position of a member credit institution is monitored with capital adequacy calculation method (capital need is calculated if the total net currency position is more than 2% of credit institutions total own funds).

Commodity risk refers to the impact of changes in commodity prices. The business, including investment activities, of the member credit institutions of the Amalgamation does not involve commodity risk taking.

Market risk management

Limits and thresholds have been set for market risk applicable to both individual member banks and the amalgamation.

The member credit institution and Amalgamation level capital adequacy management process (ICAAP), which allocates capital to cover market risks of the banking book in normal and stress scenarios, is also an important tool in measuring and monitoring market risks included in the banking book.

Interest rate risk in the banking book

The Amalgamation's key market risk is the interest rate risk in the banking book, which is monitored using both present value risk and income risk. The business of the Amalgamation consists of retail banking, involving an intrinsic interest rate risk. Interest rate risks arise from the banking books of member credit insti-tutions, consisting of lending and deposits, wholesale market funding and investment portfolio. The trading books of the member credit institutions are so-called small trading books, defined in the capital adequacy regulation, with insignificant interest rate risk positions.

Interest rate risk refers to the adverse effect of interest rate changes on the market value (present value risk) or on the net interest income (income risk) of the balance sheet and off-balance sheet items. Interest rate risk may be further divided into the following risk types:

- yield curve risk, which arises as a result of the impact of changes in the interest rate curve on the present value of the future cash flows of assets and liabilities
- re-pricing risk, which arises from the difference between maturities for fixed rate assets and liabilities and from the timing mismatch between re-pricing for floating rate assets and liabilities
- basis risk, arising from the different interest rate bases of assets and liabilities
- optionality risk, arising from stand-alone and embedded options in which the decision to exercise may depend on interest rates. These include call and put options embedded in bonds which entitle to an early redemption of a loan or an early withdrawal without compensation.

The purpose of the management of interest rate risks is to stabilize the net interest income and present value at a level where the Amalgamation's business is profitable and to limit their fluctuations so the capital adequacy is not threatened even by severe changes in the interest rate environment. The Amalgamation's appetite for interest rate risk is described by the interest rate limits set by the Board of Directors of the Central Institution.

Interest rate risk can be managed by modifying the product and balance sheet structure, by planning the interest rate structure and maturities for investments and issued funding and by hedging interest rate derivatives.

Member Savings Banks of the Amalgamation use interest rate derivatives such as options and swaps actively in hedging their balance sheets. Interest rate risk of derivatives is monitored separately both in present value and income risk calculations.

The Amalgamation's interest rate risks are measured using both the net interest income and the change in the present value of the balance sheet of the Amalgamation. The net present value method measures the change of the net present value of the balance sheet resulting from a change in interest rates when each balance sheet item is valued as the present value of its cash flows. The income risk model predicts the fu-ture net interest income over one year with changing market interest rates.

The table below shows the net interest income's sensitivity to a 1 percentage point's parallel shift in the interest rate curve.

Net interest income sensitivity to a 1 % -point parallel shift in the interest rate curve

(EUR 1,000)	Change in net interest income			
	31.12.2018		31.12.2017	
Period	Down	Up	Down	Up
Change in the coming 12 months	1,897	16,858	-2,	18,455
Change in 12-24 months	7,023	42,596	-2,577	44,821

Liquidity risk

Liquidity risk is the risk that the bank is unable to meet its present or future expected or unexpected obligations as they come due, or is unable to do so without incurring unacceptable losses. The Amalgamation's business is retail banking where deposits are used to fund loans to customers.

On 31 December 2018 the Amalgamation held 1,094 (1,284) million euros (before haircuts) of LCR eligible liquid assets of which 77 % (82) were notes and coins and reserves held in the Bank of Finland, 16 % (14) were level 1 assets issued by governments and multinational organizations and 8 % (4) were other assets. The Amalgamation's LCR was 158 % (133) on 31 December 2018.

Assets 2018 (EUR 1,000)	Total	< 3 mon	3-12 mon	1-5 years	> 5 years
Cash and central bank reserves	839,899	839 899	0	0	0
Central bank eligible debt securities	334,204	7,204	18,659	146,568	161,773
Receivables from financial institutions	97,029	89,147	7,882	0	0
Receivables from customers and public entities	8,492,329	414,112	661,327	2,590,403	4,826,487
Other debt securities	347,799	22,998	51,125	218,637	55,039
Equity and shares	511,232	0	0	0	511,232
Other assets	241,529	54,503	0	63,994	123,032
Assets total	**10,864,537**	**1,427,863**	**738,993**	**3,019,602**	**5,678,079**

Liabilities 2018 (EUR 1,000)	Total	< 3 mon	3-12 mon	1-5 years	> 5 years
Due to credit institutions and central banks	228,018	60,118	49,104	91,796	27,000
Amounts owed to customers and public entities	6,960,135	6,212,844	672,772	72,952	1,567
Debt securities in issue	2,487,601	115,515	270,242	2,091,933	9,911
Subordinated liabilities	82,200	0	31,180	51,020	0
Other liabilities	103,849	61,196	0	2,699	39,953
Liabilities total	**9,861,803**	**6,449,673**	**1,023,298**	**2,310,400**	**78,432**

Derivatives, net cash flows	56,771	5,448	16,759	28,884	5,679

Derivatives settled on a gross basis have no relevant liquidity effect due to their small position.

Assets 2017 (EUR 1,000)	Total	< 3 mon	3-12 mon	1-5 years	> 5 years
Cash and central bank reserves	1,118,938	1,118,938	0	0	0
Central bank eligible debt securities	297,731	2,514	5,346	152,221	137,650
Receivables from financial institutions	32,961	32,610	351	0	0
Receivables from customers and public entities	7,754,952	470,814	625,363	2,370,374	4,288,401
Other debt securities	377,153	16,851	44,288	270,685	45,329
Equity and shares	582,715	0	0	0	582,715
Other assets	306,676	133,594	0	53,220	119,862
Assets total	**10,471,126**	**1,775,321**	**675,348**	**2,846,500**	**5,173,957**

Liabilities 2017 (EUR 1,000)	Total	< 3 mon	3-12 mon	1-5 years	> 5 years
Due to credit institutions and central banks	228,458	98,804	26,975	84,970	17,709
Amounts owed to customers and public entities	6,427,078	5,776,724	557,710	90,359	2,285
Debt securities in issue	2,563,128	562,460	177,905	1,822,763	0
Subordinated liabilities	100,200	600	17,400	80,142	2,058
Other liabilities	166,082	0	0	5,584	54,203
Financial liabilities total	**9 318,864**	**6,438,588**	**779,990**	**2,083,818**	**76,255**

Derivatives, net cash flows	56,771	5,448	16,759	28,884	5,679

Derivatives settled on a gross basis have no relevant liquidity effect due to their small position.

Liquidity risk management

The Board of Directors of the Amalgamation's Central Institution has the overall responsibility for Amalgamation's liquidity strategy, setting risk appetite and management procedures related to the identification, measurement, mitigation, monitoring and control of liquidity risk. The Board of Directors of the Central Institution approves the liquidity risk strategy, the funding plan and the contingency funding plan.

The Central Bank of Savings Banks is responsible for the operational implementation of the Amalgamation level liquidity strategy, which includes drafting and maintaining the operational level guidelines. Treasury is also responsible for the operational level implementation and testing of the contingency funding plan. The Treasury manages the liquidity reserve and is responsible for ensuring that its size is within set limits. An agreement has signed between the member Savings Banks and the Central Bank of Savings Banks that gives the Central Bank of Savings Banks the right to use all liquid assets in the amalgamation to support the Amalgamation's liquidity.

The Amalgamation's Asset and Liability Committee prepares and plans the liquidity strategy for the Board of Directors of the Central Institution and monitors the strategy's implementation at the Amalgamation level.

The Risk Control unit of the Central Institution is responsible for the independent monitoring of the Amalgamation level limits and thresholds set in the liquidity strategy and their reporting to the Central Institution's management, Asset and Liability Committee, Risk Committee and the Board of Directors.

The key tools in monitoring liquidity risk at the Amalgamation level are cash position, liquidity reserve and LCR. 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.

Structural liquidity risk

The Treasury monitors the structural liquidity risk of the Amalgamation on a monthly basis. The risk is measured using both the lending/deposit ratio and a gap analysis on a 10-year-horizon, measuring the suitability of the Amalgamation's funding structure for funding the balance sheet assets in the long run. The gap analysis assumes that the wholesale funding matures without refinancing.

Real estate risk

Real estate risk arises when the prices on the real estate market or rent levels fall and thus the Amalgamation receives lower returns on its real estate investments. Real estate investments are not core business in banking segment. In the Amalgamation real estate, investments have secured with full value insurance.

Property, plant, equipment, and investment property have measured at cost less depreciation and impairment. The book values and measurement at cost are described more detail in the note for investments (Note 23). Fair values of the investment properties are presented in the note 40.

Operational risk

Operational risk refers to the risk of loss arising from inadequate or failed internal processes, personnel, systems or external factors. Legal risks are also included in the operational risks. The various stages of lending and trading processes also involve operational risks as well credit, liquidity and market risks, which have assessed in the evaluation of operational risks at the Group and Amalgamation level. Strategic risks have here excluded from operational risks.

The Amalgamation's operations comply with the current legislation, government regulations, the rules of good banking practices as confirmed by the Federation of Finnish Financial Services and the principles of the management of operational risks, along with other internal guidelines of the Amalgamation.

The Board of Directors of the Amalgamation's Central Institution has the overall responsibility for Amalgamation-level operational risks and for defining risk levels and operational risk management procedures related to their identification, measurement, mitigation, monitoring and control. The Board of Directors of the Central Institution approves the principles and key operational guidelines of the operational risk management in the Amalgamation.

The Amalgamation has identified the operational risks associated with the most important products, services, operations, processes and systems. Identifying operational risks helps determine their monitoring and controls. Some of the losses caused by operational risks are covered by insurance. The continuity plans of member banks and product and service companies help prepare for significant interruptions in operations.

Within the Amalgamation, operational risks, realised losses and near misses are regularly reported to the management.

Legal risks

Legal risks refer to risk of loss due to an invalid contract or incomplete documentation and the risk of sanctions, liability to compensate customers and loss of goodwill due to non-compliance with laws or official regulations. The Group comply with standard terms worked out jointly by the banking and insurance industry. When finalising non-standard agreements, legal services are used and external experts are consulted when needed.

Compliance function has been established to ensure that Amalgamation comply with regulations and internal guidelines. Compliance function's responsibility is to ensure that the Amalgamation comply with laws, regulations and guidelines. Compliance function also ensures that the Amalgamation comply with its own internal guidelines, ethical principles for personnel and other instructions.

Business risk

Business risk describes the impact of uncertainties caused by the operating environment on Group's business. Business risks arise from competition, from changes in markets and customer behavior as well as from unexpected income fluctuations. Business risks can also arise by choosing a wrong strategy, ineffective management or slow response to changes in the operating environment. The strategic and business planning are the tools to manage and minimize the business risks at the Group and Amalgamation level.

Asset Management and Life insurance

Asset Management

In the Savings Banks Group, Sp-Fund Management Company Ltd engages in the management of fund products and the production of asset management services in terms of both the management of Savings Banks' own portfolios and for the customers of Savings Banks.

Fund capital managed by Sp-Fund Management Company totaled EUR 2,243.3 million (2,354.7). The total number of investment funds managed at the end of 2018 was 23 (22).

Life insurance

The most significant risks in life insurance concern insurance contracts and investment operations. The risks related to insurance contracts are the insurance risk, the interest rate risk and the expense risk. The technical bases applied to life insurance products in accordance with the Insurance Companies Act are prudent which means that, under normal conditions, the pricing in accordance with the technical bases produces surplus for the company.

Profitability of life insurance

(EUR 1,000)	31.12.2018			31.12.2017
	Risk premiums	Claims incurred	Claims ratio	Claims ratio
Risk insurance	2,785	1,898	68.2 %	52.6 %
Savings and pension insurance	20,644	19,885	96.3 %	97.4 %
Total	**23,429**	**21,783**	**93.0 %**	**92.3 %**

Insurance risk

The most significant insurance risks have linked to pure risk products. These products include loan insurance, which covers death, permanent disability and accidental permanent disability. Such risks have managed by the insurance terms and conditions, careful selection of risks, correct pricing and reinsurance. In permanent disability and in accidental permanent disability insurance, it is possible to increase the contributions for the existing insurance portfolio when the claims ratio weakens. In terms of the selection of risks, we have determined clear grounds for taking insurance risks. The company follows in the risk selection process instructions prepared by the reinsurer.

The sum insured exceeding certain level have reinsured and the existence of the reinsurance cover is dependent on continuous compliance with the existing instructions. The Board of Directors confirms the principles of reinsurance and the excess annually. In the same context, the credit risk related to the reinsurer has assessed.

Interest rate risk

The interest rate risks of life insurance are related to either the interest rate credited for contracts or then the interest rate credited for technical provisions. In savings products, the company uses a combination of annual interest and additional interest confirmed annually. This enables adaptation to current market situations by annually adjusting the interest rate credited to customers on market terms. This significantly reduces the interest rate risk incurred from insurance contracts. According to the principle of reasonableness, the company shall seek balanced income for contracts with guaranteed interest. The company has prepared for this by interest supplements.

Expense risk

The company's products have priced in terms of the expense loadings received from the products to cover the expenses incurred. The expense loadings have dimensioned based on product lifecycle thinking, whereby the expense loadings received from the contracts have allocated over the entire lifetime of the contract. With regard to life insurance, company analyses the profitability of insurance products at least once a year, based on which the premiums and loading of the insurance policies granted is assessed. The analysis indicates the sufficiency of the risk premiums received to cover the claims incurred, the sufficiency of the expense loadings to cover the expenses and the compatibility of the interest paid with the investment income received. By means of the analysis, company annually monitors the sufficiency of the pricing by insurance product and takes the necessary corrective steps.

Sensitivity analysis of technical provisions

The insurance portfolio includes risk insurances and savings insurances. Risk insurance policies are life insurance policies linked to loans granted by sales channels, the related cover of which may include permanent disability or accidental permanent disability insurance policies. Savings insurance policies include endowment policies, pension and group pension insurance policies and capitalization agreements. The company does not have the possibility to affect the premiums for, or other terms and conditions of, already granted insurance policies materially.

Risk insurance policies have related to mortality and disability risks. This risk has managed by the appropriate selection of risks, profitability of business-related underwriting risk and reinsurance. The largest insured-specific sum insured on company own responsibility is currently EUR 150,000 with regard to both life and disability risks. In addition, the company has catastrophe cover, which restricts the maximum amount of damage incurred from one loss event to EUR 500,000.

The majority of the savings insurance base is unit-linked, but all insurance contracts include an option to transfer the savings between the unit-linked and the guaranteed interest savings part. In recent years, this option has used so that net savings have been transferred from the guaranteed interest savings part to the unit-linked part. Savings insurance policies include a surrender option, which has restricted by terms and conditions during the first three years of the contracts. In addition, any surrender has restricted by tax legislation with regard to pension insurance. The majority of endowment insurance policies end with surrender, and it has taken into account in the lifecycle of the contract. The third uncertainty factor related to savings insurance policies is the right of the policyholder to change the payment plan of the insurance. Changes to the payment plan have not been restricted in the terms and conditions.

The guaranteed interest savings insurance policies have discounted using a contract-specific interest rate, which is not a market rate. The contract-specific interest rate varies between 0% and 0.5%. In 2018, it was an average of 0.14 %. EUR 7.8 million has been reserved for future discretionary bonuses included in technical provisions, which is estimated to cover two-thirds of the future discretionary bonuses during the next eleven years.

Risks of investment operations

The objective of the investment operations of life insurance is to achieve the best possible continuous income at an acceptable risk level, while at the same time securing the company's capital requirements and the compatibility of the structure of assets and liabilities. The most significant risks are the decline in the value of investments, an insufficient level of returns for the requirements set by technical provisions and the reinvestment risk of investment assets falling due. Risks have managed by efficient diversification, while at the same time taking into account the regulation related to assets covering technical provisions. The value of the assets covering technical provisions shall continuously be as large as the amount to be covered according to the provisions of the Insurance Companies Act.

Distribution of investment assets

Type of investment (EUR 1,000)	31.12.2018	31.12.2017
Bonds		
Bonds	2,714	3,452
Fixed-income funds	113,617	131,558
Shares, Developed markets		
Shares	11,138	12,884
Equity funds	24,494	27,042
Structured investments	1,661	1,797
Hedge funds	15	15
Real estate		
Real estate	0	0
Real estate funds	9,914	6,667
Bank receivables in investments	6,204	5,146
Derivatives	0	0
Total	**169,757**	**188,561**

Interest rate risk

Bond and fixed income fund investments according to modified duration

Modified duration (EUR 1,000)	31.12.2018	Share	31.12.2017	Share
0 - 1	5,519	5 %	4,028	3 %
1 - 3	15,874	14 %	19,861	15 %
3 - 5	28,551	25 %	31,508	23 %
5 - 7	25,414	22 %	29,022	21 %
7 - 10	17,773	15 %	26,918	20 %
10 -	23,200	20 %	23,673	18 %
Total	**116,331**	**100 %**	**135,010**	**100 %**

Counterparty risk

Bonds and structured loans according to maturity and credit rating (EUR 1,000)

Credit rating	Maturity						31.12.2018		31.12.2017	
	0 - 1	1 - 3	3 - 5	5 - 7	7 - 10	10 -	Total	Share	Total	Share
AAA	462	753	752	783	1015	1368	5,133	4 %	8,921	10 %
AA	858	1884	2252	1,316	1,632	3,360	11,302	10 %	8,415	7 %
A	1154	2,898	4,221	2,033	2,232	4736	17,272	15 %	29,873	12 %
BBB	1,945	5,418	8,038	9,020	6,692	9,997	41,109	35 %	55,992	31 %
< BBB	760	4,538	12,714	11,327	5,685	2,838	37,861	32 %	29,013	27 %
Unclassified	340	383	1,267	1906	517	902	5,315	5 %	4,593	13 %
Total	**5,519**	**15,874**	**29,242**	**26,384**	**17,773**	**23,200**	**117,992**	**100 %**	**158,229**	**100 %**

Currency risk

Investments by currency

Currency (EUR 1,000)	31.12.2018	Share	31.12.2017	Share
EUR	143,096	84 %	167,623	89 %
USD	13,781	8 %	6,763	4 %
GBP	5,025	3 %	1,807	1 %
Others	7,855	5 %	12,367	7 %
Total	**169,757**	**100 %**	**188,561**	**100 %**

On 31 December 2018, fund investments in euro-hedged funds have classified to be euro-denominated. The currencies in other funds have based on the quotation currencies of the securities included in the fund.

To protect parts of investment assets, it is also possible to use derivatives for hedging purposes, as necessary. The investment risk has monitored through sensitivity analyses and through the value-at-risk technique. Issuer manages the credit risk of investment operations and counterparty limits.

Sensitivity analysis

(EUR 1,000)		Change in capital requirement	
Risk factor	Change	31.12.2018	31.12.2017
Interest	+ 1 %-point	-7,707	-7,358
	- 1 %-point	1,108	7,358
Share	-10 %	-3,563	-3,993
Real estate	-10 %	-991	-667
Currency	Others/Euro -10 %	-2,666	-2,094
Structured loans	-10 %	-166	-180

PROFIT FOR THE PERIOD

NOTE 6: 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 (presented in Note 2).

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 7: 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 8: 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 9: NET TRADING INCOME

(EUR 1,000)	1-12/2018	1-12/2017
Financial assets and liabilities held for trading		
Capiatl gains and losses	-1,250	
Fair value gains and losses*	-26,063	182
Dividend income	4,047	
Net income from foreign exchange operations	62	-78
Net income from hedge accounting		
Change in hedging instruments' fair value	5,225	-18,471
Change in hedged items' fair value	-6,353	21,522
Net trading income	**-24,332**	**3,156**

* Including EUR -352 thousand (-10) of the ineffective part of cash flow hedges.

NOTE 10: 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 11: 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**

Premiums written (EUR 1,000)	1-12/2018	1-12/2017
Premiums written from insurance contracts		
Premiums written from risk insurance contracts		
Risk insurance	8,900	8,040
Total	8,900	8,040
Premiums written from insurance contracts with entitlement to discretionary portion of surplus		
Savings insurance	1,649	3,033
Voluntary pension insurance	430	458
Voluntary group pension insurance	46	58
Total	2,126	3,548
Premiums written from unit-linked insurance contracts		
Savings insurance	59,562	81,588
Voluntary pension insurance	4,505	4,825
Voluntary group pension insurance	593	357
Capitalization agreement	17,017	15,808
Total	81,678	102,578
Total	**92,704**	**114,167**
Premiums written from investment contract		
Premiums written from unit-linked investment contracts	39,702	55,516
Total	**39,702**	**55,516**
Total premiums written	**132,405**	**169,683**

Term insurances include regular premium endowment policies, where the payments are charged from customers annually. Other insurances comprise flexible premium endowment policies. The policyholder can make payment plans or abnormal payments to those insurances. The policyholder may change their payments freely.

Net investment income (EUR 1,000)	1–12/2018	1–12/2017
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**

Benefits paid (EUR 1,000)	1–12/2017	1–12/2017
Benefits paid from insurance contracts		
Benefits paid from insurance contracts	-1,026	-1,429
Benefits paid from insurance contracts entitling to discretionary portion of surplus		
Savings insurance		
Maturities	-251	-639
Death benefits	-6,031	-6,366
Surrenders	-4,588	-5,060
Total	-10,871	-12,065
Personal pension insurance		
Annuities	-603	-599
Death benefits	-3	-12
Surrenders	-61	-38
Total	-667	-649
Group pension insurance		
Annuities	-81	-31
Total	-81	-31
Capital redemption contracts		
Maturities		-156
Surrenders	-5,433	-1,388
Total	-5,433	-1,544

Benefits paid (EUR 1,000)	1-12/2018	1-12/2017
Benefits paid from unit-linked insurance contracts		
Savings insurance		
Maturities	-397	-553
Death benefits	-12,304	-9,414
Surrenders	-24,995	-17,144
Total	-37,696	-27,111
Voluntary pension insurance		
Annuities	-1,176	-819
Death benefits	-158	-72
Surrenders	-644	-627
Total	-1,979	-1,519
Voluntary group pension insurance		
Annuities	-97	-32
Surrenders	-37	-13
Total	-134	-45
Total benefits paid from insurance contracts	**-57,887**	**-44,391**
Benefits paid from investment contracts		
Death benefits	-1,259	-1,967
Surrenders	-11,615	-4,069
Total	-12,874	-6,035
Total benefits paid from investment contract	**-12,874**	**-6,035**
Total direct insurance	**-70,761**	**-50,426**
Total benefits paid	**-70,761**	**-50,426**

Change in insurance contract liabilities

Change in liabilities for insurance policies 2018 (EUR 1,000)	Provsion 1 Jan 2018	Premi-ums	Claims, part of deposit	Claims, part of risk	Interest and chan-ges in fair value	Other charges and credits	Other items	Pro-vision 31 Dec 2018
Other than unit-linked contract liabilities								
Insurance liability discounted with interest rate guarantee	110,902	2,125	-11,570	-36	1,814	-787	1,343	103,792
Bonus reserves	9,037						-1,212	7,825
Reserve for decreased discount rate	3,970						-120	3,850
Reserve for increased operating costs	4,161						256	4,417
Risk insurance liability	694	8,900	-2	-1,024	1720,27	-8,921	1,890	1,536
Unit-linked contract liabilities								
Liabilities for unit-linked insurance contracts	515,279	72,607	-43,724	-16	-37,048	-4,191	-30,316	472,591
Liabilities for unit-linked investment contracts	156,505	48,802	-14,423		-14,015	-1,731	29,574	204,712
Reserve arising from liability adequacy test								
Total	**800,548**	**132,435**	**-69,719**	**-1,076**	**-49,249**	**-15,631**	**1,416**	**798,723**

Change in liabilities for insurance policies 2017 (EUR 1,000)	Provsion 1 Jan 2017	Premi-ums	Claims, part of deposit	Claims, part of risk	Interest and chan-ges in fair value	Other charges and credits	Other items	Provision 31 Dec 2017
Other than unit-linked contract liabilities								
Insurance liability discounted with interest rate guarantee	126,570	3,538	-12,758	-34	1,992	-881	-7,525	110,902
Bonus reserves	9,912						-875	9,037
Reserve for decreased discount rate	4,131						-161	3,970
Reserve for increased operating costs	5,038						-877	4,161
Risk insurance liability	923	8,040	-2	-1,426	2	-8,229	1,386	694
Unit-linked contract liabilities								
Liabilities for unit-linked insurance contracts	425,835	90,128	-29,498		25,106	-4 157	7,864	515,279
Liabilities for unit-linked investment contracts	89,541	67,976	-6,707		7,015	-1 321	1	156,505
Reserve arising from liability adequacy test								
Total	**661,951**	**169,683**	**-48,966**	**-1,460**	**34,115**	**-14,588**	**-285**	**800,548**

NOTE 12: INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(1 000 euroa)	1-12/2018
Interest income on	
Classified at amortised cost	142,853
Fair value through other comprehensive income	14,162
Total interest income arising from financial assets not measured at fair value through profit or loss	**157,015**
Financial assets at fair value through other comprehensive income	
Dividend income	11
Reclassified from OCI	3,888
Financial assets at fair value through profit or loss - net change in fair value	
Fair value through profit or loss	29,788
Cash flow hedges - reclassified from OCI	-199
Finance income	**190,503**
Financial liabilities measured at amortized cost - interest expense	-30,235
Amortized costs investments - impairment loss	
Fair value through other comprehensive financial assets - impairment loss	
Loan receivables - impairment loss	-3,868
Cash flow hedges - ineffective portion of changes in fair value	
Financial assets at fair value through profit or loss - net change in fair value	
Fair value through profit or loss	-55,499
Finance expenses	**-89,602**

(EUR 1,000)	1-12/2017
Interest income on	
Unimpaired held-to-maturity investments	867
Loans and receivables	137,931
Available-for-sale financial assets	17,797
Total interest income arising from financial assets not measured at fair value through profit or loss	**156,595**
Available-for-sale financial assets	
Dividend income	5 156
Reclassified from OCI	35,270
Financial assets at fair value through profit or loss - net change in fair value	
Held-for-trading	740
Cash flow hedges - reclassified from OCI	67
Finance income	**197,828**
Financial liabilities measured at amortised cost - interest expense	-36,812
Available-for-sale financial assets - impairment loss	-305
Loan receivables - impairment loss	-13,266
Financial assets at fair value through profit or loss - net change in fair value	
Held-for-trading	-548
Finance expenses	**-50,931**
Net income and expenses from financial instruments	**146,897**

NOTE 13: 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 14: PERSONNEL EXPENSES

(EUR 1,000)	1-12/2018	1-12/2017
Wages and salaries	-68,362	-64,053
Pension expenses		
Defined contribution plans	-12,280	-12,365
Defined benefit plans	-801	-1,282
Other personnel related costs	-2,118	-2,080
Personnel expenses	**-83,561**	**-79,781**
Full-time	1,166	1,120
Part-time	64	75
Temporary	179	148
Total	**1,409**	**1,343**
Number of employees converted to FTEs	1,396	1,316
Average number of FTEs during the financial year	1,397	1,330

Remuneration

Pillar III information on remuneration is presented in the table below. The Remuneration policy is described in more detail in Corporate governance policies.

2018 Salaries and remuneration (EUR 1,000)	Fixed salaries	Variable renumeration
Top management	4,469	478
Risk takers	9,599	887
Others	48,764	3,846

2017 Salaries and remuneration (EUR 1,000)	Fixed salaries	Variable renumeration
Top management	4,041	376
Risk takers	8,911	648
Others	46,422	4,119

Remuneration is paid in accordance with the Savings Banks Group's general remuneration principles.

Total salaries and remuneration by business segments.

2018 (EUR 1,000)	Banking	Asset management and Life insurance	Other	Total 2018	Total 2017
Fixed salaries	48,432	5,268	9,132	62,831	58,910
Variable remuneration	3,809	803	599	5,211	5,143
Number of employees	1098	81	230	1409	1332

The compensation paid by the Savings Banks Group for termination of employment contracts is determined in accordance with legislation in force.

No signing bonuses have been paid to new emplyees during the financial year.

During the financial year a total of EUR 144 (349) thousand of redundance payments have been paid to 11 (10) persons.

The Savings Banks Group does not apply the provisions of Chapter 8, Sections 9, 11 and 12, of the Act on Credit Institutions to those employees whose variable remuneration for one year does not exceed EUR 50 thousand.

If the amount of variable compensation exceeds EUR 50 thousand, it is taken into account that at least half of the compensation must be effected in non-cash form.

During the financial year no salaries or remunerations have been granted that would have been postponed due to the above criteria and no postponed salaries or remunerations have been paid during the financial yearwhich would have been granted and postponed in previous financial years.

NOTE 15: OTHER OPERATING EXPENSES

(EUR 1,000)	1-12/2017	1-12/2017
Other administrative expenses		
Other personnel expenses	-7,249	-7 119
Office expenses	-7,336	-8,098
ICT expenses	-43,725	-32,057
Telecommunications	-4,624	-4,432
Representation expenses	-477	-586
Marketing	-8,330	-8,990
Payment card expenses	-7,949	-7,583
Total	**-79,690**	**-68,864**

Other operating expenses		
Rental expenses	-4,924	-3,919
Expenses arising from owner-occupied property	-5,887	-6,391
Other operating expenses**	-10,527	-9,739
Total	**-21,338**	**-20,049**
Other operating expenses	**-101,029**	**-88,913**
**** Audit fees**		
Statutory audit	-399	-401
Audit related services	-50	-34
Tax advisory	-11	-11
Other services	-104	-102
Total	**-564**	**-548**

NOTE 16: DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(EUR 1000)	1-12/2018	1-12/2017
Depreciation and amortisation of property, plant and equipment	-5,563	-7,078
Depreciation and amortisation of intangible assets	-7,565	-4,927
Total depreciation and amortisation	**-13,128**	**-12,005**
Impairment of property, plant and equipment		-1,994
Total impairment		**-1,994**
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	**-13,128**	**-13,999**

NOTE 17: 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 Expected Credit Losses 31 December 2018	**36,047**
Total change in Expected Credit Losses 1 January 2018 -31 December 2018	**-7,809**

NOTE 18: INCOME TAXES

(EUR 1,000)	1-12/2018	1-12/2017
Current tax	-7,911	-19,422
Tax for prior years	-42	-17
Change in deferred tax assets	-1,809	1,926
Change in deferred tax liabilities	4,045	1,236
Income taxes	**-5,717**	**-16,277**
Other direct taxes	-51	-39
Total income taxes	**-5,767**	**-16,316**

Reconciliation between tax expense in the income statement and tax expense calculated by the applicable tax rate

Reconciliation of effective tax rate		
Accounting profit before tax	36,408	88,210
Differences between accounting and taxable profit	-7,386	-6,701
Taxable profit	**29,022**	**81,509**
Tax using the domestic corporation tax rate	-7,282	-17,639
Tax-exempt income	703	120
Non-deductible expenses	-59	170
Unrecognised deductible expenses	959	735
Unrecognised taxable income	-656	
Use of approved tax losses for prior years	665	361
Recognition of previously unrecognised tax losses	-57	-46
Tax for prior years	-42	-17
Tax expense	**-5,767**	**-16,316**
Corporate income tax rate	**20 %**	**20 %**

More information on deferred taxes is presented in Note 29.

NOTE 19: 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 20: CASH AND CASH EQUIVALENTS

(EUR 1,000)	31.12.2018	31.12.2017
Cash	15,980	16,684
Receivables from central banks repayable on demand	823,612	1,102,254
Cash and cash equivalents	**839,592**	**1,118,938**

NOTE 21: FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(EUR 1,000)	31.12.2018	31.12.2017
Designated as at fair value through profit or loss on initial recognition		
Debt securities		
Debt securities entitling to funding from Central Bank	734	
Debt securities from public entities	565	552
Debt securities from others	43,184	8,772
Shares and participations*	20,575	25,369
Total	**65,057**	**34,694**
Financial assets at fair value through profit or loss	**65,057**	**34,694**

*The item includes the other owners' interests in the consolidated mutual funds of which more information in presented in note 45 Entities consolidated in Savings Banks Group's financial statements.

NOTE 22: LOANS AND ADVANCES

31.12.2018 (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**

31.12.2017 (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 23: 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 24: 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 25: 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		4,875
From others		4,875
Total	**3,403**	**177,775**

NOTE 26: INVESTMENTS IN ASSOCIATES

Information on the material associates of the Group:

Name	Domicile	Sector	Ownership (%)	Share of votes (%)	Ownership (%)	Share of votes (%)
			31.12.2017	31.12.2017	31.12.2016	31.12.2016
Paikallispankkien PP-laskenta Oy	Espoo	Software design and manufacturing	25,00	25,00	0,00	0,00

Paikallispankkien PP-laskenta Oy's business sector is to provide services of financial management, payroll computation, risk management and accounting, including related training-, advisory and information services for fiancial sector organizations and their subsidiaries and center organizations. Paikallispankkien PP-laskenta Oy is Savings Bank Group's associated company since 31 August 2018.

Summarised financial information about material associates based on the companies' own financial statements:	Paikallispankkien PP-laskenta Oy
(EUR 1,000)	2018
Total assets	1,737
Total liabilities	1,380
Revenue	9,997
Total operating revenue	9,997
Profit or loss	-11
Other comprehensive income	
Total comprehensive income	-11
Dividends received from the associate during the period	

Reconciliation of the summarised financial information of the associate to the carrying amount in the Group's statement of financial position:	
Net assets of the associate	356
Group ownership	25 %
Adjustments	-89

Joint arrangements

The Savings Banks Group has no material joint arrangements.

Mutual real estate companies and housing companies are treated in the Group's financial statements as joint operations. These companies include both investment properties and owner-occupied properties. Five mutual real estate companies are considered as material from the perspective of the Savings Banks Group, but their share of the Group's balance sheet is only limited.

Information about the material joint operations of the Savings Banks Group is presented below:

Name	Domicile	Ownership 2018	Ownership 2017
Kiinteistö Oy Ikaalisten Säästökeskus	Ikaalinen	90.80 %	90.80 %
Asunto Oy Salamankulma	Turku	37.01 %	37.01 %
Kiinteistö Oy Liedon Liikekeskus	Lieto	85.70 %	85.70 %
Asunto Oy Salamankulma	Turku	100.00 %	100.00 %
Kiinteistö Oy Lohjan Pankkitalo	Lohja	100.00 %	100.00 %

Name	Domicile	Sector	Ownership (%) 31.12.2018	Share of votes (%) 31.12.2018	Ownership (%) 31.12.2017	Share of votes (%) 31.12.2017
Oy Samlink Ab	Espoo	Software design and manufacturing	42.80	44.70	42.00	44.70

The purpose of Samlink Group is to provide the Savings Banks Group with the information system and support services needed in the Group companies' business. Samlink Group produces e.g. banking information system services, financial services, office infrastructure services and technical support services to the Savings Banks Group.

Summarised financial information about material associates based on the companies' own financial statements:	Oy Samlink Ab
(EUR 1,000)	2017
Total assets	36,784
Total liabilities	14,340
Revenue	90,498
Total operating revenue	90,618
Profit or loss	4,707
Other comprehensive income	
Total comprehensive income	4,707
Dividends received from the associate during the period	1,110

Reconciliation of the summarised financial information of the associate to the carrying amount in the Group's statement of financial position:	
Net assets of the associate	22,444
Group ownership	
Adjustments	1,474
Carrying amount of the associate in the Group's statement of financial position	7,952

NOTE 27: PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	31.12.2018	31.12.2017
Owner-occupied property		
Land and water	987	1,004
Buildings	44,332	43,963
Machinery and equipment	5,309	4,923
Other tangible assets	838	849
Advance payments and construction in progress	426	602
Property, plant and equipment	**51,892**	**51,341**

31.12.2018					
Changes in property, plant and equipment (EUR 1,000)	Owner-occupied property	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 January	92,857	37,025	1,800	602	132,284
Increases	1,717	2,195	19	1,045	4,976
Decreases	-3			-616	-620
Transfers between items	-57			-605	-662
Revaluation					
Acquisition cost 31 December	**94,514**	**39,220**	**1,819**	**426**	**135,979**
Accumulated depreciation and impairments 1 January	-46,119	-32,102	-951		-79,173
Depreciation for the financial year	-3,073	-1,809	-29		-4,911
Impairments for the financial year	-3				-3
Decreases					
Accumulated depreciation and impairments 31 December	**-49,195**	**-33,911**	**-981**		**-84,086**
Carrying amount 31 December	**45,319**	**5,309**	**838**	**426**	**51,892**

31.12.2017					
Changes in property, plant and equipment (EUR 1,000)	Owner-occupied property	Machinery and equipment	Other tangible assets	Advance payments and construction in progress	Total
Acquisition cost 1 January	81,034	35,772	1,769	3,007	121,583
Increases	967	2,119	31	602	3,719
Decreases	-1,736	-1,322		-3,007	-6,066
Transfers between items	978	456			1,434
Revaluation	1,765				1,765
Acquisition cost 31 December	**83,007**	**37,025**	**1,800**	**602**	**122,434**
Accumulated depreciation and impairments 1 January	-33,137	-30,838	-897		-64,872
Depreciation for the financial year	-4,607	-1,727	-50		-6,384
Impairments for the financial year	-2	9			7
Decreases	-295	454	-4		155
Accumulated depreciation and impairments 31 December	**-38,040**	**-32,102**	**-951**		**-71,093**
Carrying amount 31 December	**44,967**	**4,923**	**849**	**602**	**51,341**

NOTE 28: INTANGIBLE ASSETS

(EUR 1,000)	31.12.2018	31.12.2017
Intangible rights	23,703	9,198
Other intangible assets	103	3,412
Intangible assets under development	11,463	16,114
Intangible assets	**35,268**	**28,725**

The impairment testing of intangible assets under development have been performed by using market based approach and there was no indicators of impairment.

Intagible rights and intangible assets under development formed a significant part of information systems acquired from external operators.

31.12.2018				
Changes in intangible assets (EUR 1,000)	Intangible rights	Other intangible assets	Intangible assets under development	Total
Acquisition cost 1 January	42,003	409	16,114	58,526
Increases	8,475	81	8,347	16,904
Decreases			-232	-232
Transfers between items	12,442		-12,767	-325
Acquisition cost 31 December	**62,920**	**490**	**11,463**	**74,873**
Accumulated depreciation and impairments 1 January	-31,184	-387		-31,572
Depreciation for the financial year	-8,033			-8,033
Decreases				
Accumulated depreciation and impairments 31 December	**-39,217**	**-387**		**-39,604**
Carrying amount 31 December	23,703	103	11,463	35,268

31.12.2017				
Changes in intangible assets (EUR 1,000)	Intangible rights	Other intangible assets	Intangible assets under development	Total
Acquisition cost 1 January	26,159	18,674	9,687	54,519
Increases	47	2,281	12,041	14,369
Decreases	-397	-107	-2	-507
Transfers between items	5,466	139	-5,611	-6
Acquisition cost 31 December	**31,275**	**20,987**	**16,114**	**68,376**
Accumulated depreciation and impairments 1 January	-16,360	-16,022		-26,604
Depreciation for the financial year	-5,794	-1,652		-7,445
Decreases	77	100		177
Accumulated depreciation and impairments 31 December	**-22,077**	**-17,574**		**-39,651**
Carrying amount 31 December	9,198	3,412	16,114	28,725

NOTE 29: DEFERRED TAXES

(EUR 1,000)	31.12.2018	31.12.2017
Deferred tax assets	5,397	2,260
Income tax receivables	7,622	748
Tax assets	**13,019**	**3,009**
Deferred tax liabilities	51,738	57,270
Income tax liability	707	5,637
Tax liability	**52,446**	**62,907**

(EUR 1,000)	31.12.2018	31.12.2017
Deferred tax assets		
Impairments	2,430	2,135
Financial assets	2,880	1,919
Property, plant and equipment	1,458	1,748
Defined benefit pension plans	320	648
Approved tax losses	1,152	1,338
Other	759	772
Netting of deferred taxes	-3,601	-6,300
Total	**5,397**	**2,260**

(EUR 1,000)	31.12.2018	31.12.2017
Deferred tax liabilities		
Appropriations	48,757	47,530
Impairment	267	53
Financial assets	4,640	13,071
Cash flow hedges	638	717
Intangible assets	322	716
Equalisation provision of insurance business	710	1,478
Other	5	5
Netting of deferred taxes	-3,601	-6,300
Total	**51,738**	**57,270**

2018 (EUR 1,000)	1.1.2018	Change recognised in profit or loss	Financial assets	Cash flow hedging	Defined benefit pension plans	Restructuring	Other	31.12.2018
Deferred tax assets								
Impairment	2,135	249	47					2,430
Financial assets	1,919		961					2,880
Property, plant and equipment	1,748	-290						1,458
Defined benefit pension plans	648				-328			320
Approved tax losses	1,338	-186						1,152
Other	772	-13						759
Netting of deffered taxes	-6,300						2,699	-3,601
Total	**2,260**	**-241**	**1,008**		**-328**		**2,699**	**5,397**

2018 (EUR 1,000)	1.1.2018	Change recognised in profit or loss	Financial assets	Cash flow hedging	Defined benefit pension plans	Restructuring	Other	31.12.2018
Deferred tax liabilities								
Appropriations	47,530	1,227	214					48,971
Impairments	53		-8,780					-8,727
Financial assets	13,071	349						13,420
Cash flow hedges	717			-79				638
Intangible assets	716	-394						322
Property, plant and equipment	1,478	-767						710
Equalisation provision of insurance business	5							5
Other	-6,300						2,699	-3,601
Total	**57,270**	**415**	**-8,567**	**-79**			**2,699**	**51,738**

2017 (EUR 1,000)	1.1.2017	Change recognised in profit or loss	Financial assets	Cash flow hedging	Defined benefit pension plans	Restructuring	Other	31.12.2017
Deferred tax assets								
Impairment	1,253	882						2,135
Financial assets	2,196		-277					1,919
Property, plant and equipment	874	873						1,748
Defined benefit pension plans	290	84			274			648
Approved tax losses	1,897	-559						1,338
Other	613	159						772
Netting of deffered taxes	-3,739						-2,560	-6,300
Total	**3,385**	**1,439**	**-277**	**0**	**274**	**0**	**-2,560**	**2,260**

2017 (EUR 1,000)	1.1.2017	Change recognised in profit or loss	Financial assets	Cash flow hedging	Defined benefit pension plans	Restructuring	Other	31.12.2017
Deferred tax liabilities								
Appropriations	48,257							47,530
Impairments		-728						53
Financial assets	14,326	53	-900					13,071
Cash flow hedges	976	-355		-260				717
Intangible assets	1,429							716
Property, plant and equipment	1,444	-713						1,478
Other	5						-2,560	5
Netting of deffered taxes	-3,739		-900	-260			-2 560	-6,300
Total	**62,699**	**-1,709**	**-900**	**-260**	**0**	**0**	**-2,560**	**57,270**

NOTE 30: OTHER ASSETS

(EUR 1,000)	31.12.2018	31.12.2017
Payment transfer receivables	236	433
Accrued income and prepaid expenses		
Interest	30,786	33,364
Other accrued income and prepaid expenses	8,650	14,212
Other	29,155	77,547
Other assets	**68,826**	**125,555**

NOTE 31: 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 AND EQUITY

NOTE 32: FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

(EUR 1,000)	31.12.2018	31.12.2017
Other financial liabilities at fair value through profit or loss*	20,575	25,369
Financial liabilities at fair value through profit or loss	**20,575**	**25,369**

* The item includes the other owners' interests in the consolidated mutual funds of which more information in presented in note 45 Entities consolidated in Savings Banks Group's financial statements.

NOTE 33: 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 34: 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 35: 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 for insurance policies (EUR 1,000)	Liability 2018	Number of contracts 2018	Duration 2018
Other than unit-linked contracts			
Guaranteed-interest insurance contracts			
Savings insurance			
Rate of guaranteed interest 3.5 %	2,817	38	9.5
Rate of guaranteed interest 2.5 %	15,310	371	8.9
Rate of guaranteed interest 0.0 %	83,026	2,038	8.2
Individual pension insurance		0	0
Rate of guaranteed interest 3.5 %	1,987	111	6.7
Rate of guaranteed interest 2.5 %	6,533	649	11.4
Rate of guaranteed interest 0.0 %	8,352	476	18.5
Group pension insurance (defined contribution, rate of guaranteed interest 0.0 %)	1,859	101	4.4
Term insurance	1,536	32,660	3.2
Unit-linked contracts			
Unit-linked insurance contracts			
Savings insurance	377,507	14,469	12.1
Individual pension insurance	80,481	10,442	22.9
Group pension insurance	2,857	137	26.8
Capital redemption contracts	11,746	137	11.6
Unit-linked investment contracts	204,712	3,665	13.2
Total	**798,723**	**65,294**	

Liabilities for insurance policies (EUR 1,000)	Liability 2017	Number of contracts 2017	Duration 2017
Other than unit-linked contracts			
Guaranteed-interest insurance contracts			
Savings insurance			
Rate of guaranteed interest 3.5 %	2,718	40	10
Rate of guaranteed interest 2.5 %	16,260	407	9.4
Rate of guaranteed interest 0.0 %	91,124	2,396	8.7
Individual pension insurance			
Rate of guaranteed interest 3.5 %	1,847	113	6.5
Rate of guaranteed interest 2.5 %	6,419	666	9.4
Rate of guaranteed interest 0.0 %	7,831	490	17.7
Group pension insurance (defined contribution, rate of guaranteed interest 0.0 %)	1,870	106	5.3
Term insurance	694	29,537	4.2
Unit-linked contracts			
Unit-linked insurance contracts			
Savings insurance	413,432	15,512	12.7
Individual pension insurance	87,045	10,624	18.8
Group pension insurance	2,689	107	14.6
Capital redemption contracts	12,099	81	16
Unit-linked investment contracts	156,519	1,039	14
Total	**800,548**	**61,118**	

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.

Duration is based on the cash flows of insurance contract liabilities derived from the internal model and on a risk-free interest rate curve.

NOTE 36: SUBORDINATED LIABILITIES

(EUR 1,000)	Average interest rate %	31.12.2018
Subordinated loans	4.00 %	84
Other		
Debentures	2.00 %	82,204
Total subordinated liabilities		**82,288**

(EUR 1,000)	Average interest rate %	31.12.2017
Subordinated loans	4.00 %	84
Other		
Debentures	2.20 %	100,200
Total subordinated liabilities		**100,284**

NOTE 37: PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31.12.2018	31.12.2017
Other liabilities		
Payment transfer liabilities	23,782	54,120
Other liabilities	6,257	7,414
Total other liabilities	**30,039**	**61,534**
Accrued expenses		
Interest payable	10,453	11,035
Interest advances received	425	909
Other accrued expenses	17,456	23,335
Total accured expenses	**28,334**	**35,279**
Provisions		
Pension provisions	2,501	3,355
Other provisions		13
Total provisions	**2,501**	**3,368**
Provisions and other liabilities	**60,874**	**100 181**

(EUR 1,000)	2018	2017
Change in provisions		
1 January 2018	3,368	1,856
Decrease in other provisions	-13	-267
Increase in defined benefit plans	-854	1,780
31 December 2018	**2,501**	**3,368**

NOTE 38: CAPITAL AND RESERVES

(EUR 1,000)	31.12.2018	31.12.2017
Basic capital	20,340	20,340
Reserves		
Primary capital	34,475	34,475
Reserve for invested non-restricted equity	60,354	60,354
Reserve fund	69,760	69,694
Fair value reserve	-2,858	32,611
Reserve for hedging instruments	2,552	2,867
Other reserves	85,483	85,435
Retained earnings		
Profit (loss) for previous financial years	703,613	614,856
Profit (loss) for the financial year	30,149	70,424
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**

Basic capital

This item includes the paid share capital, cooperative capital and basic capital. If share capital is entirely or partially not entered in trade register, the unregistered amount must be presented in the balance sheet separately as a sub-item of this item.

The basic capital of the Savings Banks Group consists of the Savings Banks' basic capital, which is not paid back according to the Savings Bank Act § 11.

In addition, the Savings Banks Group includes four Savings Banks in the form of a limited liability company, whose share capital is included in the basic capital in equity.

Primary capital

Primary capital includes the primary capital subject to the Savings Bank Act § 13.

Share premium

Share premium comprises restricted capital. E.g. capital gains on disposal of treasury shares are recognised in the share premium account.

Reserve for invested non-restricted equity

Reserve for invested non-restricted equity includes the portion of subscription price which is not recognised in share capital and, according to the Accounting Act, is not recognised in liabilities, as well as other equity investments which are not recognised in other reserves. Furthermore, the reserve includes the amount by which share capital is reduced and which is not used to cover confirmed loss nor is distributed to shareholders.

Reserve fund

Reserve fund comprises restricted capital. This item includes the amounts recognised in the reserve fund subject to the Savings Bank Act (1502/2001) § 10.

Fair value reserve

Fair value reserve includes items arising from fair value measurements.

Reserve for hedging instruments

Reserve for hedging instruments includes items arising from cash flow hedging. Such item is considered to be the portion of change in the fair value of a hedging instrument (derivative contract) which is found an effective hedge.

Other reserves

Other reserves include non-restricted reserves which are formed of prior period results based on the Articles of Association or rules or the decision of the General Meeting, which exercises general power of decision in the Savings Banks Group.

Retained earnings

This item includes the profit for the period as indicated by the income statement, as well as profit for prior periods to the extent that it has not been transferred to other equity items or distributed to shareholders.

Specification of changes in fair value reserve (EUR 1,000)	2018
The impact of transition to IFRS 9 at 1 January 2018	-19,612
Fair value reserve 1 January	32,611
Profit/loss from fair value measurements, shares and participations	-8,048
Profit/loss from fair value measurements, securities	-9,811
Deferred tax from fair value measurements	4,482
Non-controlling interest's share of the changes in fair value reserve	1,365
Reclassified to income statement	-3,844
Fair value reserve 31 December	**-2,858**

Specification of changes in the reserve for hedging instruments (EUR 1,000)	2018
Reserve for hedging instruments 1 January	2,867
Profit/loss from fair value measurements, derivatives hedging cash flow	-195
Deferred tax from cash flow hedging	79
Reclassified to income statement	-199
Reserve for hedging instruments 31 December	**2,552**

Specification of changes in fair value reserve (EUR 1,000)	2017
Fair value reserve 1 January	37,523
Profit/loss from fair value measurements, shares and participations	31,913
Profit/loss from fair value measurements, securities	2,624
Deferred tax from fair value measurements	607
Non-controlling interest's share of the changes in fair value reserve	-1,006
Reclassified to income statement	-39,050
Fair value reserve 31 December	**32,611**

Specification of changes in the reserve for hedging instruments (EUR 1,000)	2017
Reserve for hedging instruments 1 January	3,905
Profit/loss from fair value measurements, derivatives hedging cash flow	-1,365
Deferred tax from fair value measurements	260
Reclassified to income statement	67
Reserve for hedging instruments 31 December	**2,867**

OTHER NOTES

NOTE 39: 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 40: 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 41: 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 42: 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, 2 and 3.

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**

* 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" and "Net life insurance 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 2017	**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" and "Net life insurance 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" and "Net life insurance 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 43: PENSION LIABILITIES

The Savings Banks Group's statutory pension scheme under Finnish law (TyEL) is implemented as a defined contribution scheme managed by a pension insurance company. In addition to the statutory pension scheme, companies belonging to the Savings Banks Group have several defined benefit pension schemes implemented with life insurance companies for management, certain employees in leading positions as well as for individuals who used to be covered by the Savings Banks' pension fund.

The retirement age specified in the insurance schemes is 60-65 years and the target pension is 60% of pensionable salary. The pension schemes are governed by local tax laws and other legislation.

The amount of assets in the insurance arrangement reflects the part of the obligation that the insurance company is liable for, and it is calculated using the same discount rate as the obligation. The assets included in the arrangement consist of 100% qualifying insurance policies. As the obligations are insured, there are no significant risks that the Group is liable for. The Group is primarily liable for increases in pensions linked to the earnings-related pension index and the effects of the discount rate and changes in the development of wages.

The assets of the defined benefit plans managed by insurance companies are part of the insurance companies' investment assets and the investment risk associated with them lies with the insurance companies.

(EUR 1,000)	31.12.2018	31.12.2017
Present value of obligation	15,499	18,083
Fair value of plan assets	13,794	14,723
Liability in balance sheet 31 December	**1,705**	**3,359**
Actuarial assumptions		
Discount rate, %	1.60 %	1.50 %
Pay development, %	2.20 %	2.20 %
Pension increase, %	0.00 - 2.00 %	0.00 - 2.00 %

(EUR 1,000)	2017	2017
Current service cost	788	1,018
Previous service cost	757	1,268
Net interest	44	14
Costs recognised in income statement	801	1,282
Remeasurements	-1,247	1,371
Comprehensive income before tax	**-446**	**2,654**
Present value of obligation 1 January	18,083	15,907
Current service cost	788	1,018
Previous service cost	-31	250
Interest expense	269	189
Actuarial gains (-) / losses (+) arising from changes in economic expectations	-243	-110
Actuarial gains (-) / losses (+) arising from changes in demographic assumptions	-895	1,065
Benefits paid	-2,471	-237
Present value of obligation 31 December	**15,499**	**18,083**
Fair value of plan assets 1 January	14,723	14,331
Interest expense	226	175
Return on plan assets excl. items in interest expense/income	108	-416
Benefits paid	-2,471	-237
Contributions	1,208	870
Fair value of plan assets 31 December	**13,794**	**14,723**
Present value of obligation	15,499	18,083
Fair value of plan assets	13,794	14,331
Liability in balance sheet 31 December	**1,705**	**3,752**
Liability in balance sheet 1 January	3,359	1,576
Costs in income statement	801	1,282
Contributions	-1,208	-870
Remeasurements in comprehensive income statement	-1,247	1,371
Liability in balance sheet 31 December	**1,705**	**3,359**

Sensitivity analysis - net liability

Effect of changed in assumptions on net liability in euros and % can be seen in the table below

	2018	2017
Change in discount rate +0.50%	-240	-318
Change in discount rate -0.50%	275	343
Change in pay development +0.50%	192	231
Change in pay development -0.50%	-183	-222
Change in pensions + 0.5 %	648	734
Change in pensions - 0.5 %	-588	-664

Duration based on the weighted average is 16 (15) years.

The Savings Banks Group expects to contribute approximately EUR 869 (873) thousand to defined benefit plans in 2019.

NOTE 44: OPERATING LEASES

Savings Banks Group as lessee

The Savings Banks Group acts as a lessee of e.g. office space, printers and laptop computers.

(EUR 1,000)	2018	2017
Future minimum lease payments under non-cancellable operating leases payable		
Less than one year	3,025	2,966
Between one and five years	7,649	7,585
More than five years	5,231	6,010
Total	**15,905**	**16 561**

Savings Banks Group as lessor

The Savings Banks Group acts as a lessor of e.g. apartments owned by the banks.

(EUR 1,000)	2018	2017
Future minimum lease payments under non-cancellable operating leases receivable		
Less than one year	2,026	1,738
Between one and five years	2,424	2,662
More than five years	1,072	1,453
Total	**5,523**	**5,853**

NOTE 45: ENTITIES CONSOLIDATED IN SAVINGS BANKS GROUP'S FINANCIAL STATEMENTS

Group structure

The table provides information about entities consolidated in the consolidated financial statements of the Savings Banks Group.

COMPANY	DOMICILE		
Technical parent company:			
Säästöpankki Sinetti	Orivesi		
Huittisten Säästöpankki	Huittinen		
Aito Säästöpankki Oy	Tampere		
Kalannin Säästöpankki	Uusikaupunki		
Avain Säästöpankki	Kortesjärvi		
Lammin Säästöpankki	Hyvinkää		
Liedon Säästöpankki	Lieto		
Länsi-Uudenmaan Säästöpankki	Lohja		
Mietoisten Säästöpankki	Masku		
Myrskylän Säästöpankki	Myrskylä		
Säästöpankki Optia	Iisalmi		
Helmi Säästöpankki Oy	Lahti		
Pyhärannan Säästöpankki	Pyhäranta		
Someron Säästöpankki	Somero		
Suomenniemen Säästöpankki	Suomenniemi		
Sysmän Säästöpankki	Sysmä		
Ylihärmän Säästöpankki	Ylihärmä		
Eurajoen Säästöpankki	Eurajoki		
Ekenäs Sparbank	Tammisaari		
Kiikoisten Säästöpankki	Sastamala		
Kvevlax Sparbank	Koivulahti		
Närpion Säästöpankki Oy	Närpiö		
Subsidiaries:		**OWNERSHIP 31 DEC 2018**	**OWNERSHIP 31 DEC 2017**
Nooa Savings Bank Ltd	Helsinki	83.13 %	78.10 %
Central Bank of Savings Banks Finland Plc	Helsinki	94.73 %	94.73 %
Sp-Fund Management Company Ltd	Helsinki	92.57 %	92.57 %
Savings Banks' Union Coop	Helsinki	100.00 %	100.00 %
Savings Bank Services Ltd	Helsinki	100.00 %	100.00 %
Sb Life Insurance Ltd	Helsinki	81.22 %	81.22 %
Sp-Koti Oy	Helsinki	100.00 %	100.00 %
Säästöpankkien Holding Oy	Helsinki	80.10 %	80.10 %
Sp Mortgage Bank Plc	Helsinki	100.00 %	100.00 %

Consolidated mutual funds:		OWNERSHIP 31 DEC 2018	OWNERSHIP 31 DEC 2017
Säästöpankki High Yield	Helsinki	38.14 %	46.84 %
Säästöpankki Kehittyvät korkomarkkinat	Helsinki	55.86 %	47.30 %

Most significant real estate companies:			
Fast Ab Bankborg	Koivulahti	100 %	100 %
Fast Ab Kvevlax Affärshus	Koivulahti	65.90 %	65.90 %
Kiinteistö Oy Säästö-Erkko	Orimattila	64.58 %	64.58 %
Kiinteistö Oy Toritammi-Torgeken Fastighets Ab	Kaskinen	56.00 %	56.00 %
Kiinteistö Oy Eräjärven Pankkitalo	Eräjärvi	100 %	100 %
Kiinteistö Oy Oriveden Läsimäki	Orivesi	94.22 %	94.22 %
Kiinteistö Oy Kaustisen Säästökeskus	Pietarsaari	76.33 %	76.33 %
Kiinteistö Oy Käviän Säästöpuisto	Kokkola	100.00 %	100.00 %
Kiinteistö Oy Kalajoenrinne	Kalajoki	59.37 %	59.37 %

Significant restrictions

There are no significant restrictions on the ownership and use of assets.

NCI in subsidiaries

The non-controlling owners of the subsidiaries of the Savings Banks Group are mainly savings banks which are not part of the Savings Banks Amalgamation

The table below presents a specification of companies which have material NCI.

Subsidiary	Domicile	Non-controlling ownership (%) 2018	Equity allocated to non-controlling interests 2018
Nooa Säästöpankki Oy	Helsinki	16.87	10,536
Central Bank of Savings Banks Finland Plc	Helsinki	5.27	2,799
Sb Life Insurance Ltd	Helsinki	18.78	6,303

The table below summarises the financial information relating to subsidiaries which have material NCI. The information is presented before elimination of internal items.

(EUR 1,000)	Nooa Savings Bank Ltd 2018	Central Bank of Savings Banks Finland Plc 2018	Sb Life Insurance Ltd 2018
Loans and advances	658,265	2,679,058	
Life insurance assets			844,651
Other assets	128,584	55,100	6,111
Liabilities	724,782	2,681,057	808,178

In addition, the Savings Banks Group includes companies with non-controlling interest in ownership of 5.78-44.00% and in equity EUR 2,405 thousand. None of these companies is considered to be individually material.

Subsidiary	Domicile	Non-controlling ownership (%)	Equity allocated to non-controlling interests
		2017	2017
Nooa Säästöpankki Oy	Helsinki	21.90	11,183
Central Bank of Savings Banks Finland Plc	Helsinki	5.27	2,630
Sb Life Insurance Ltd	Helsinki	18.78	7,429

The table below summarises the financial information relating to subsidiaries which have material NCI. The information is presented before elimination of internal items.

	Nooa Savings Bank Ltd	Central Bank of Savings Banks Finland Plc	Sb Life Insurance Ltd
(EUR 1,000)	2017	2017	2017
Loans and advances	201,901	2,572,202	
Life insurance assets			847,296
Other assets	558,782	101,320	4,975
Liabilities	709,238	2,623,621	813,464

In addition, the Savings Banks Group includes companies with non-controlling interest in ownership of 5.78-44.00% and in equity EUR 2,468 thousand. None of these companies is considered to be individually material.

Consolidated structured entities

The Group is involved in entities which have been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, such as when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. Such entities are structured entities. When assessing the need to consolidate structured entities in the Group's financial statements, consideration is given to the nature of the relationship between the Group and the entity as well as to the Group's power over the entity in accordance with the principle of control as defined by IFRS 10.

The structured entities within the Group's sphere of influence are mutual funds managed by Sp-Fund Management Company, which is part of the Savings Banks Amalgamation. As Sp-Fund Management Company acts as the manager of the mutual funds, the Group is considered to have power over the mutual funds whereby it is able to affect the amount of returns received. The Group has determined the scope of consolidation to include the mutual funds where the ownership of the Savings Banks Group exceeds 40% as a longer-term investment. The Savings Banks Group must have owned more than 40% of the fund for more than half a year before the fund is consolidated. Two mutual funds were consolidated in the Group's financial statements on 31 December 2018 (2 in year 2017).

The table below presents as assets the value of the mutual funds which the Group controls as defined above and which are consolidated in the Group's financial statements. Liabilities include other owners' share in the value of these funds. Liabilities do not represent claims against the Group's assets. The assets of the mutual funds can only be used to settle their own liabilities.

	31.12. 2018		31.12.2017	
(EUR 1,000)	Total assets	Total liabilities	Total assets	Total liabilities
Total mutual funds	34,782	20,575	47,780	25,369

The holdings in mutual funds consolidated in the financial statements of the Savings Banks Group are classified at fair value through profit or loss. Other owners' interests in the assets and liabilities are measured at fair value through profit or loss.

Associates and joint ventures

Information about the Savings Banks Group's investments in associates and joint ventures is presented in Note 26 investments in associates.

NOTE 46: INVOLVEMENT WITH UNCONSOLIDATED STRUCTURED ENTITIES

The table below presents financial information about the structured entities which are not consolidated in the Group's financial statements, as well as the Group's investment in these entities and the maximum exposure to loss. These entities are mutual funds managed by Sp-Fund Management Company, which is part of the Savings Banks Amalgamation. Sp Fund Management Company manages 23 mutual funds. Two of the mutual funds of Sp Fund Management Company in which the Group has invested in are consolidated in the Group's financial statements, while 11 mutual funds are excluded from consolidation. The liabilities presented below represent the liabilities to both entities within the Group and other owners.

(EUR 1,000)	31.12.2018			
	Total assets	Total liabilities	Group investment	Maximum exposure to loss
Total mutual funds	2,211,606	2,211,606	133,445	133,445

(EUR 1,000)	31.12.2017			
	Total assets	Total liabilities	Group investment	Maximum exposure to loss
Total mutual funds	2,306,985	2,306,985	189,962	189,962

All holdings in mutual funds are classified as available-for-sale. The unrealised fair value changes of the unconsolidated mutual funds managed by Sp-Fund Management Company, amounting to EUR -4,386 (5,830) thousand, are included in the other comprehensive income of the Group. During the financial year 2018, a total of EUR -138 (8,149) thousand of realised gains and losses was recorded in the invesment income of the Group.

The Group's maximum exposure to loss for each structured entity is restricted to the investment made by the Group.

NOTE 47: 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

NOTE 48: SUBSEQUENT EVENTS

"Savings Banks Group is renewing its core banking system. The new system will be provided by Cognizant Technology Solutions. As part of the agreement, signed on 23 January 2019, that Savings Banks Group sells its holdings of Samlink Ltd to Cognizant Technology Solutions Finland Oy.

The new core banking system supports Savings Banks Group's digital strategy and market growth targets. 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 slightly positive impact on Savings Banks Group's operating profit for 2019. The sale of the shares is subject to the approval of the competition authorities and the Finnish Financial Supervisory Authority."

CAPITAL ADEQUACY INFORMATION

NOTE 49: SUMMARY OF REGULATORY CAPITAL, RWA AND CAPITAL RATIOS

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 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 II 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 50: 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 51: 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 52: TOTAL EXPOSURE

Credit and counterparty risk 31 December 2018

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 31 December 2017 *

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.

Signatures of the Consolidated Financial Statement of Savings Banks' Group

We have adopted the Report of Board of Directors and the Consolidated Financial Statements of the Savings Banks' Group specified in the Act on the amalgamation of deposit banks the for the financial year ending 31 December 2018. The report and the Financial Statements are presented to the General Meeting of Savings Banks' Union Coop on 14th March 2019.

In Helsinki 14 February 2019

The Board of Directors' of the Savings Banks' Union Coop

Kalevi Hilli
Chairman of the Board

Toivo Alarautalahti
Vice chairman of the Board

Pirkko Ahonen
Member of the Board

Sanna Ahonen
Member of the Board

Peter Finne
Member of the Board

Jussi Hakala
Member of the Board

Jan Korhonen
Member of the Board

Marja-Leena Tuomola
Member of the Board

Pauli Aalto-Setälä
Member of the Board

Tomi Närhinen
Managing Director

Auditor's endorsement

Our auditor's report has been issued today.

Helsinki 14 February 2019.

KPMG Oy Ab

Petri Kettunen
Authorised Public Accountant

KPMG

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This document is an English translation of the Finnish auditor's report. Only the Finnish version of the report is legally binding.

Auditor's Report

To the members of Savings Banks' Union Coop

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of amalgamation Savings Banks Group pursuant to the Act on the Amalgamation of Deposit Banks for the year ended 31 December, 2018. The financial statements comprise the consolidated balance sheet, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes, including a summary of significant accounting policies.

In our opinion the consolidated financial statements give a true and fair view of Savings Banks Group's financial position, financial performance and cash flows in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU.

Our opinion is consistent with the additional report submitted to the Audit Committee of Savings Banks' Union Coop.

Basis for Opinion

We conducted our audit in accordance with good auditing practice in Finland. Our responsibilities under good auditing practice are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

We are independent of member institutions within Savings Banks Group in accordance with the ethical requirements that are applicable in Finland and are relevant to our audit, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

In our best knowledge and understanding, the non-audit services that we have provided to the Savings Banks Group are in compliance with laws and regulations applicable in Finland regarding these services, and we have not provided any prohibited non-audit services referred to in Article 5(1) of regulation (EU) 537/2014. The non-audit services that we have provided have been disclosed in note 15 to the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Materiality

The scope of our audit was influenced by our application of materiality. The materiality is determined based on our professional judgement and is used to determine the nature, timing and extent of our audit procedures and to evaluate the effect of identified misstatements on the financial statements as a whole. The level of materiality we set is based on our assessment of the magnitude of misstatements that, individually or in aggregate, could reasonably be expected to have influence on the economic decisions of the users of the financial statements. We have also taken into account misstatements and/or possible misstatements that in our opinion are material for qualitative reasons for the users of the financial statements.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. The significant risks of material misstatement referred to in the EU Regulation No 537/2014 point (c) of Article 10(2) are included in the description of key audit matters below.

We have also addressed the risk of management override of internal controls. This includes consideration of whether there was evidence of management bias that represented a risk of material misstatement due to fraud.

THE KEY AUDIT MATTER	HOW THE MATTER WAS ADDRESSED IN THE AUDIT
Receivables from customers (notes 2, 3, 5 and 17 to the financial statements)	
— Receivables from customers, totaling EUR 8,5 billion, are the most significant item in the Savings Banks Group's consolidated balance sheet representing 73 percent of the total assets. — Savings Banks Group adopted IFRS 9 Financial instruments -standard on 1 January 2018. The adoption resulted in shift from the calculation of impairment on an individual and collective basis to that of the expected credit loss calculated using models under IFRS 9. — Calculation of expected credit losses involves assumptions, estimates and management judgment for example in respect of the probability and amount of the expected credit losses as well as determining the significant increases in credit risk. — Due to the significance of the carrying amount involved, adoption of the IFRS 9 -standard, complexity of the accounting methods and management judgement involved, receivables from customers are addressed as a key audit matter.	— We assessed principles and controls over recognition and monitoring of loan receivables. Our audit procedures included testing of controls regarding determination and recording of expected credit losses on loans. — As regards adoption of the IFRS 9 -standard, we assessed the models and key assumptions for calculating expected credit losses as well as tested the controls related to calculation process and credit risk models for the expected credit losses. KPMG IFRS- and financial instruments -specialists have been involved in the audit. — We requested other auditors of Savings Banks Group institutions to issue an opinion that the institutions within Savings Banks Group have complied with the instructions provided by Savings Banks Union Coop in respect of valuation of receivables and determination of expected credit losses in accordance with IFRS 9. — Furthermore, we considered the appropriateness of the notes provided by Savings Banks Group in respect of receivables and expected credit losses, including the notes related to IFRS 9 transition.

Financial assets measured at fair value and derivative contracts (notes 2, 3, 19 and 42 to the financial statements)

- The carrying value of financial assets measured at fair value totals EUR 2,0 billion comprising investment assets EUR 1,066 million, life insurance assets EUR 840 million and financial assets at fair value through profit and loss EUR 65 million. The Derivative assets are EUR 51 million comprising contracts held for hedging purposes. Derivatives are measured at fair value in preparing financial statements.
- Fair value of a financial instrument is determined using either prices quoted in an active market or Savings Banks Group's own valuation techniques where no active market exists. Determining fair values involves management judgements, especially in respect of those instruments for which market-based data is not available.
- Adoption of the IFRS 9 Financial instruments -standard resulted in changes to the classification and measurement of financial assets.

- We assessed the appropriateness of the measurement principles applied by Savings Banks Group and the compliance with the applicable financial reporting standards.
- Our audit procedures included testing of controls around the valuation process of financial assets measured at fair value, among others.
- As regards adoption of the IFRS 9 -standard, we assessed classification principles for the financial instruments.
- As part of our year-end audit procedures we considered the accuracy of the fair values determined for financial assets measured at fair value.
- We requested other auditors of Savings Banks Group institutions to issue an opinion that the institutions within Savings Banks Group have complied with the instructions provided by Savings Banks Union Coop in respect of valuation of financial assets.
- Furthermore, we considered the appropriateness of the notes on investment assets, including the notes related to IFRS 9 transition.

Life insurance liability (notes 2, 3, 5 and 35 to the financial statements)

- The life insurance liability, totaling EUR 802 million, is a significant item in the Savings Banks Group's consolidated balance sheet. Determination of life insurance liability involves various calculation techniques and actuarial assumptions. The most significant assumptions relate to calculation

- Our actuary specialist evaluated the appropriateness of the assumptions and methods used in determining life insurance liability by inspecting the technical bases applied and assessing the appropriateness of the calculation models to ensure the techniques, mortality rate and development of interest rates.

adequacy of liabilities for insurance policies, among others.

- Our audit procedures included the assessment of controls around the calculation process of life insurance liability.
- Furthermore, we considered the appropriateness of the notes on life insurance liabilities.

IT systems and related control environment

- The key processes of the institutions within Savings Banks Group are dependent on technology. Therefore, IT plays essential role for business continuity, incident management and the accuracy of financial reporting.
- The most significant risks relate to integrity of data, confidentiality and disruption of services.
- The IT control environment related to the financial reporting process has a significant impact on the selected audit approach.

- We obtained an understanding of the IT systems related to financial reporting and the associated control environment, and tested the effectiveness of the related internal controls with the help of assurance reports received from external service providers, among others.
- Our audit procedures included extensive substantive procedures and data analyses.

Responsibilities of the Board of Directors and the Managing Director for the Financial Statements

The Board of Directors and the Managing Director are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU, and that financial statements comply with statutory requirements. The Board of Directors and the Managing Director are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors and the Managing Director are responsible for assessing the Savings Banks Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting. The financial statements are prepared using the going concern basis of accounting unless there is an intention to liquidate the Savings Banks Group or cease operations, or there is no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with good auditing practice will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with good auditing practice, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

— Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

— Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Savings Banks Group's internal control.

— Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

— Conclude on the appropriateness of the Board of Directors' and the Managing Director's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Savings Banks Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause Savings Banks Group to cease to continue as a going concern.

— Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events so that the financial statements give a true and fair view.

— Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within Savings Banks Group to express an opinion on the consolidated financial statements. We remain solely responsible for our audit opinion.

— We also acquaint ourselves with the financial statement policies adopted by Savings Banks Group's member institutions, as well as the auditors' reports submitted for the audit of Savings Banks Group's consolidated financial statements.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Other Reporting Requirements

Information on our audit engagement

We were first appointed as auditors by the Annual General Meeting of Savings Banks' Union Coop on 13.3.2014, and our appointment represents a total period of uninterrupted engagement of 5 years.

Other Information

The Board of Directors and the Managing Director are responsible for the other information. The other information comprises the report of the Board of Directors and the information included in the Annual Report, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. With respect to the report of the Board of Directors, our responsibility also includes considering whether the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

In our opinion, the information in the report of the Board of Directors is consistent with the information in the financial statements and the report of the Board of Directors has been prepared in accordance with the applicable laws and regulations.

If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Helsinki, 14 February 2019

KPMG OY AB

PETRI KETTUNEN
Authorised Public Accountant, KHT

Savings Bank

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