2018

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC

BOARD OF DIRECTORS' REPORT AND IFRS FINANCIAL STATEMENTS

31 DECEMBER 2018

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BOARD OF DIRECTORS' REPORT

Central Bank of Savings Banks Finland Plc (hereinafter "SB Central Bank") is a bank owned by Finnish savings banks. Its main purpose is to provide savings banks and the Savings Banks Group with various central credit institution services. The central credit institution services include payment services and account operator services, payment card issuing for the customers of the member Savings Banks (hereinafter also "Savings Banks") of the Amalgamation, and services related to liquidity management, funding and asset and liability management. SB Central Bank is part of the Savings Banks Amalgamation.

During 2018 SB Central Bank has supported Savings' Banks Groups implementation of strategy by supporting and developing its basic functions as provider of credit institution services. Savings' Banks Group`s funding and liquidity position has been stable. Focus of development is particularly on automatisation of credit card operations as well as projects concerning the whole sector of payment and account operator services.

SB Central Bank's profit for the financial year was EUR 3.7 million, and the balance sheet total amounted to EUR 2,734 million.

The Savings Banks Group and the Savings Banks Amalgamation

SB Central Bank belongs to the Savings Banks Group and the Savings Banks Amalgamation. The Bank's financial statements are consolidated with the Savings Banks Group's consolidated financial statements.

The Savings Banks Group (hereinafter also "the Group") is the oldest banking group in Finland. It comprises Savings Banks forming the Savings Banks Amalgamation, the Savings Banks' Union Coop, which acts as the Central Institution and the subsidiaries and associated companies owned by the Savings 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, 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 Sp-Fund Management Company Ltd and Savings Bank Services 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. Ltd.

Further information about the structure of the Savings Banks Group can be found at *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 for 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 around 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 the industrialised countries was estimated to be only slightly over two per cent in 2018. Growth in the euro zone fell below two per cent.In 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 slowdown 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.

SB Central Bank's business activities

SB Central Bank is responsible for providing the Savings Banks with various centralised services. Its most significant operations include the funding and liquidity management of the Amalgamation, asset and liability management, payment card issuing, and payment services and account operator services for the Savings Banks.

Treasury

Short and long-term funding provided for the Savings Banks and interim funding provided for Sp Mortgage Bank plc together with efforts to further improve the international recognition of the Savings Bank Group in the debt capital markets constituted the core activities of Treasury during 2018.

Asset and liability management

In 2018 ALM-team developed services supporting processes related to Savings Banks' interest rate hedging, hedge planning and interest rate collars. ALM also initiated a project of renewing its current system environment for Treasury and Asset & Liability management with RFP-process. The project will continue in 2019 with the implementation phase.

Issuing of payment cards

During the year SB Central Banks introduced a new card application process and automated the decision making process related to it. As a result, the number of card applications was increased whereas the manual work in the Savings Bank Group was decreased. During the year two additional services were launched for Savings Bank's Visa Gold cardholders: free visits to airport lounges and the possibility to earn Finnair Plus reward points.

Payments

Payment transaction processes and functionalities were developed over the year, including participation in the EBA Clearing instant payment project. In addition, preparations were made for the entry into force of the new payment service directive (PSD2).

Account operator services

In 2018, as a result of Euroclear Finland's overall system reform, the account operator function of the SB Central Bank introduced the "Infinity" -system, which changed the structure of clearing- and custody -services to a significant extent. In addition, a number of services related to securities trading in general, have been developed during the year. These developments aim mainly to reduce the amount of manual work done in the Savings Bank Group, reduce risks and improve the availability of services to the end customers.

Financial position

Financial highlights

(EUR 1,000)	12/2018	12/2017	12/2016
Revenue	45,671	41,722	37,794
Net interest income	9,373	6,707	5,406
% of revenue	20.5 %	16.1 %	14.3 %
Operating profit	3,733	1,900	1,096
% of revenue	8.2 %	4.6 %	2.9 %
Total operating revenue	22,031	17,624	15,233
Total operating expenses	-17,216	-14,530	-12,885
Cost to income ratio	0.8	0.8	0.8
Total assets	2,734,159	2,673,522	2,305,132
Total equity	53.101	49,901	47,820
Return on equity %	7,1 %	4.0 %	2.4 %
Return on assets %	0.13 %	0.08 %	0.06 %
Equity/assets ratio %	1.9 %	1.9 %	2.1 %
Solvency ratio %	30.9 %	31.7 %	33.2 %
Impairment losses on loans and other receivables	-1,082	-1,195	-1,251
Number of employees converted to FTEs	39	35	30
Average number of FTEs during the financial year	38	34	26

Profit trends (comparison figures 1–12/2017)

The operating profit of SB Central Bank increased by 96 % during the year and amounted to EUR 3.7 million, or 8.2 % of revenue (EUR 1.9 million and 4.6 %, respectively, for the comparison period 1–12/2016).

The operating revenue of SB Central Bank amounted to EUR 22.0 (17.6) million. Net interest income increased by 40% to EUR 9.4 (6.7) million. Interest income increased by 3 % to EUR 23.3 (22.6) million. The majority of interest income in 2018 consisted of interest income from credit institutions and credit cards for private customers. Interest expenses decreased by 13 %, amounting to EUR 13.9 (15.9) million. Interest expenses consisted mainly of liabilities to credit institutions and interest paid on debt securities issued. Interest rate risk is mitigated through fair value hedging. During the past financial year, hedging improved net interest income by EUR 1.8 (1.7) million. Net interest income was still affected by low interest rates and the negative interest rate on central bank deposits. Decreased funding expenses and increased interest incomes from credit cards contributed mostly to the increase in net interest income.

Net fee and commission income increased by 5 % to EUR 10.7 (10.2) million. This amount consisted of EUR 20.4 (18.4) million in fee income and EUR 9.7 (8.2) million in fee expenses. Fee and commission income from the payment card issuing and payment services were the most significant fee and commission income items in 2018. The growth in fee and commission income from the payment card issuing contributed the most to the increase in net fee and commission income during the period under review.

Other operating income for the period under review amounted to EUR 1.7 (1.5) million, consisting of services based on service agreements produced for the Savings Banks Group.

Operating expenses in the financial year increased by 18%, amounting to EUR 17.2 (14.5) million. Personnel expenses consisted of salaries, as well as pension expenses and other personnel expenses. These expenses totaled EUR 3.7 (3.3) million with increase of 11% from the comparison period. The amount of total resources increased by 10 % to 39 FTE in the financial year 2018. Other administrative expenses increased by 15 % to EUR 11.2 (9.7) million. Other expenses, EUR 2.3 (1.5) million, consisted of depreciation and amortisation of property, plant and equipment and intangible assets, amounting to EUR 0.7 (0.6) million, and other operating expenses. During the review period EUR 0.2 million net of expected credit losses (ECL) according to IFRS9 was recognised on financial assets compared to comparison period where EUR 0.4 million of credit losses was recognised on a collective basis according to IAS 39. Occurred credit losses during the reporting period were EUR 0.8 (0.8) million. Increasing investments in the development of operations contributed to the growth in expenses. The cost-to-income ratio remained at the level of the comparison period, 0.8 (0.8).

SB Central Bank's income taxes amounted to EUR 97 thousand (income 62 thousand). The low tax effect for the review period is related to changes in deferred tax liabilities and receivables.

Balance sheet and financing (comparison figures 31 December 2017)

SB Central Bank's balance sheet continued to grow and was EUR 2,734 (2,674) million. The amount of loans granted to Savings Banks in the Amalgamation and Sp Mortgage Bank Plc increased 22 % to EUR 1,680 (1,372) million. In addition to the cash and cash equivalents, EUR 824 (1,102) million, SB Central Bank's assets are mainly invested in ECB eligible debt instruments, EUR 30 (26) million.

Loans to credit card holders increased by 2% during the financial year to EUR 95 (93) million, representing the most significant part of loans and advances to customers. The amount of bonds issued was EUR 1,452 (1,535) million at the end of the financial year.

During the review period, SB Central Bank issued senior unsecured bonds with a total value of EUR 410 million of which 300 million in a public issue in February 2018 under the EMTN programme listed with the Irish Stock Exchange.

Liabilities to customers consisted of deposits from governments, multinational organisations and foreign funds, increased by 44% amounting to EUR 379 (263) million at the end of the year.

At the end of December, SB Central Bank had EUR 0.8 (0.7) million in non-performing credit card receivables, representing 0.8% (0.8%) of all credit card receivables.

Irrevocable commitments made to clients, included in off-balance sheet liabilities, amounted to EUR 367 (535) million at the end of the financial year and consisted mainly of granted undrawn credits.

Shareholdings and equity

SB Central Bank holds 17,391 shares in total, and the bank's share capital is EUR 39,999,618.60. The bank does not hold its own shares.

Equity capital on 31 December 2018 was EUR 53.1 (49.9) million consisting wholly of CET1 capital. Equity capital was at the level of the comparison year, and the change is due to the profit for the period (profit after tax) and changes relating to IFRS 9 transition made 1 January 2018, EUR 0.6 million. IFRS 9 transition impacts are described more detailed in Financial Statement 2018 note 2 Accounting policies, New IFRS standards and interpretations. Return on equity was 7.1% (4.0%). Return on assets was 0.1 % (0.1 %).

Capital adequacy and risk position

Capital adequacy
(comparative information 31 December 2017)

SB Central Bank has adopted capital adequacy management process, the objective of which is to ensure the bank's risk-bearing capacity is sufficient in relation to all the major risks resulting from its business operations. SB Central Bank identifies and comprehensively assesses the risks asso-ciated with its business operations and ensures that its risk-bearing capacity is adequate when compared to the sum of all risks. The internal capital requirements specified through the capital adequacy management are based on the capital requirements under Pillar I and risks outside Pillar I, such as interest rate risk of the banking book, market risk of the investment portfolio and business risk. In the internal assessment process, SB Central Bank estimates the amount of capital that will also be sufficient to cover unexpected losses arising from risks outside Pillar I.

The Board of Directors of the bank has overall responsibility for capital adequacy management. The Bank's Board of Directors approves the basis, objectives and principles of capital adequacy management. Moreover, the Board of Directors confirms the general requirements for the measurement and assessment of capital adequacy and the general principles for the capital adequacy management process. 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 business operations and changes in the operating environment. The capital adequacy, liquidity and riskpositions of the entities belonging to the Savings Bank Amalgamation are monitored and consolidated at the Amalgamation level. The Board of Directors of the Central Institution has set target levels for the capital adequacy of the Amalgamation and banks, which are monitored quarterly.

Stress tests

As part of the capital adequacy management process, SB Central Bank uses stress tests to assess its own risk position and the adequacy of its capital. Stress tests are used when assessing how various exceptionally severe but possible scenarios may affect profitability, capital adequacy and adequacy of own funds. Stress tests are designed to identify the key risks to SB Central Bank and assess how vulnerable the structure of the Bank is in relation to the occurrence of those risks. The objective of the capital adequacy management is also to maintain and develop the quality of risk management framework.

Capital contingency plan

The capital contingency plan of SB Central Bank is made in order to be prepared for unforeseeable events that may threaten the bank's capital adequacy. The capital contingency plan includes target levels and thresholds set by the Board of Directors for the quantity and quality of the capital, which are monitored quarterly. The capital contingency plan describes the actions to be taken by the management and the Board of Directors in the event that the capital adequacy ratio falls below the monitoring threshold.

Pillar I capital requirements

The biggest capital requirements of SB Central Bank are comprised of card credit receivables. The standard method is applied to calculate the capital requirement for credit risk of the Bank. The capital requirement for operational risk is calculated by the basic method. The capital requirement relating to market risk is calculated by the basic method for the foreign exchange exposure.

Own funds and capital adequacy

The capital requirement of SB Central Bank 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,
- 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 macropruden-tial 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.

SB Central Bank has published the relevant information with regard to capital adequacy calculation each year as part of its Annual Report and Notes to the Financial Statement. The main capital adequacy information has been published in the Half-year Report.

SB Central Bank's own funds totaled EUR 49.0 (47.0) million, while the minimum requirement for own funds was EUR 11,1 (11.8) million. The Tier 1 capital consisted wholly of Common Equity Tier 1 (CET1) capital, amounting to EUR 49.0 million. The capital reserves consist mostly of common equity tier 1 capital.

SB Central Bank's capital adequacy ratio was high at 30.9 (31.7) per cent at year-end. The high capital adequacy ratio is due to the exemption granted to the Amalgamation by the Financial Supervisory Authority, according to which the risk weight applied to the Amalgamation's internal fi-nancing items in capital adequacy calculation is 0 %.

SB Central Bank's capital adequacy information is included in the consolidated financial state-ments of the 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 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 Savings Banks Group publishes the so-called Pillar III capital adequacy infor-mation separately at the same time with its financial statements.

The Savings Banks Group's financial statements are available online at *www.saastopankki.fi* or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

Capital adequacy

Own Funds (EUR 1,000)	2018	2017
Common Equity Tier 1 (CET1) capital before regulatory adjustments	53,101	49,901
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-4,138	-2,896
Common Equity Tier 1 (CET1) capital	**48,963**	**47,005**
Tier 1 capital (T1 = CET1 + AT1)	**48,963**	**47,005**
Total capital (TC = T1 + T2)	**48,963**	**47,005**
Risk weighted assets	**158,709**	**148,056**
of which: credit and counterparty risk	120,658	118,886
of which: credit valuation adjustment (CVA)	2,211	4,194
of which: market risk	1,515	1,251
of which: operational risk	34,325	23,726
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**30.9**	**31.7**
Tier 1 (as a percentage of total risk exposure amount)	**30.9**	**31.7**
Total capital (as a percentage of total risk exposure amount)	**30.9**	**31.7**
Capital requirement		
Total capital	48,963	47,005
Capital requirement total*	16,664	15,546
Capital buffer	**32,299**	**31,459**

*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, 0.5% Pillar 2 requirement set by the Financial Supervisory Authority and the country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio

The leverage ratio of SB Central Bank was 1.7 % (1.6%). The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Bank's Tier 1 capital to total exposures.

(EUR 1,000)	2018	2017
Tier 1 capital	48,963	44,005
Leverage ratio exposure	2,826,302	2,849,598
Leverage ratio	**1,7**	**1,6**

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 2 -type continuously required minimum requirement. The Financial Stability Authority has decided that the minimum amount of eligible liabilities is the minimum requirement of own funds times two. Currently, the requirement is 22 % of the total risk of Amalgamation.

Risk position

Objective of risk management

The objective of risk management is to secure the bank's risk-bearing capacity and ensure the continuity of its operations. The risk-bearing capacity comprises adequate and effective risk management based on the nature and scale of the operations, as well as a sufficient degree of liquidity and capitalisation for profitable business operations.

Principles and organisation of risk management

Risk management is defined as the identification, assessment, quantification, limitation and monitoring of risks caused by business operations and closely related risks. 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 are part of internal control. SB Central Bank has a risk control function that is independent of business operations.

In accordance with its strategy, SB Central Bank provides savings banks with various central credit institution services: 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. SB Central Bank's customer and investment portfolio exposures are in relation to its financial capacity and are in accordance with its strategy. SB Central Bank maintains its capital adequacy at an adequate level.

In its operations in 2018, SB Central Bank was exposed to credit, market and operational risks, as well as business and liquidity risks.

Credit and counterparty risks

Credit risk is defined as a possibility that counterparty may not meet its contractual obligations. The main source of credit risk is lending, but credit risks (counterparty risk) may also arise from other types of assets, such as bank deposits, securities in investment portfolio and derivative contracts, as well as off balance-sheet liabilities, such as undrawn credit facilities and limits as well as granted guarantees.

Concentration risk means that SB Central Banks's total amount of loans granted to one customer and/or a group of customers shall not exceed the maximum amounts defined in the Act on Credit Institutions, in other legislations or regulations issued by the Financial Supervisory Authority or in regulations and guidelines issued by any other authorities. 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 member credit institution level.

The business and risk management strategies approved by the Board of Directors set the maximum exposures for concentration risks and control to the investment and lending activities.

Liquidity risk

Liquidity risk refers to a bank's capability to meet its commitments. Liquidity risk may arise from the uncontrollability and/or foreseeability of incoming and outgoing cash flows. Liquidity risk also comprises an uncontrollable rise in funding costs. Liquidity risk may be further divided into short-term liquidity risk and long-term funding risk.

Liquidity risk is managed e.g. by maintaining sufficient liquid assets to ensure sufficient liquidity. SB Central Bank's liquidity remained good throughout 2018.

Market risk

Market risk refers to the impact of changes in interest rates and market prices on the bank's in-come statement and own funds. SB Central Bank was exposed to interest rate and currency risk in the reporting period 2018, as described below.

Interest rate risk

Interest rate risk is the effect of interest rate changes on the market value of the bank's balance sheet and off balance-sheet items and on the net interest income. Interest rate risk arises from the differences in the interest rate basis of assets and liabilities and the differences in interest rate reset or maturity dates. SB Central Bank applies fair value hedging and uses interest rate swaps to manage its interest rate risk position. SB Central Bank monitors interest rate risk both with net present value method and income risk method.

Currency risk

Currency risk refers to the effect of changes in foreign exchange rates on income statement or equity. The Central Bank of Savings Banks is exposed to currency risk to a minor extent due to Visa Inc shares in the investment portfolio. Open foreign exchange exposure is not allowed in the lending or liquidity portfolios of the member credit institutions of the Savings Banks Amalgamation. Foreign exchange exposure is monitored in accordance with the method used in capital adequacy calculation (the capital requirement is calculated if the total net foreign exchange exposure is over 2% of the total amount of own funds).

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.

SB Central Bank identifies and documents operational risks associated with products, services, operations, processes and systems. The monitoring and control measures are determined through the identification of operational risks. Some of the losses caused by operational risks are covered by insurance. In addition, preparedness for significant operational disruptions is ensured through continuity plans. Regular reports are submitted to SB Central Bank's management on operational risks and actual losses, as well as near-miss situations.

Business risk

Business risk describes the impact of uncertainties caused by the operating environment on Bank's business. Business risks arise from competition, changes in markets and customer behaviour, and unexpected fluctuations in income. Business risks may also be caused by choosing a wrong strategy, ineffective management or slow response to changes in the operating environment. Business risk is managed and minimized through strategic and business planning set by the SB Central Bank Board of Directors. An assessment of business risks is included in the capital adequacy management process approved by the Board.

Credit rating

S&P Global Ratings (S&P) has given long-term counterparty credit rating 'A-' to SB Central Bank. Short-term i rating is 'A-2'. The outlook is stable. The credit rating has not changed during the review period and has been confirmed in April 2017.

Corporate governance

The Annual General Meeting of SB Central Bank considers the previous year's financial statement, distribution of the profits, discharges, and selection of Board members. The decisions on SB Central Bank's business operations and strategic matters are made by the Bank's Board of Directors. Further tasks of the Board include making decisions concerning the main issues related to SB Central Bank's business operations and selecting its Managing Director. In addition, the Board ensures SB Central Bank's accounting, financial statements practices and financial reporting cover all of its operations and are organised appropriately. The Board of Directors is also responsible for SB Central Bank having adequate and appropriately organised internal control, internal audit and auditor. The work of the Board of Directors follows approved guidelines and the charter for Board of Directors. The Managing Director of SB Central Bank is responsible for Bank's operational management according to the guidelines set by the Board of Directors.

The independence and integrity of the Board members and Managing Director are as certained in accordance with the directions issued by the Financial Supervisory Authority. On their selection for the position and annually thereafter, the Board members and Managing Director are obliged to provide an account of the organizations with which they are involved. In addition, on accepting their position, each Board member and Managing Director must submit a fitness and propriety report as stipulated by the Financial Supervisory Authority.

SB Central Bank's management and personnel

The Annual General Meeting of SB Central Bank was held on 15 March 2018. The Board's pro-posal on the distribution of profits was approved. The Meeting also granted a discharge to the Board members and Managing Director.

The SB Central Bank Board of Directors comprises the following members:

Name	position
Närhinen Tomi	member, Chairman, as from 15 2018
Huupponen Juhani	member, Deputy Chairman, took the chair until 15 March 2018
Bondén Hans	member, until 15 March 2018
Hakala Jussi	member
Näsman Niklas	member, as from 15 March 2018
Rinta Jarmo	member, as from 15 March 2018
Seppälä Risto	member until 15 March 2018
Syvänen Hannu	member

The Board members hold management positions in the financial sector. During the financial year, the Board convened fifteen (15) times.

Member of Board of Directors, Debuty Chairman Juhani Huupponen chaired the Board of Directors until the Annual General Meeting held on 15 March 2018. The new Board of Directors elected Tomi Närhinen, CEO of the Savings Banks` Union Coop, to be the chairman of the board.

Kirsi Autiosalo, CEO of SB Central Bank, resigned from her position as the Managing Director of SB Central Bank as of 19 March 2018. New Managing Director i has not been chosen and Acting CEO Kai Brander takes care of the position.

The Annual General Meeting elected KPMG Oy, Authorised Public Accountants, as the auditor of SB Central Bank, with Authorised Public Accountant Petri Kettunen as principal auditor.

The number of personnel at SB Central Bank increased in accordance with the establishment of the new services. Converted into total resources, the number of personnel at the end of the review period on 31 December 2018 was 39.

The related party refers to the key persons holding leading positions at SB Central Bank and their family members. SB Central Bank's related party includes the Board members, Managing Director and Deputy Managing Director. With the exception of credit cards, SB Central Bank has not granted related-party loans or investments and has no related-party business transactions. Credit card loans to related parties are subject to the same general terms and conditions as corresponding customer credits.

Remuneration system

SB Central Bank's remuneration system complies with the regulations of the European Union and national legislation, the directions and recommendations issued by the Financial Supervisory Authority, and the rules of the Finnish Corporate Governance Code.

When making decisions concerning the executive management and personnel remuneration system, SB Central Bank observes the provisions of Chapter 8 on governance and steering systems in the Act on Credit Institutions. However, SB Central Bank does not apply the provisions of Chapter 8, Sections 9, 11 and 12 of the Act on Credit Institutions to employees whose variable remuneration for one year's earnings period does not exceed EUR 50 thousand or 100 per cent of the employee's total fixed remuneration.

Remuneration framework refers to the decisions, agreements, policies and procedures followed in rewarding the management and personnel. The remuneration framework 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, incentiveness, commitment and availability of new competent persons.

The remuneration policies comply with the business strategy, goals and values, as well as providing long-term benefits. The remuneration system is in line with the good and effective risk man-agement of the Bank and is always implemented within the framework of the current risk manage-ment policies. The remuneration does not encourage risk-taking in the course of business in excess of the risk level determined by SB Central Bank's risk-bearing capacity or one that is otherwise sustainable.

The General Meeting held on 15 March 2018 decided on the remuneration of the Board of Direc-tors as follows:

annual remuneration, Chairman, EUR 6 500*

annual remuneration, Deputy Chairman, EUR 2 500

annual remuneration, member, EUR 1 000

attendance allowance, EUR 500**

*In accordance with the decision of the Nomination committee of the Savings Banks Group, if the Managing Director of the Savings Banks' Union Coop acts as the chairman, no annual remuneration will be paid, as this is considered to be included in the Managing Director's duties.

**Attendance allowance is paid for each actual meeting of the Board (excluding decisions that do not involve a meeting). The Managing Director of Savings Banks' Union Coop is not paid meeting fees.

The conditions and benefits of the Managing Director's position are approved by the SB Central Bank Board of Directors. SB Central Bank uses a remuneration system under which the personnel, including the Managing Director, may be paid a sum equivalent to a maximum of 3 months' salary for reaching set targets. The Bank has no pension schemes or any other similar arrangements.

The overall compensation, forming the basis of the remuneration, is divided into fixed and variable pay elements. The variable pay element comprises both short- and long-term rewards. SB Central Bank has identified the important risk-taking persons, who may affect the bank's risk profile or incur significant financial risks to the Bank through their activities.

At least once a year, internal audit verifies SB Central Bank's compliance with the remuneration framework decided on by the Board of Directors of Savings Banks' Union Coop.

The remuneration details in accordance with Pillar III are published in the Savings Banks Group financial statement. The financial statement is available online on the Savings Banks Group web-site at *www.saastopankki.fi* or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00530 Helsinki, Finland.

Main outsourced functions

SB Central Bank's banking system is outsourced to Oy Samlink AB, which is an associated com-pany to the Savings Bank group. SB Central Bank purchases a variety of services related to pay-ment card issuing from Nets Ltd and services related to producing and delivering the plastic cards from EVRY Card Services Oy. SB Central Bank purchases accounting services from both Savings Banks' Union Coop's financial administration and Paikallispankkien PP-Laskenta Oy, which is owned by Savings Banks. SB Central Bank purchases its internal audit services from the internal audit of Savings Banks' Union Coop.

Social responsibility

The social responsibility policy report of the Savings Banks Group is published during the year 2019 and is available after publishing on the Savings Banks Group website at *www.saastopankki.fi* or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00530 Helsinki, Finland. SB Central Bank's social responsibility refers to its responsibility for the impacts of its business activi-ties on surrounding society and the company's stakeholder groups. By acting as the Savings Banks' central credit institution, SB Central Bank in its part supports the social responsibility of the local Savings Banks.

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 Bank Group. Cognizant Technology Solutions will deliver a new core banking 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.

The Board of Directors of SB Central Bank is not aware of any other factors that would materially influence the financial position of the Savings Banks Group after the completion of the financial statements.

Outlook for the year 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 SB Central Bank.

In 2019 the main focus of SB Central Bank's operations will be to support and ensure the implementation of Savings Banks Group's strategy.

SB Central Bank's result for 2019 is expected to show a profit.

The Board of Directors' proposal on the disposal of distributable funds

SB Central Bank's distributable funds amount to EUR 12,687,727.68.

The SB Central Bank Board of Directors proposes to the Annual General Meeting that the profit for the financial year of EUR 3,633,375.31 is entered as accumulated retained earnings with no dividend paid.

Information

Further information Acting Managing Director Kai Brander

kai.brander@saastopankki.fi
tel. +358 5038 48220

Releases and other corporate data are available on the SB Central Bank's website at *www.spkeskuspankki.fi*

The corresponding information on Savings Banks Group is available online at w*ww.saastopankki.fi*.

Formulas used in calculating the financial highlights:

Revenues:	Interest income, fee income, net trading income, other operating revenue
Total operating revenue:	Net interest income, net fee and commission income, net trading income, other operating revenue
Total operating expenses:	Personnel expenses, other operating expenses, depreciations of property, plant and equipment and intangible assets

Cost to income ratio:

$$\frac{\text{Total operating expenses}}{\text{Total operating revenue}}$$

Return on equity %:

$$\frac{\text{Profit}}{\text{Equity, incl. non-controlling interests (average)}} * 100$$

Return on assets %:

$$\frac{\text{Profit}}{\text{Total assets (average)}} * 100$$

Equity/assets ratio %:

$$\frac{\text{Equity (incl. non-controlling interests)}}{\text{Total assets}} * 100$$

Solvency ratio, %:

$$\frac{\text{Own Funds total}}{\text{Risk-weighted assets total}} * 100$$

Alternative Performance Measures

European Securities and Markets Authority's Guidelines on Alternative Performance measures came into effect on 3 July 2017. 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.

SB Central Bank is not using any alternative performance measures that are not directly calculated using the information presented in the IFRS financial statements, nor have any changes occurred in the financial highlights.

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC: IFRS FINANCIAL STATEMENT 2018

Income statement

(EUR 1,000)	Note	1-12/2018	1-12/2017
Interest income		23,289	22,629
Interest expense		-13,917	-15,922
Net interest income	6	9,373	6,707
Net fee and commission income	7	10,723	10,238
Net trading income	8	219	-774
Other operating revenue	10	1,717	1,454
Total operating revenue		**22,031**	**17,624**
Personnel expenses	11	-3,708	-3,328
Other operating expenses	12	-12,845	-10,623
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	13	-663	-579
Total operating expenses		**-17,216**	**-14,530**
Net impairment loss on financial assets	14	-1,082	-1,195
Operating profit		**3,733**	**1,900**
Income tax expense	15	-100	62
PROFIT		**3,633**	**1,962**

Statement of comprehensive income

(EUR 1,000)	1-12/2018	1-12/2017
Profit	**3,633**	**1,962**
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	190	119
Total	**190**	**119**
TOTAL COMPREHENSIVE INCOME	**3,823**	**2,080**

Statement of financial position

(EUR 1,000)	Note	31.12.2018	31.12.2017
ASSETS			
Cash and cash equivalents	17	823,612	1,102,254
Loans and advances to credit institutions	18	1,760,168	1,376,815
Loans and advances to customers	18	95,278	93,133
Derivatives	19	2,689	3,169
Investment assets	20	37,811	35,039
Property, plant and equipment	21	222	284
Intangible assets	22	3,113	1,561
Tax assets	23	1,381	1,335
Other assets	24	9,885	59,933
TOTAL ASSETS		**2,734,159**	**2,673,522**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	25	840,107	813,497
Liabilities to customers	25	379,253	263,255
Derivatives	19	282	61
Debt securities issued	26	1,451,558	1,534,862
Tax liabilities	23	111	89
Other liabilities	27	9,746	11,858
Total liabilities		**2,681,057**	**2,623,621**
Equity			
Share capital		40,000	40,000
Reserves		19,414	19,215
Retained earnings		-6,312	-9,314
Total equity	28	**53,101**	**49,901**
TOTAL LIABILITIES AND EQUITY		**2,734,159**	**2,673,522**

Statement of cash flows

(EUR 1,000)	1-12/2018	1-12/2017
Cash flows from operating activities		
Profit	3,633	1,962
Adjustments for items without cash flow effect	1,576	1,665
Change in deferred tax	100	-62
Cash flows from operating activities before changes in assets and liabilities	**5,309**	**3,565**
Increase (-) or decrease (+) in operating assets	**-332,705**	**-352,739**
Loans and advances to credit institutions	-376,470	-348,176
Loans and advances to customers	-3,417	-11,097
Investment assets, at fair value through other comprehensive income	-3,189	-
Investment assets, at amortized cost	322	-
Available-for-sale financial assets	-	56,861
Decrease in held-to-maturity financial assets	-	318
Other assets	50,048	-50,646
Increase (-) or decrease (+) in operating liabilities	**57,554**	**367,088**
Liabilities to credit institutions	26,610	36,072
Liabilities to customers	115,998	253,973
Debt securities issued	-82,872	115,447
Other liabilities	-2,182	-38,404
Total cash flows from operating activities	**-269,841**	**17,914**
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets	-2,196	-631
Disposals of investment property and property, plant and equipment and intangible assets	35	-
Total cash flows from investing activities	**-2,162**	**-631**
Change in cash and cash equivalents	**-272,003**	**17,283**
Cash and cash equivalents at the beginning of the period	**1,107,275**	**1,089,992**
Cash and cash equivalents at the end of the period	**835,272**	**1,107,275**
Cash and cash equivalents comprise the following items:		
Cash	823,612	1,102,254
Receivables from central banks repayable on demand	11,660	5,022
Total cash and cash equivalents	**835,272**	**1,107,275**
Interest received	22,259	22,189
Interest paid	13,844	15,323

Statement of changes in equity

(EUR 1,000)	Share capital	Share premium	Fair value reserve	Total reserves	Retained earnings	Total equity
Equity 1 January 2017	**40,000**	**19,000**	**97**	**19,097**	**-11,276**	**47,820**
Comprehensive income						
Profit					1,962	1,962
Other comprehensive income			119	119		119
Total equity 31 December 2017			**119**	**119**	**1,962**	**2,080**
Oma pääoma yhteensä 31.12.2017	**40,000**	**19,000**	**215**	**19,215**	**-9,314**	**49,901**
Effect of IFRS 9 transition 1 January 201			**9**	**9**	**-631**	**-622**
Equity 1 January 2018	**40,000**	**19,000**	**224**	**19,224**	**-9,946**	**49,278**
Comprehensive income						
Profit					3,633	3,633
Other comprehensive income			190	190		190
Total comprehensive income			**119**	**119**	**1,962**	**2,080**
Total equity 31 December 2018	**40,000**	**19,000**	**414**	**19,414**	**-6,312**	**53,101**

BASIS OF PREPARATION

NOTE 1. INFORMATION ON THE REPORTING COMPANY AND DESCRIPTION OF THE SAVINGS BANKS GROUP

Central Bank of Savings Banks Finland Plc (hereinafter “SB Central Bank”, “company”, “entity”) is a depository bank owned by Finnish Savings Banks. SB Central Bank’s primary function is to provide the Savings Banks with various central credit institution services. The central credit institution services focus on payment services and account operator services, payment card issuing, and services related to liquidity management, funding and asset and liability management. SB Central Bank belongs to the Savings Banks Group and its main owners are the 23 Savings Banks of the Amalgamation and one savings bank outside the Amalgamation.

The Savings Banks Group (hereafter Group) is the oldest 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 Ltd.

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

The structure of the Group differs from that of the Amalgamation so that the Group also includes organizations other than credit and financial institutions or service companies. The most significant of these are Sb Life Insurance Ltd, Sp-Koti Ltd and Säästöpankkien Holding Ltd. 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.

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 obligated to prepare consolidated financial statements for the Group. SB Central Bank is also included in proportion to the Amalgamation banks’ shareholdings. 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, in which SB Central Bank is also included.

The head office of Central Bank of Savings Banks Finland Plc is in Helsinki, and its registered address is Teollisuuskatu 33, 00510 Helsinki, Finland. A copy of SB Central Bank’s financial statement is available online from *www.spkeskuspankki.fi* or from the Bank’s offices at Te-ollisuuskatu 33, 00510 Helsinki, Finland.

Similarly, a copy of the Group’s financial statements are available at the website *www.saastopankki.fi/saastopankkiryhma* or at the premises of Savings Banks’ Union Coop, address Teollisuuskatu 33, 00510 Helsinki.

SB Central Bank’s Board of Directors has approved the Bank’s financial statement 2018 on 5 February 2019, and the financial statement will be presented to the Annual General Meeting of 2019 for approval. The Annual General Meeting has the choice of approving or not approving the financial statement.

NOTE 2. ACCOUNTING POLICIES

1. Overview

SB Central Bank's financial statements have been prepared in accordance with the International Financial Reporting Standards (IFRS) as adopted by the EU.

In accordance with the principles of the the Act on the Amalgamation of Deposit Banks and the IAS 8 standard concerning accounting policies, adjustments and errors in accounting estimates, the Board of the Savings Banks Association Cooperative confirms any accounting policy for which no guidance is available in the IFRSs.

SB Central Bank's financial statements are presented in euros, which is the Bank's functional currency.

Assets denominated in a foreign currency outside the eurozone are converted into euros at the European Central Bank's average rate on the balance sheet date. Exchange rate differences taking place during valuation are recognised as net income from foreign exchange operations under net trading income in the income statement.

SB Central Bank's financial statements are prepared under the historical cost convention, except for the available-for-sale financial assets and hedged items in fair value hedges (for hedged risks), which are measured at fair value.

Assets and liabilities are offset only in the event that SB Central Bank and the counterparty have a legally enforceable right to offset amounts and SB Central Bank intends either to settle the balance on a net basis or realise the asset and settle the liability simultaneously.

2. Financial instruments

2.1 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.

2.1.1 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 SB Central Bank 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.

2.1.2 Classification of financial assets and the determination of classification

BUSINESS MODEL ASSESSMENT

SB Central Bank 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 SB Central Bank 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.

SB Central Bank 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

SB Central Bank 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 SB Central Banks 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. SB Central Bank 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, SB Central Bank changes the business models applied in the management of financial assets. SB Central Bank 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.

2.1.3 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.

- 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.

2.2. 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 con-sid-ered active if price quotations are readily and regularly availa-ble 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-estab-lished 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 mar-ket, the fair value is determined based on a specific valuation model created for the product in question. The valuation mod-els are based on widely used measuring techniques, incorpo-rating all the factors that market par-ticipants would consider when setting a price. The valuation prices used include market trans-action prices, the discounted cash flow method, as well as the fair value of another substantial-ly similar instrument at the reporting date. The valuation methods take into account an es-timate 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 de-termined 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 consid-ering the whole item which is valued at fair value.

2.3. 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.

SB Central Bank 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), SB Central Bank 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 SB Central Bank (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.

2.4. Hedging and derivatives

For hedging relationships under general hedge accounting (fair value hedging), SB Central Bank has adopted IFRS 9.

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 applies hedge accounting to hedging relationships. The hedged item in the fair value hedge are fixed rate lending to Savings Banks and the issued fixed rate bond.

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.

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.

2.5 Financial instruments of comparison period

Classification and recognition

In accordance with IAS 39, SB Central Bank's financial assets are classified into three categories for valuation:

- Available-for-sale financial assets
- Held-to-maturity financial investments
- Loans and receivables

SB Central Bank's financial liabilities are classified into following category for valuation:

- Other financial liabilitiest

Classification in the SB Central Bank's balance sheet is independent of the IAS 39 categories. Different valuation method may therefore apply to assets and liabilities presented on the same line in the balance sheet. Financial assets and liabilities by valuation category is presented in the Note 16.

Purchase and sale of financial instruments is recognised on the trade date.

Upon initial recognition, all financial assets and financial liabilities are recognised at fair value. Transaction costs are included in the acquisition cost for the financial instruments.

Financial assets and liabilities are offset in the balance sheet if SB Central Bank currently has a legally enforceable right of set-off in the normal course of business and in the event of default, insolvency or bankruptcy, and it intends to settle the asset and liability on a net basis. SB Central Bank has not offset financial assets and liabilities in the balance sheet.

Financial assets are derecognised when the contractual rights to the cash flows of the financial item in the financial assets have expired or when the rights have been transferred to a third party so that substantially all risks and rewards have been transferred. Financial liabilities are derecognised when they are extinguished or when obligations is discharged or expired.

Held-to-maturity financial investments

Held-to-maturity financial assets include interest-bearing financial assets with fixed or determinable payments which mature on a specified date and are owned by SB Central Bank and which the Bank 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 impairment.

Loans and receivables

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

Loans and receivables are initially recognised at fair value net of 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 in the above categories are classified as available for-sale financial assets. Available for-sale financial assets are measured at fair value. However, investments in unquoted equity instruments are carried at acquisition cost or at acquisition cost less provision for impairment. Fair value changes of available for sale financial assets are rec-ognised in other comprehensive income in the fair value reserve within shareholders' equity net of deferred taxes. Exchange rate gains and losses arising from items denominated in foreign currencies are not recognised in the fair value reserve. Instead, they are recognised directly in the result. Gains or losses are reclassified from equity to the income statement within "Net investment income" upon transfer, sale or impairment.

Other financial liabilities

Other financial liabilities are initially recognised at fair value and subsequently carried at amor-tised cost using the effective interest method. With the exception of derivative contracts and the issued bond for which hedge accounting is applied, all financial liabilities are measured at amortised cost in the balance sheet.

Determining the fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value of a financial instrument traded in active markets is based on quoted market prices or, based on company's own valuation techniques if an active market does not exist. A market is considered active if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted bid price is used as the current market price of financial assets. If the market has a well-established valuation practice for a financial instrument, for which a quoted market price is not available, the fair value is based on a commonly used model for calculating the market price and the market quotation of inputs used in the valuation model.

If the valuation technique is not well established in the market, a valuation model created for the product in question is used to determine its fair value. Valuation models are based on wide-ly used techniques, incorporating all factors that market participants would consider in setting a price. Used valuation prices consist of market transaction prices, discounted cash flow method and the current a fair value of another substantially similar instrument at the reporting date. The valuation techniques take into account estimated credit risk, applicable discount rates, early re-payment option, and other such factors that may impact the fair value of the financial instrument to be determined reliably.

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

- Quoted prices in active markets for identical assets or liabilities (Level 1)
- Fair values that are determined using inputs other than Level 1 quoted prices that are observable for assets or liabilities, either directly (e.g. as 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 to which an item measured at fair value is classified in its entirety is determined at the lowest level of input information for the whole item. The significance of the input data is evaluated in its entirety in the case of the item which is valued at fair value.

Derivatives and hedge accounting

Derivative financial instruments are valued at fair value in the financial statements, and fair val-ue changes are recognised in the balance sheet and income statement or in other comprehen-sive income.

SB Central Bank hedges its interest rate risk from changes in fair value and applies hedge accounting for the hedge relationships. The hedged item in the fair value hedge are fixed rate lending to Savings Banks and the issued fixed rate bond.

Changes in the fair value of derivatives hedging fair value are recognised in the income state-ment 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 amortized cost. A change in the hedged item's fair value is recognised in the balance sheet as an adjustment to the balance sheet amount of the hedged 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.

Impairment losses of financial assets

Loans and receivables

The impairment losses of loans and other receivables are recognised by SB Central Bank on a collective basis from the loan portfolio for the credit cardholders. In accordance with SB Central Bank's Credit Risk Strategy, other credits – lending to savings banks and strategic partners – must not generate credit losses.

Impairment of loans for the credit cardholders is recognised collectively for loans that have been found defaulted, as client-specific liabilities are low and the number of defaulted credits is high. In this context, 'collective' refers to a group of loans for credit cardholders that have been found to be defaulted.

Impairment losses on loans and receivables are recognised in the allowance account and netted against loans and receivables. In the income statement the impairment losses are recognised under impairment losses on loans and other receivables. If in a subsequent period appears that the impairment is not permanent it is reversed.

Loans and receivables, whose collection is deemed impossible, are recognised as credit loss-es. Credit losses are recorded in the allowance account. Non-recoverable loans and receivables are recorded as a permanent credit loss, and the impairment loss is reversed when the normal collection process is completed and the final amount of the individual loan or receivable can be measured.

Held-to-maturity financial investments

If there is objective evidence on the balance sheet date that the value of a debt instrument classified as held to maturity has decreased, the debt instrument will be subjected to an impairment test.

If the impairment assessment provides evidence that the debt instrument is impaired, the impairment is recognised through profit or loss in net investment income. The impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The discount rate used is the receivable's original effective interest rate.

Available for sale financial assets

If at the balance sheet date there is objective evidence that the carrying amount of a security classified as available for sale is decreased, the security is subjected to an impairment test. If the impairment assessment provides evidence that the security is impaired, the impairment loss is recognised in the income statement under "Net investment income".

Objective evidence of impairment of an investment made in an equity instrument includes significant financial difficulties experienced by the issuer or debtor, as well as information about significant unfavourable changes in the technology, market, economic or legal environment in which the issuer operates.

Such evidence indicates that it may not be possible to recover the acquisition cost of the investment made in the equity instrument. Objective evidence of impairment also includes a significant or long-term decrease in the fair value of investment made in an equity instrument that causes its fair value to fall below the acquisition cost. SB Central Bank's management has estimated that a decrease in fair value is significant when the fair value is 30% lower than the acquisition cost of the instrument and that the decrease in long-term when the fair value has continuously decreased for a period of more than 18 months.

The difference between the acquisition cost of an equity instrument and its fair value on the balance sheet date is recognised as an impairment loss, less any impairment losses previously recognised for the financial assets in question through profit or loss. Impairment losses recognised through profit or loss for an available-for-sale equity instrument are not reversed through profit or loss. Instead, any later changes in value are recognised in the fair value reserve.

Impairment assessment of a available for sale debt instrument is mainly based on the estimated future cash flows. Reduction in fair value, which is solely due to the increase in risk-free market interest rates, does not give rise to recognise an impairment loss. Instead, an increase in the counterparty's credit risk premium may be an evidence of deteriorated ability to pay.

The impairment loss of debt securities is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The reversal of previously recognised impairment loss is recognised in the income statement.

3. 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 business transaction. A lease is a finance lease if it transfers substantially all the risks and rewards to the lessee. Otherwise, it is an operating lease.

SB Central Bank does not have leased assets under financial lease. Payments made under operating leases are charged to the income statement under other operating expenses on a straight-line basis over the period of the lease. SB Central Bank is the lessee in laptops, among others.

4. Employee benefits

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

Short-term employee benefits include salaries and benefits, annual leave and bonuses. Short-term employee benefits are expected to be paid in full within 12 months of the financial year, during which the employees perform the work concerned.

A defined contribution plan is a pension plan under which SB Central Bank pays fixed pension contributions into pension insurance companies, and SB Central Bank has no legal or con-structive obligations to pay further contributions if the pension insurance company is not able to pay employees the benefits. The most significant defined contribution plan is the basic insurance (TyEL), as stipulated by the Pensions Act. An independent pension insurance company is responsible for this pension security in SB Central Bank.

Other long-term employee benefits are based on a long-lasting employment relationship. They include benefits such as paid leave, a bonus or a gift given on the basis of years of service.

5. Intangible assets

An intangible asset is an identifiable asset that has no physical substance. In SB Central Bank, intangible assets include information systems purchased from external companies and software licences.

An intangible asset is recognised only when it is probable that economic benefits from the asset are likely to flow to the company and the acquisition cost of the asset can be reliably measured. Future economic benefits may include services or goods, sales revenue, cost savings or other benefits resulting from SB Central Bank exercising the asset.

Intangible assets are initially measured at cost. The cost comprises the purchase price, including all costs that are directly attributable to the asset from acquisition to preparing it to its intended use. The acquisition cost does not include costs attributable to the asset's use, staff training expenses incurred and administrative expenses and other general overheads.

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

An asset is amortised from the date when it is ready for use. An intangible asset that is not yet

ready for use is tested annually for impairment.

The estimated useful lives are mainly as follows:

Information systems purchased from
external companies .... 3–5 years

Other intangible assets .... 5 years

Intangible assets are recognised in the "Intangible Assets" line item within the balance sheet. Amortisation and impairment losses are recognised in the income statement under "Depreciation, amortisation and impairment losses on tangible and intangible assets".

6. Property, plant and equipment and investment properties

SB Central Bank's tangible fixed assets comprise machinery and equipment. Depreciation and impairment losses are recognised in the income statement under "Depreciation, amortisation and impairment losses on tangible and intangible assets".

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. 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 their estimated useful lives. Costs generated after the original acquisition are capitalised in the carrying amount only when it is probable that the asset will generate greater economic benefits than was initially estimated.

The estimated useful lives are mainly as follows:

Machinery and equipment .... 3–5 years

The residual value and the useful life of an asset is reviewed at each balance sheet date and adjusted to reflect the expected changes in economic benefit.

Gains and losses on retirement and disposal of tangible fixed assets are recognised in income statement and are presented under other operating income and expenses. The capital gain or loss is determined by the difference between the selling price and the remaining acquisition cost.

7. Income taxes

SB Central Bank's income tax for the period comprises current tax, previous years' tax adjustments and changes in deferred taxes. Tax is recognised in income statement except when they relate directly to items recognised directly in equity or in other comprehensive income. In these circumstances the tax is also recognised directly in equity or in other comprehensive income, respectively.

Deferred income tax is recognised on temporary differences between the carrying amount of an asset or liability and its tax base. Deferred tax is determined using tax rates that have been enacted at the balance sheet date and are expected to apply when the related deferred income tax is realised. A change in deferred tax resulting from changing tax rates is recognised in the income statement or other comprehensive income if the tax was recorded there during earlier financial periods.

A deferred tax asset is recognised for the carryforward of unused tax losses to the extent that it is probable that future taxable profit will be probable and unused tax credits can be utilized.

8. Operating revenue

Interest income and expenses

Interest income and expenses are amortised using the effective interest rate method over the contractual period of the loan and receivable or the liability. With this method, the income and expenses of the instrument are amortised in proportion to the remaining carrying amount of the loan and receivable or the liability in the balance sheet.

When a financial asset is impaired, the original effective interest rate is used to calculate the interest income to the carrying amount of the receivable reduced by impairment loss.

Fees and commissions

Fees and commissions income and expense are generally recognised on an accrual basis. Fees and commissions for performing a service are recognised when the related services are performed. Fees relating to services performed over several years are amortised over the service period. Fees that are directly attributable to a financial instrument are treated as part of an effective interest and accounted for as an adjustment to the effective interest of that financial instrument. Fees, relating to financial instruments classified at fair value through profit or loss are expensed in the income statement on initial recognition.

Net trading income

Net income from fair value hedging is recognised in net trading income.

9. Segment information

SP Central Bank's management examines its operations as a single segment, meaning that segment-specific information is not provided in accordance with IFRS 8. SB Central Bank's operations are part of the Group's operations, and its financial statements are included in the consolidated financial statements, which is another reason why SB Central Bank's operations have not been divided into segments.

10. New IFRS standards and interpretations

New and amended standards applied in financial year ended

SB Central Bank has applied as from 1 January 2018 the following new and amended standards that have come into effect:

IFRS 9 Financial Instruments

IFRS 9 replaced the previous IAS 39 in its entirety effective from 1 January 2018. The adoption of IFRS 9 has had a significant impact on SB Central Bank's accounting policies relating to the classification and measurement of financial assets and liabilities and the impairment of financial assets. IFRS 9 has also significantly amended 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 and are therefore not fully comparable with the previous year. The effects of the adoption of IFRS 9, amounting to EUR 692 thousand, have been entered directly in retained earnings in the opening balance of the transition period on 1 January 2018.

Reconciliation of equity balances from IAS 39 to IFRS 9

(EUR 1,000)	31 December 2017	Change	1 January 2018
Fair value reserve	215		
Reclassifications			
Expected credit losses (ECL)		11	
Total			11
Tax effect		-2	
Fair value reserve, total	215	9	224
Retained earnings	-9,314		
Reclassifications			
Cancellation of impairment losses, 31 December 2017		795	
Expected credit losses (ECL)		-1,660	
Reclassifications' change in measurement		-61	
Total			-927
Tax effect		173	
Profit (loss) for previous financial years	-9,314	-631	-9,946
Total equity*	49,901	-622	49,278

* Total equity 1 January 2018 includes all items included in the SB Central Banks eqyity. The reconciliation only contains the IFRS 9 effects in the fair value and retained earnings.

The adoption of IFRS 9 changed the accounting for credit loss impairment by replacing the IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. The expected credit loss allowance is calculated by evaluating financial assets' credit risk, and espe-cially if financial assets' credit risk has significantly increased after initial recognition. Expected credit loss (ECL) is recognised for debt instruments classified as measured at amortised cost or measured at fair value through other comprehensive income, including commitments to grant credit, guarantees issued and trade receivables.

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 Sb Central Bank'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 2.1.2 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)

(EUR 1,000)	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9
Cash and cash equivalents	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	1,376,815	1,376,615
Loans and advances to customers	Loans and receivables	Amortised cost	93,133	92,857
Derivatives	Fair value through profit or loss	Fair value through profit or loss	3,169	3,169
Investment assets	Available-for-sale financial assets	Fair value through other comprehensive income	9,239	9,239
Investment assets	Held-to-maturity financial investments	Amortised cost	25,800	25,470
Total assets			**2,610,410**	**2,609,604**

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	Reclassifica-tions	Remeasure-ments	IFRS 9 carrying amount 1 January 2018
Amortised Cost				
Cash and cash equivalents				
Balance sheet 31 December 2017	1,102,254			
Reclassification - to fair value through profit or loss (FVTPL)		1,102,254		
Remeasurements				
Balance sheet 1 January 2018		**-1,102,254**		**0**
Loans and advances to credit institutions				
Balance sheet 31 December 2017	1,376,815			
Remeasurements			-200	
Balance sheet 1 January 2018			**-200**	**1,376,615**
Loans and advances to customers				
Balance sheet 31 December 2017	93,133			
Remeasurements			-276	
Balance sheet 1 January 2018			**-276**	**92,857**
Investment assets				
Balance sheet 31 December 2017	25,800			
Remeasurements			-330	
Balance sheet 1 January 2018			**-330**	**25,470**
Financial assets measured at amortised cost, total	**2,598,002**	**-1,102,254**	**-806**	**1,494,942**

Financial assets available for sale

(EUR 1,000)	IAS 39 carrying amount 31 December 2017	Reclassifica-tions	Remeasure-ments	IFRS 9 carrying amount 1 January 2018
Investment assets				
Balance sheet 31 December 2017	9,239			
Reclassifications - to fair value through other comprehensive income (equity instruments)		-1,251		
Reclassifications - to fair value through other comprehensive income (debt instruments)		-7,988		
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		7,988		7,988
Balance sheet 1 January 2018		**7,988**		**7,988**
Fair value through other comprehensive income (equi-ty instru-ments)				
Investment assets				
Balance sheet 31 December 2017				
Reclassification - from available for sale		1,251		1,251
Balance sheet 1 January 2018		**1,251**		**1,251**
Fair value through other comprehensive income, total		**9,239**		**9,239**
Fair value through profit or loss				
Derivatives	3,169			3,169
Balance sheet 31 December 2017	3,169			3,169
Reclassification - from amortised cost		1,102,254		1,102,254
Balance sheet 1 January 2018	**3,169**	**1,102,254**		**1,105,423**
Fair value through profit or loss, total	**3,169**	**1,102,254**		**1,105,423**

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. SB Central Bank 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 or leases, and it thereby concerns mainly various net fee and commission income items. 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. SB Central Bank'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 Sb Central Bank's income.

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 SB Central Bank, as of SB Central Bank has very few items denominated in foreign currencies and/or operations.

Adoption of new and amended standards in future financial years

SB Central Bank 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.

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

Adoption of IFRS 16 Leases

IFRS 16 Leases entered into effect on 1 January 2019. On transition, SB Central Bank has applied a simplified approach and the comparison figures have not been adjusted. Prior to the IFRS 16 transition on 1 January 2019, SB Central Bank had no finance leases as referred to in IAS 17 and IFRIC 4. SB Central Bank's new accounting policies concerning leases are described below in the section "Basis of preparation effective from 1 January 2019". The IFRS 16 transition had no effect on profit or loss or balans, nor did it affect retained earnings, because Sb Central Bank has only leases which are under the IFRS 16 exemptions and SB Central Bank has decided to choose use exemptios possibility.

Basis of preparation effective from 1 January 2019

Leases

SB Central Bank as the lessee

At the inception of a contract and when the terms and conditions of a contract are changed, SB Central Bank 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 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. Sb Central Bank recognises leases as a right-of-use asset under "Right-of-use assets" and a liability under "Provisions and other liabilities".

Short-term leases and assets of low value

IFRS 16 contains two exemptions concerning recognition and measurement. SB Central Bank 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. SB Central Bank expenses such short-term leases and assets of low value during the lease term.

SB Central Bank as the lessor

SB Central Bank does not act as a lessor.

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 SB Central Bank's 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 as-sets with so-called negative compensation. The change in the standard will have no significant impact on SB Central Bank's 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 impact on SB Central Bank's 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 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 SB Central Bank's consolidated financial statement.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

IFRS-compliant financial statements require SB Central Bank's management to exercise judg-ment 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 SB Central Bank 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 and recognition of deferred tax on confirmed tax losses.

Fair value measurement

The management should 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 determine when the financial instruments market is not active. The management's judgment is required in cases where the financial instrument's fair value is determined using valuation techniques. If observable inputs are not available in the market for the valuation, the management must assess what other inputs should be used in measuring the fair value. Fair value measurement is discussed in more detail in section "Fair Value Measurement".

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 individual 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 (comparison period)

The management must also regularly assess whether there is objective evidence of the impairment of loans and receivables. Impairment testing is performed on a single receivable or a group of receivables. Impairment is based on the management's estimate of future cash flows of the receivable. Recognising objective evidences and evaluation of future cash flows require management's judgment. The impairment principles are explained in more detail in section "Impairment losses on financial assets" in the accounting policies.

Impairment testing of other financial assets not fair valued through profit or loss is carried out at each balance sheet date. Impairment losses are recognised in profit or loss if there is objective evidence. In the case of available for sale equity instruments, impairment is recognised if the impairment is assessed to be significant or prolonged. The management must assess when the impairment is significant or prolonged. More detailed principles for impairment losses of other financial instruments are presented under "Impairment losses of financial assets".

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.

For the basis of recognition of tax assets, SB Central Bank's management has assessed SB Central Bank's future operations, considering the general market situation, Savings Banks Group's future development outlook and changes in operations of SB Central Bank.

RISK MANAGEMENT AND PRINCIPLES OF CAPITAL ADEQUACY MANAGEMENT

NOTE 4: RISK MANAGEMENT AND GOVERNANCE

Objective of risk management

The objective of risk management is to secure the bank's risk-bearing capacity and ensure the continuity of its business operations. The risk-bearing capacity comprises adequate and effec-tive risk management based on the nature, scale and complexity of SB Central Bank's business operations, as well as a sufficient amount of liquidity and capitalization based on profitable business operations.

Principles and organization of risk management

Risk management is defined as identification, assessment, quantification, limitation and monitoring of risks arising from business activities and closely related risks. 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 are part of internal control. SB Central Bank has a risk control function that is independent of business operations.

Risk and capital adequacy management enables the identification, assessment and meas-urement of risks, limiting them to a level of SB Central Bank'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.

Risk management is part of SB Central Bank's internal control and an integral part of its operational activities.

Internal control covers financial and other supervision. Internal control refers to the part of management and operations which aim to ensure:

- the achievement of set objectives and goals;
- economical and efficient processes;
- the management of the risks involved in operations;
- the fairness and accuracy of financial and other management information;
- compliance monitoring;
- the adequate protection of operations, data, as well as the entity's property and customers' assets; and
- adequate and appropriately organised manual and IT systems for the support of operations.

The purpose of internal control at the Central Bank of Savings Banks is to ensure that the objectives and aims set for different levels at the bank are reached in compliance with the agreed and set internal control guidelines. Internal control is supervision from the inside managed by the administrative organs and the organisation itself, and it primarily concerns the state, quality and results of operations. Internal control is carried out by the Board of Directors, Managing Director, risk control function, supervisors and clerical employees. In addition, clerical employees are required to report deviations and misconduct to those higher up in the organisation.

The risk management of the Central Bank of Savings Banks is based on the business strategy, risk management guidelines, authorisation system as well as the risk and deviation reports produced in terms of key business areas, confirmed by the Savings Banks to the Central Bank of Savings Banks.

SB Central Bank does not have excessively large customer or investment portfolio risk con-centrations in relation to its financial capacity, and in accordance with its strategy, SB Central Bank will take no such risks.

SB Central Bank maintains its capital adequacy at adequate level. SB Central Bank takes the risk of losses relating to credit and other risks in its financial statements into account with adequate impairment entries and other loss entries.

The Board of Directors is regularly informed on the risk positions and their changes affecting SB Central Bank. The Board also approves the authorizations and guidelines of risk-taking by determining risk limits for accepted risk types. The implementation of the risk stategy is monitored through monitoring and reporting of risk limits and thresholds, carried out by risk control unit independent of business operations. The Board of Directors also approves the authorities and framework for risk-taking by specifying the permitted risk thresholds for different risk types. The responsibility for daily risk monitoring and control is with the management according to set authorizations. The systems and procedures regarding risk reporting and monitoring fulfil the criteria set for risk management, taking into account the nature, scale and complexity of SB Central Bank's business operations.

SB Central Bank has established the following functions, independent of business operations, to ensure effective and comprehensive internal control system:

- independent 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 SB Central Bank is adequate in relation to the nature, scale, complexity and risk level of the SB Central Bank's business operations. The Risk Control unit assists the Board of Directors and senior management of the SB Central Bank 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 SB Central Bank complies with the legislation and authorities' regulation and guidelines. The

Compliance unit is responsible for monitoring that SB Central Bank complies with the internal guidelines, ethical guidelines given to the personnel and other guidelines applied within the financial markets.

The Board of Directors of the Central Bank of Savings Banks has established internal audit for the bank and approved the internal audit plan and reporting principles.

The task of internal audit is to assess the scope and adequacy of the internal control of the bank's operating organisation and monitor and assess the functioning of the risk management systems. Internal audit reports on its observations to the Managing Director and the Board of Directors.

The Board of Directors of SB Central Bank is responsible for organising internal control in accordance with legislation, requirements of the authorities and guidelines issued by the Board of Directors of the Central Institution.

The Managing Director and other executives of SB Central Bank are responsible for organising internal control in accordance with legislation, requirements of the authorities and more detailed internal guidelines issued by the Central Institution and the bank's Board of Directors. The Savings Banks Amalgamation's risk control function maintains and develops methods for managing risks within the Central Institution. This ensures that all, even new, fundamental but previously unidentified risks are covered by the risk management of 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 follow-up reporting.

In its operations SB Central Bank is exposed to credit, market and operational risks, as well as business and liquidity risks.

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 counterparty may not meet its contractual obligations. The main source of credit risk is lending, but credit risks (counterparty risk) may also arise from other types of assets, such as bank deposits, securities in investment portfolio and deriv-ative contracts, as well as off balance-sheet liabilities, such as undrawn credit facilities and limits as well as granted guarantees.

The objective of credit risk management is to limit the impacts on profit and loss or capital adequacy of risks arising from customer liabilities at an acceptable level. The business and risk management strategies approved by the Board of Directors set the maximum exposures for concentration risks and control investment and lending activities.

During the review period, SB Central Bank granted loans to Amalgamation banks. The decisions on loans granted to Savings Banks are made at SB Central Bank in accordance with the policies approved by Savings Banks Union Coop and the Board of SB Central Bank. Due to the joint liability, no specific plan on impairments has been prepared for these loans.

The credit decisions regarding unsecured lending to Savings Banks Group's strategic partners are made by the Board of SB Central Bank. Related credit risk monitoring is based partly on the daily monitoring and reconciliation process of the credit accounts. Monitoring is supported by the facts that the companies are owned by credit institutions operating in Finland, and a regular communication at least on monthly basis is established.

SB Central Bank serves as the issuer of payment cards in the Savings Bank Group and grants loans for the credit cardholders. The latter is based on credit guidelines that determine the principles of granting loans, as well as credit authority levels and responsibilities, among other aspects. The credit risk associated with the credit card portfolio is managed through credit management guidelines on matters such as the principles and responsibilities for the credit granting process. The credit risk strategy determines specific measures in the event of exceeded credit limits.

During the year, SB Central Bank made investments in debt instruments, both those acceptable as collateral for central bank funding and others, in accordance with the counterparty risk strategy approved by the Board of SB Central Bank.

SB Central Bank has no non-credit institution client entities with liabilities exceeding the limit set by the Act on Credit Institutions of 10 per cent of the banks' equity (so-called large expo-sures). The credit risks in the SB Central Bank's loan portfolio are at a low level in relation to the Bank's annual profit levels and risk-bearing capacity.

Non-performing loans and payment delays

The non-performing loans, payment delays and expected credit losses are followed regularly. The non-performing loans levelled with the previous year and were 0.8% 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.

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. On the top of the information about customer and contract, the calculations consider also the economic forecast from the Savings Banks Group Chief Economist. 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, expected credit loss has calculated based on credit loss expected during the remaining duration. Lastly, stage 3 has used if contract has defaulted. Then expected credit loss has calculated based on credit loss expected during the remaining duration. 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.

Loans and receivables whose recovery is deemed impossi-ble 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 1.6 million at the end of the year. Expected credit losses are 0.1 % of the credit portfolio. Note 2 explains more about the level movements of expected credit losses.

According to the IFRS 9 Financial instruments standard effective for reporting periods beginning on or after 1 January 2018 retail exposures are classified into 6 different risk-rating classes.

Credit card exposures by risk-rating class 31 December 2018:

Risk-rating class

(EUR 1,000)	12 month PD	Stage 1	Stage 2	Stage 3	Total	% of portfolio
1 Not delayed	0.0 %-11.65 %	76,739	3,287		80,026	84.2 %
2-5 Payment delays < 30 days	0.0 %-11.65%	10,273	1,698		11,970	12.6 %
6 Payment delays > 30 days	1.7 %-29.5 %	271	1,952	2	2 225	2.3 %
D Non-performing	100 %		0	818	818	0.9 %
Yhteensä		**87,283**	**6,937**	**820**	**95,039**	**100.0 %**

The most significant part of other exposures than credit card exposures are loans granted to Savings Banks in the Amalgamation, which are in risk-rating class and stage 1.

Liquidity risk

Liquidity risk refers to a bank's ability to fulfil its commitments. Liquidity risk may arise from the uncontrollability and/or foreseeability of incoming and outgoing cash flows. Liquidity risk also comprises an uncontrollable rise in funding costs. Liquidity risk may be further divided into short-term liquidity risk and long-term funding risk.

Liquidity risk is managed e.g. by maintaining sufficient liquid assets to ensure sufficient liquidi-ty. SB Central Bank's liquidity remained good throughout 2017. Daily liquidity is monitored at SB Central Bank and a daily liquidity position report of Amalgamation member banks is also provided to the Savings Banks Union Coop risk control unit. Funding risk is managed by ensuring adequate long-term financing in relation to long-term receivables.

Maturity distribution of financial assets and liabilities:

2018 (EUR 1,000)	under 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Financial assets					
Cash and cash equivalents	823,612				823,612
Loans and advances to credit institutions	366,062	776,800	614,306	3,000	1,760,168
Loans and advances to customers	95,278				95,278
Investment assets		11,116	25,180	1,515	37,811
Total	**1,284,952**	**787,916**	**639,486**	**4,515**	**2,716,869**
Financial liabilities					
Liabilities to credit institutions	787,607	14,500	38,000		840,107
Liabilities to customers	211,452	167,801			379,253
Debt securities issued	111,992	255,890	1,073,765	9,911	1,451,558
Off balance-sheet commitments	225,982	65,000	76,000		366,982
Total	**1,337,033**	**503,191**	**1,187,765**	**9,911**	**3,037,900**

2017 (EUR 1,000)	under 3 months	3 - 12 months	1 - 5 years	over 5 years	Total
Financial assets					
Cash and cash equivalents	1,102,254				1,102,254
Loans and advances to credit institutions	226,422	726,356	424,038		1,376,815
Loans and advances to customers	93,133				93,133
Investment assets	2,000	5,988	27,050		35,039
Total	**1,423,809**	**732,344**	**451,088**	**-**	**2,607,241**
Financial liabilities					
Liabilities to credit institutions	764,497	11,000	38,000		813,497
Liabilities to customers	189,603	23,651	50,000		263,254
Debt securities issued	564,480	181,882	788,500		1,534,862
Off balance-sheet commitments	210,711	40,000	284,500		535,211
Total	**1,729,290**	**256,533**	**1,161,000**	**-**	**3,146,824**

Market risk

Market risk refers to the impact of interest rates and market prices on the bank's income statement and own funds. Market risks arise from the banking book, comprised of lending, wholesale funding and the investment portfolio. Of the market risks, SB Central Bank was ex-posed to interest rate and currency risk in the reporting period 2018, as described below.

Interest rate risk

Interest rate risk is the effect of interest rate changes on the market value of the bank's balance sheet and off balance-sheet items and on the net interest income. SB Central Bank monitors interest rate risk both with present value and income risk method. Furthermore, interest rate risk can divide 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 bank's business is profitable and to limit their fluctuations with-out threatening the capital adequacy even by severe changes in the interest rate environment. The Bank's appetite for interest rate risk has described by the interest rate limits set by the Board of Directors. Interest rate risk is possible to manage by modifying the product and bal-ance sheet structure, by planning the interest rate structure and maturities for investments and issued funding and by hedging interest rate derivatives. SB Central Bank hedges its interest rate risk from changes in fair value and applies hedge accounting for the hedge relationships. The hedged item in the fair value hedge are fixed rate lending to Savings Banks and the is-sued fixed rate bond.

The interest rate risks of SB Central bank are measured on a monthly basis through the change in net interest income and in the present value of the balance sheet. Present value method measures the change of the present value of assets and liabilities when the market in-terest rates change. In the income risk model, the future net interest income is forecast with a horizon of one year when the market interest rates change.

Interest rate sensitivity analysis, parallel change of 1 percentage point in the yield curve.

Change in net interest income:		31.12.2018
(EUR 1,000)	Down	Up
Period		
Change, next 12 months	- 1,654	6,912
Change, 12–24 months	-425	10,467

Bank's interest rate risk is reported regularly to the Board of Directors, which has given the maximum amount to SB Central Bank's interest rate risk in it's guidelines.

Currency risk

Currency risk refers to the effect of changes in foreign exchange rates on income statement or equity. SB Central Bank is exposed to currency risk to a minor extent due to Visa Inc shares in the investment portfolio, which are essential to the payment card issuance business. Open foreign exchange exposure is not allowed in the lending or liquidity portfolios of the member credit institutions of the Savings Banks Amalgamation. Foreign exchange exposure is monitored in accordance with the method used in capital adequacy calculation (the capital requirement is calculated if the total net foreign exchange exposure is over 2% of the total amount of own funds).

Operational risk

Operational risks refer to the risk of loss arising from inadequate or failed internal processes, personnel, systems, or external factors. Legal risks are also included in 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. Strategic risks have here excluded from operational risks.

Sb Central Bank'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.

SB Central Bank identifies and documents operational risks associated with products, services, operations, processes, and systems. The monitoring and control measures are determined through the identification of operational risks. Some of the losses caused by operational risks are covered by insurance. In addition, preparedness for significant operational disruptions is ensured through continuity plans. Regular reports are submitted to SB Central Bank's management on operational risks and actual losses, as well as near-miss situations.

During the financial year 2018, no such operational risks materialised that would cause financial loss. Disruption reports were prepared for the operational risks that realised during the year. The disruptions resulted mainly from malfunctions in information systems and process errors and typically required manual investigations at SB Central Bank.

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. Sb Central Bank comply with standard terms worked out jointly by the banking and insurance industry. When finalising non-standard agreements, legal ser-vices are used and external experts are consulted when needed.

Compliance function has been established to ensure that SB Central Bank comply with regulations and internal guidelines. Compliance function's responsibility is to ensure that SB Central Bank comply with laws, regulations and guidelines. Compliance function also ensures that the SB Central Bank 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.

NOTE 5. CAPITAL ADEQUACY MANAGEMENT

SB Central Bank has adopted capital adequacy management process, the objective of which is to ensure the bank's risk-bearing capacity is sufficient in relation to all the major risks result-ing from its business operations. SB Central Bank identifies and comprehensively 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 internal capital requirements specified through the capital adequacy management are based on the capital requirements under Pillar I and risks outside Pillar I, such as interest rate risk of the banking book, market risk of the investment portfolio and business risk. In the internal assessment process, SB Central Bank estimates the amount of capital that will also be sufficient to cover unexpected losses arising from risks outside Pillar I.

In line with its strategy, SB Central Bank provides Savings Banks with various central credit institution services, such as payment transaction and account operator services for all Savings Banks and payment card issuing for customers of Savings Banks, as well as services related to liquidity management, funding and asset and liability management. By operating only in this business sector, the Bank is able to maintain its operational risks at a manageable level.

The Board of Directors of the bank has overall responsibility for capital adequacy management. The Bank's Board of Directors approves the basis, objectives and principles of capital adequacy management. Moreover, the Board of Directors confirms the general requirements for the measurement and assessment of capital adequacy and the general principles for the capital adequacy management process. 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 business operations and changes in the operating environmentThe capital adequacy, liquidity and riskpositions of the entities belonging to the Savings Bank Amalgamation are monitored and consolidated at the Amalgamation level. The Board of Directors of the Central Institution has set target levels for the capital adequacy of the Amalgamation and banks, which are monitored quarterly.

Stress tests

As part of the capital adequacy management process, SB Central Bank uses stress tests to assess its own risk position and the adequacy of its capital. Stress tests are used when assessing how various exceptionally severe but possible scenarios may affect profitability, capital adequacy and adequacy of own funds. Stress tests are designed to identify the key risks to SB Central Bank and assess how vulnerable the structure of the Bank is in relation to the occurrence of those risks. The objective of the capital adequacy management is also to maintain and develop the quality of risk management framework.

Capital contingency plan

The capital contingency plan of SB Central Bank is made in order to be prepared for unforeseeable events that may threaten the bank's capital adequacy. The capital contingency plan includes target levels and thresholds set by the Board of Directors for the quantity and quality of the capital, which are monitored quarterly. The capital contingency plan describes the actions to be taken by the management and the Board of Directors in the event that the capital adequacy ratio falls below the threshold.

Pillar I capital requirements

The biggest capital requirements of SB Central Bank are comprised of card credit receivables. The standard method is applied to calculate the capital requirement for credit risk of the Bank. The capital requirement for operational risk is calculated by the basic method. The capital requirement relating to market risk is calculated by the basic method for the foreign exchange exposure.

Own funds and capital adequacy

The capital requirement of SB Central Bank 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,
- 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 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.

SB Central Bank has published the relevant information with regard to capital adequacy calcu-lation each year as part of its Annual Report and Notes to the Financial Statement. The main capital adequacy information has been published in the Half-year Report.

SB Central Bank's own funds totalled EUR 49.0 (47.0) million, while the minimum requirement for own funds was EUR 11.1 (11.8) million. The Common Equity Tier 1 (CET1) stood at EUR 49.0 million. Tier 1 capital amounted to 49.0 EUR (47.0) million. The capital and reserves consist entirely of common equity tier 1 capital, core capital, and SB Central Bank has no equity classified as Tier 2 or other capital.

SB Central Bank's capital adequacy ratio was high at 30.9 (31.7) per cent at year-end. The high capital adequacy ratio is due to the exemption granted to the Amalgamation by the Financial Supervisory Authority, according to which the risk weight applied to the Amalgamation's internal financing items in capital adequacy calculation is 0%.

SB Central Bank's capital adequacy information is included in the consolidated financial statements of the 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 Savings Banks Group publishes the so-called Pillar III capital adequacy information separately at the same time with its financial statements.

The Savings Banks Group's financial statements and Pillar III capital adequacy informations are available online at *www.saastopankki.fi* or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

Capital adequacy

Own Funds (EUR 1,000)	2018	2017
Common Equity Tier 1 (CET1) capital before regulatory adjustments	53,101	49,901
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-4,138	-2,896
Common Equity Tier 1 (CET1) capital	**48,963**	**47,005**
Tier 1 capital (T1 = CET1 + AT1)	**48,963**	**47,005**
Total capital (TC = T1 + T2)	**48,963**	**47,005**
Risk weighted assets	**158,709**	**148,056**
of which: credit and counterparty risk	120,658	118,886
of which: credit valuation adjustment (CVA)	2,211	4,194
of which: market risk	1,515	1,251
of which: operational risk	34,325	23,726
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**30.9**	**31.7**
Tier 1 (as a percentage of total risk exposure amount)	**30.9**	**31.7**
Total capital (as a percentage of total risk exposure amount)	**30.9**	**31.7**
Capital requirement		
Total capital	48,963	47,005
Capital requirement total*	16,664	15,546
Capital buffer	32,299	31,459

*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, 0.5% Pillar 2 requirement set by the Financial Supervisory Authority and the country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio

The leverage ratio of SB Central Bank was 1.7 % (1.6 %). The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Bank's Tier 1 capital to total liability.

(EUR 1,000)	2018	2017
Tier 1 capital	48,963	44,005
Leverage ratio exposure	2,826,302	2,849,598
Leverage ratio	1.7	1.6

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 2 -type continuously required minimum requirement. The Financial Stability Authority has decided that the minimum amount of eligible liabilities is the minimum requirement of own funds times two. Currently, the requirement is 22 % of the total risk of Amalgamation.

PROFIT FOR THE PERIOD

NOTE 6. NET INTEREST INCOME

(EUR 1,000)	1-12/2018	1-12/2017
Interest income		
Debts eligible for refinancing with Central Bank	253	484
Loans and advances to credit institutions	10,604	9,627
Loans and advances to customers*	6,480	5,091
Debt securities	58	123
Derivative contracts		
Hedging derivatives	4,753	4,557
Other**	1,141	2,747
Total	**23,289**	**22,629**
Interest expense		
Liabilities to credit institutions***	-3,297	-3,431
Liabilities to customers	-84	-289
Derivative contracts		
Hedging derivatives	-3,000	-2,853
Debt securities issued	-7,533	-9,349
Other	-3	0
Total	**-13,917**	**-15,922**
Net interest income	**9,373**	**6,707**
* of which interest income from loans in stage 3.	**18**	**36**

**) Other interest income is made up of interest charges and limit commission based on account agreements.

***) The interest expense from Liabilities to credit institutions consists mainly of the negative interest on central bank deposits (for the year 2018 EUR -3,285 thousand, for the year 2017 EUR -3,410 thousand).

NOTE 7. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2018	1-12/2017
Fee and commission income		
Lending*	13,911	12,340
Payment transfers	4,402	4,262
Securities	1,450	1,261
Other	683	550
Total	**20,446**	**18,413**
Fee and commission expense		
Payment transfers	-3,097	-2,838
Securities	-489	-451
Other**	-6,137	-4,887
Total	**-9,723**	**-8,176**
Net fee and commission income	**10,723**	**10,238**

* of which the most significant incomes are incomes related to granting loans.
** of which the most significant expenses are expenses related to granting loans.

NOTE 8. NET TRADING INCOME

(EUR 1,000)	1-12/2018	1-12/2017
Net income from foreign exchange operation	-	-63
Net income from hedge accounting		
Change in hedging instruments' fair value	-701	-1,507
Change in hedged items' fair value	920	796
Total	**219**	**-774**

NOTE 9. INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(EUR 1,000)	1-12/2018
Amortized cost investments	18,478
Fair value through other comprehensive income	58
Financial incomes	**18,536**
Financial liabilities measured at amortized cost - interest expense	-7,632
Financial assets at fair value through profit or loss - interest expense	-3,285
Amortized costs investments - expected credit losses	-1,049
Fair value through other comprehensive financial assets - expected credit losses	-33
Finance expenses	**-11,999**
Net income and expenses from financial instruments	**6,538**

(EUR 1,000)	1-12/2017
Unimpaired held-to-maturity investments	257
Impaired held-to-maturity investments	
Loans and receivables	17,465
Available-for-sale financial assets	350
Total interest income arising from financial assets not measured at fair value through profit or loss	**18,072**
Financial assets at fair value through profit or loss - net change in fair value	
Assets at fair value through profit or loss	4,557
Finance income	**22,629**
Financial liabilities measured at amortized cost - interest expense	-13,069
Financial assets at fair value through profit or loss - net change in fair value	-2,853
Finance expenses	**-15,922**
Net income and expenses from financial instruments	**6,707**

NOTE 10. OTHER OPERATING REVENUE

(EUR 1,000)	1-12/2018	1-12/2017
Other income from Banking*	1,717	1,454
Other operating revenue	**1,717**	**1,454**

* Other operating income for the period under review and comparison period consist of services based on service agreements produced for the Savings Banks Group

NOTE 11. PERSONNEL EXPENSES

(EUR 1,000)	1-12/2018	1-12/2017
Wages and salaries	-3,065	-2,741
Pension expenses		
Defined contribution plans	-556	-504
Other personnel related costs	-88	-83
Personnel expenses	**-3,708**	**-3,328**
Full-time	38.0	33.0
Part-time	1.0	1.0
Temporary	3.0	3.0
Total	**42.0**	**37.0**
Number of employees converted to FTEs	38.6	34.6
Average number of FTEs during the financial year	37.9	33.7

NOTE 12. OTHER OPERATING EXPENSES

(EUR 1,000)	1-12/2018	1-12/2017
Other administrative expenses		
Other personnel expenses	-229	-178
Office expenses	-5,586	-5,027
ICT expenses	-5,008	-4,020
Telecommunications	-344	-488
Representation expenses	-1	0
Marketing	-19	-18
Total	**-11,187**	**-9,730**
Other operating expenses		
Rental expenses	-411	-286
Expenses arising from owner-occupied property	-54	-19
Other operating expenses**	-1,193	-589
Total	**-1,658**	**-893**
Other operating expenses	**-12,845**	**-10,623**
****Audit fees**		
Statutory audit	-25	-19
Audit related services	-6	-
Other services	-	-27
Total	-31	-46

NOTE 13. DEPRECIATION, AMORTISATION AND IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(EUR 1,000)	1-12/2018	1-12/2017
Depreciation and amortisation of property, plant and equipment	-72	-62
Depreciation and amortisation of intangible assets	-591	-517
Total depreciation and amortisation	**-663**	**-579**

NOTE 14. NET IMPAIRMENT LOSS ON FINANCIAL ASSETS

Expected Credit Losses (ECL), Loans and advances to customers 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	**166**	**213**	**743**	**1,122**
New assets originated or purchased	15	17	31	63
Assets derecognised or repaid (excluding write offs)	-6	-94		-99
Transfers from Stage 1 to Stage 2	-2	213		211
Transfers from Stage 1 to Stage 3	-1		563	562
Transfers from Stage 2 to Stage 1	2	-8		-6
Transfers from Stage 2 to Stage 3		-29	317	288,51
Transfers from Stage 3 to Stage 1				
Transfers from Stage 3 to Stage 2		1	-1	-1
Amounts written off			-833	-833
Net change in ECL	**8**	**101**	**77**	**186**
Expected Credit Losses 31 December 2018	**174**	**314**	**820**	**1,308**

Expected Credit Losses (ECL), Loans and advances to credit institutions 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	**208**			**208**
New assets originated or purchased	51			51
Net change in ECL	**51**			**51**
Expected Credit Losses 31 December 2018	**259**			**259**

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	**330**			**330**
New assets originated or purchased	13			13
Net change in ECL	**13**	**-**	**-**	**13**
Expected Credit Losses 31 December 2018	**343**	**-**	**-**	**343**
Expected Credit Losses 31 December 2018 total	**776**	**314**	**820**	**1,910**
Change in ECL 1.1.-31.12.2018: loans and advances, off-balanse sheet and investment assets	**72**	**101**	**910**	**1,082**

NOTE 15. INCOME TAXES

(EUR 1,000)	1-12/2018	1-12/2017
Change in deferred tax assets	-118	51
Change in deferred tax liabilities	19	11
Income taxes	**-100**	**62**

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

Reconciliation of effective tax rate		
Accounting operating profit	3,733	1,900
Differences between accounting and taxable profit	19	416
Taxable profit	**3,752**	**2,316**
Tax using the domestic corporation tax rate	-747	-380
Non-deductible expenses	-67	0
Unrecognised deductible expenses	3	2
Use of approved tax losses for prior years	711	440
Tax expense	**-100**	**62**
Corporate income tax rate	**20 %**	**20 %**

More information on deferred taxes is provided in Note 24.

ASSETS

NOTE 16. 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	Total
Cash and cash equivalents			823,612		823,612
Loans and advances to credit institutions	1,760,168				1,760,168
Loans and advances to customers	95,278				95,278
Derivatives					
hedging derivatives			2,689		
fair value			2,689		2,689
Investment assets	25,180	12,631			37,811
Total assets	**1,880,626**	**12,631**	**826,301**		**2,719,558**
Liabilities to credit institutions	840,107				840,107
Liabilities to customers	379,253				379,253
Derivatives					
hedging derivatives			282		282
fair value			282		282
Debt securities issued	1,451,558				1,451,558
Total liabilities	**2,670,918**		**282**		**2,671,200**

31.12.2017 (EUR 1,000)	Loans and receivables	Available-for-sale	Held-to-maturity	Fair value through profit or loss	Other financial liabilities	Total
Cash and cash equivalents	1,102,254					1,102,254
Loans and advances to credit institutions	1,376,815					1,376,815
Loans and advances to customers	93,133					93,133
Derivatives						
hedging derivatives				3,169		3,169
fair value				3,169		3,169
Investment assets		9,239	25,800			35,039
Total assets	**2,572,202**	**9,239**	**25,800**	**3,169**		**2,610,410**
Liabilities to credit institutions					813,497	813,497
Liabilities to customers					263,255	263,255
Derivatives						
hedging derivatives				61		61
fair value				61		61
Debt securities issued					1,534,862	1,534,862
Total liabilities				**61**	**2,611,613**	**2,611,675**

NOTE 17. CASH AND CASH EQUIVALENTS

(EUR 1,000)	31.12.2018	31.12.2017
Receivables from central banks repayable on demand	823,612	1,102,254
Cash and cash equivalents	**823,612**	**1,102,254**

Cash and cash equivalents are specified in the cash flow statement

NOTE 18. LOANS AND ADVANCES

(EUR 1,000) 31.12.2018	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits	80,624	-2	80,622
Loans and other receivables	1,679,788	-242	1,679,546
Total	**1,760,412**	**-244**	**1,760,168**
Loans and advances to customers			
Tuotteittain			
Used overdrafts	1,493	-4	1,489
Credit cards	95,039	-1,250	93,790
Total	**96,532**	**-1,254**	**95,278**
Loans and advances total	**1,856,944**	**-1,498**	**1,855,446**

(EUR 1,000) 31.12.2017	Not impaired (gross)	Expected credit losses (ECL)	Balance sheet value
Loans and advances to credit institutions			
Deposits			5,022
Loans and other receivables			1,371,793
Total			**1,376,815**
Loans and advances to customers			
Used overdrafts			
Credit cards			487
Total			92,646
Yhteensä			**93,133**
Loans and advances total			**1,469,948**

Impairment losses on loans and receivables 2017	Measured by group	Total
Impairments 1 January 2017	**419**	**419**
+ increase in impairment losses	376	376
Impairments 31 December 2017	**795**	**795**

NOTE 19. DERIVATIVES AND HEDGE ACCOUNTING

SB Central Bank hedges its interest rate risk against exposure to changes in fair value and applies hedge accounting on hedging relationships. Fair value hedging is applied at fixed interest rate lending and fixed rate debt issuance.

Changes in the fair value of derivatives hedging fair value are recognised in the income statement under Net trading income. When hedging fair value, 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 recognized in the balance sheet as an adjustment to the corresponding balance sheet item and in the income statement under Net trading income. Interest arising from hedging derivatives are presented as an adjustment to interest expense.

(EUR 1,000)	Nominal value / remaining maturity			Fair value	
31.12.2018	less than 1 year	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts					
Fair value hedging					
Interest rate derivatives	10,000	505,000	515,000	2,689	282
Total	**10,000**	**505,000**	**515,000**	**2,689**	**282**

(EUR 1,000)	Nominal value / remaining maturity			Fair value	
31.12.2017	less than 1 year	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts					
Fair value hedging					
Interest rate derivatives		515,000	515,000	3,169	61
Total	**-**	**515,000**	**515,000**	**3,169**	**61**

NOTE 20. INVESTMENT ASSETS

(EUR 1,000)	31.12.2018	31.12.2017
	At fair value through other comprehensive income	Available-for-sale investments
Debt securities*	11,116	7,988
Shares and participations	1,515	1,251
Total	**12,631**	**9,239**
	Amortized cost investments	Held-to-maturity assets
Debt securities**	25,478	25,800
Expected Credit Losses	-298	-
Total	**25,180**	**25,800**
Investment assets	**37,811**	**35,039**

* Credit ratings for year 2018:

- Not rated: EUR 5,988 thousand

** Credit ratings for year 2018:

- AA+: EUR 5,128 thousand

- BBB+: EUR 7,025 thousand

- BBB-: EUR 18,453 thousand

2018 (EUR 1,000)	At fair value through other comprehensive income	Amortized cost investments	Total
Quoted			
From public entities	5,128	25,180	30,308
From others	5,988		5,988
Other			
From others	1,515		1,515
Total	**12,631**	**25,180**	**37,811**

2017 (EUR 1,000)	Available-for-sale Debt securities	Available-for-sale Shares and participations	Held-to-maturity	Total
	At fair value	At fair value	At amortised cost	
Quoted				
From public entities			25,800	25,800
From others	7,988			7,988
Other				
From others		1,251		1,251
Total	**7,988**	**1,251**	**25,800**	**35,039**

NOTE 21. PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	31.12.2018	31.12.2017
Machinery and equipment	166	266
Other tangible assets	56	17
Property, plant and equipment	**222**	284

2018 (EUR 1,000)	Machinery and equipment	Other tangible assets	Total
Changes in property, plant and equipmentt			
Acquisition cost 1 January	414	19	433
Increases		53	53
Decreases	-58		-58
Acquisition cost 31 December	**356**	**72**	**428**
Accumulated depreciation and impairments 1 January	-148	-1	-149
Depreciation for the financial year	-57	-14	-72
Decreases	15		15
Accumulated depreciation and impairments 31 December	**-190**	**-16**	**-206**
Carrying amount 31 December	**166**	**56**	**222**

2017 (EUR 1,000)	Machinery and equipment	Other tangible assets	Total
Changes in property, plant and equipment			
Acquisition cost 1 January	305		305
Increases	128	19	147
Decreases	-19		-19
Acquisition cost 31 December	**414**	**19**	**433**
Accumulated depreciation and impairments 1 January	-103		-103
Depreciation for the financial year	-60	-1	-62
Decreases	16		16
Accumulated depreciation and impairments 31 December	**-148**	**-1**	**-149**
Carrying amount 31 December	**266**	**17**	**284**

NOTE 22. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2018	31.12.2017
Intangible rights	975	1,060
Intangible assets under development	2,138	500
Intangible assets	**3,113**	**1,561**

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.

2018 (EUR 1,000)	Intangible rights	Intangible assets under development	Total
Changes in intangible assets			
Acquisition cost 1 January	2,602	500	3,102
Increases	125	2,018	2,143
Transfers between items	381	-381	0
Acquisition cost 31 December	**3,107**	**2,138**	**5,245**
Accumulated depreciation and impairments	-1,541		-1,541
Depreciation for the financial year	-591		-591
Accumulated depreciation and impairments 31 December	**-2,132**	**-**	**-2,132**
Carrying amount 31 December	**975**	**2,138**	**3,113**

2017 (EUR 1,000)	Intangible rights	Intangible assets under development	Total
Changes in intangible assets			
Acquisition cost 1 January	2,499	116	2,615
Increases	32	455	487
Transfers between items	71	-71	0
Acquisition cost 31 December	**2,602**	**500**	**3,102**
Accumulated depreciation and impairments 1 January	-1,024		-1,024
Depreciation for the financial year	-517		-517
Accumulated depreciation and impairments 31 December	**-1,541**	**-**	**-1,541**
Carrying amount 31 December	**1,060**	**500**	**1,561**

NOTE 23. DEFERRED TAXES

(EUR 1,000)	31.12.2018	31.12.2017
Deferred tax assets	1,381	1,335
Tax assets	**1,381**	**1,335**
Deferred tax liabilities	111	89
Tax liability	**111**	**89**

(EUR 1,000)	31.12.2018	31.12.2017
Deferred tax assets		
Impairment	373	159
Approved tax losses	1,008	1,176
Total	**1,381**	**1,335**

(EUR 1,000)	31.12.2018	31.12.2017
Deferred tax liabilities		
Financial assets	95	54
Intangible assets	16	35
Total	**111**	**89**

(EUR 1,000)	1.1.2018	Change recognised in profit or loss	Financial assets	31.12.2018
Deferred tax assets				
Impairment	332	41		373
Approved tax losses	1,176	-168		1,008
Total	**1,508**	**-127**	**-**	**1,381**

(EUR 1,000)	1.1.2018	Change recognised in profit or loss	Financial assets	31.12.2018
Deferred tax liabilities				
Financial assets	54		41	95
Intangible assets	25	-19		6
Other	10			10
Total	**89**	**-19**	**41**	**111**

Tax assets arising from confirmed unused tax losses are recognized to the extent that it is probable that future taxable profit will be available and the assets can be utilized.

SB Central Bank's losses have mainly arisen from significant business development projects during the time of Itella Bank and with the objective that taxable income would accrue in the coming years.

When determining the recognition principle for deferred tax assets, the management of SB Central Bank has assessed the SB Central Bank's future operations, taking into account the general mar-ket circumstances, the development prospects of Savings Banks Group, particularly with respect to wholesale funding, and changes in SB Central Bank's own operations. According to the forecasts prepared, the result is expected to improve and start showing profit on a permanent basis.

Based on management's estimate on the probability and the amount of future taxable profits, EUR 70 thousand of deferred tax assets have not been recognized. They relate to an amount of EUR 349 thousand of losses, which can be utilized against the future taxable profit. The tax losses will expire from 2021 to 2025.

(EUR 1,000)	1.1.2017	Change recognised in profit or loss	Financial assets	31.12.2017
Deferred tax assets				
Impairment	84	75		159
Financial assets	0		0	0
Approved tax losses	1,200	-24		1,176
Total	**1,284**	**51**	**0**	**1,335**

(EUR 1,000)	1.1.2017	Change recognised in profit or loss	Financial assets	31.12.2017
Deferred tax liabilities				
Financial assets	25		29	54
Intangible assets	37	-12		25
Other	9	2		10
Total	**70**	**-11**	**29**	**89**

NOTE 24. OTHER ASSETS

(EUR 1,000)	31.12.2018	31.12.2017
Accrued income and prepaid expenses	9,566	9,196
Interest	7,361	6,331
Other accrued income and prepaid expenses	2,206	2,865
Other	318	50,736
Other assets	**9,885**	**59,933**

LIABILITIES AND EQUITY

NOTE 25. 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	802,107	775,497
Total	**840,107**	**813,497**
Liabilities to customers		
Deposits	51	3
Other financial liabilities*	379,202	263,251
Total	**379,253**	**263,255**
Liabilities to credit institutions and customers	**1,219,360**	**1,076,752**

* Other financial liabilities are deposits from governments, multinational organisations and foreign funds.

NOTE 26. DEBT SECURITIES ISSUED

	31.12.2018		31.12.2017	
(EUR 1,000)	Nominal value	Book value	Nominal value	Book value
Measured at amortised cost				
Bonds	1,195,000	1,198,643	1,229,000	1,232,479
Other				
Certificates of deposit	253,000	252,915	302,500	302,383
Debt securities issued	**1,448,000**	**1,451,558**	**1,531,500**	**1,534,862**
Of which				
Variable interest rate	515,000	518,892	609,000	608,857
Fixed interest rate	933,000	932,666	922,500	926,004
Total	**1,448,000**	**1,451,559**	**1,531,500**	**1,534,862**

During the review period, SB Central Bank issued senior unsecured bonds with a total value of EUR 410 million of which 300 million in public emission in February 2018 under the EMTN programme listed on the Irish Stock Exchange.

NOTE 27. PROVISIONS AND OTHER LIABILITIES

(EUR 1,000)	31.12.2018	31.12.2017
Other liabilities	1,180	4,195
Accrued expenses	8,496	7,663
Interest payable	4,885	4,813
Interest advances received	341	274
Other accrued expenses	3,270	2,576
Provisions	70	-
Other provisions*	70	-
Other liabilities	**9,746**	**11,858**

* Other provisions are expected credit losses from off balance-sheet commitments.

NOTE 28. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2018	31.12.2017
Share capital	40,000	40,000
Reserves		
Reserve for invested non-restricted equity	19,000	19,000
Fair value reserve	414	215
Retained earnings		
Profit (loss) for previous financial years	-9,946	-11,276
Profit (loss) for the financial year	3,633	1,962
Total equity	**53,101**	**49,901**

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

SB Central Bank has in total 17,391 shares without nominal value.

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.

Fair value reserve
Fair value reserve includes items arising from fair value measurements and translation differences.

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.

(EUR 1,000)	2018	2017
Specification of changes in fair value reserve		
Fair value reserve 1 January	281	121
Profit/loss from fair value measurements, shares	203	234
Profit/loss from fair value measurements, debt securities	0	-86
Deferred tax from fair value measurements	-95	-54
Expected credit losses from debt securities, fair value through other comprehensive income	33	-
Deferred tax from expected credit losses	-9	-
Fair value reserve 31 December	**414**	**215**

SB Central Bank's distributable funds amount to EUR 12,687,727.68. The SB Central Bank Board of Directors proposes to the Annual General Meeting that the profit for the financial year is entered as accumulated retained earnings with no dividend paid.

OTHER NOTES

NOTE 29. COLLATERALS

(EUR 1,000)	31.12.2018	31.12.2017
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Securities	50,351	48,395
Other	510	-
Collateral given	**50,861**	**48,395**
Collateral received		
Securities	39,339	51,750
Other	4,730	5,330
Collateral received	**44,069**	**57,080**

Collateral given and held are related to participating in ECB funding operations and margin deposits related to derivatives.

NOTE 30. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2018	31.12.2017
Guarantees	10,000	6,000
Loan commitments	215,982	204,711
Other*	141,000	324,500
Off balance-sheet commitments	**366,982**	**535,211**

* Other off balance-sheet commitments are agreements with member credit institutions of the Savings Banks Amalgamation in which the trade date will only take place after the end of the period under review.

NOTE 31. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2018				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	Cash held/ received as collateral	Net amount
Assets						
Derivative contracts				2,689	4,730	-2,041
Total				**2,689**	**4,730**	**-2,041**
Liabilities						
Derivative contracts				282	510	-278
Total				**282**	**510**	**-278**

The derivative contracts of the SB Central Bank 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.

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	Cash held/ received as collateral	Net amount
Assets						
Derivative contracts				3,169	5,330	-2,161
Total				**3,169**	**5,330**	**-2,161**
Liabilities						
Derivative contracts				-61	-	-61
Total				**-61**	**-**	**-61**

NOTE 32. FAIR VALUES BY VALUATION TECHNIQUE

Financial instruments are carried in the SB Central Bank's balance sheet at fair value or at amortized cost. The accounting policies (Note 2) describe the classification of financial assets and liabilities according to their valuation method, together with the criteria for the valuation techniques and fair value measurement.

The fair values of financial instruments are primarily determined by using publicly quoted prices or from market prices obtained from third parties. If no market quotation is available, the balance sheet items have mostly been measured by discounting future cash flows using the market interest rates on the reporting date. In the case of cash assets, the nominal value equals the fair value.

SB Central Bank has no non-recurring fair value measurements of assets.

Fair value hierarchy

Level 1 contains financial assets whose fair value is determined by quotations obtainable from ac-tive markets. A market is considered to be active, if the prices are readily and regularly available. Level 1 includes quoted bonds, other securities, stocks and derivatives with quoted prices.

Level 2 includes financial assets that are not traded in an active market, and whose fair value is determined by using valuation techniques or models. These are based on assumptions supported by observable market data, such as the quoted interest rates or prices of similar instruments. This group includes e.g. currency and interest rate derivatives, commercial papers and deposit certificates.

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.

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 period 1-12/2018, 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	823,612	823,612			823,612
Derivative contracts	2,689		2,689		2,689
Fair value through other comprehensive income	12,631	5,160	6,001	1,515	12,676
Measured at amortised cost	1,880,626	107,959	1,688,354	94,702	1,891,015
Total financial assets	**2,719,558**	**936,732**	**1,697,044**	**96,2167**	**2,729,992**

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					
Derivative contracts	282		282		282
Measured at amortised cost	2,670,918	768,224	1,905,793		2,674,017
Total financial liabilities	**2,671,200**	**768,224**	**1,906,076**	-	**2,674,299**

Events at level 3

Reconciliation of changes in financial assets that belong to level 3.

Fair value through other comprehensive income (EUR 1,000)	
Carrying amount 31 December 2017	**1,251**
Effect of the IFRS 9 transition to the opening balance	-
Carrying amount 1 January 2018	**1,251**
Changes in value recognised in comprehensive income statement	264
Carrying amount 31 December 2018	**1,515**

Sensitivity analysis of financial assets that belong to level 3.	Effect of hypothetical changes		
31.12.2018	Carrying amount	Positive	Negative
Fair value through other comprehen-sive income	**1,515**	**1,742**	**1,288**
Total	**1,515**	**1,742**	**1,288**

The sensitivity of the fair value of instruments belonging to level 3 to assumed changes is presented in the table above. The fair value has been tested using a 15% change in value.

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					
Derivative contracts	3,169		3,169		3,169
Available-for-sale financial assets	9,239		7,988	1,251	9,239
Measured at amortised cost					
Investments held-to-maturity	25,800	25 800			25,800
Loans and receivables	2,572,202	1,107,762	1,382,955	93,156	2,583,874
Total financial assets	**2,610,410**	**1,133,562**	**1,394,113**	**94,407**	**2,622,082**

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					
Derivative contracts	61		61		61
Measured at amortised cost					
Other financial liabilities	2,611,613	755,525	1,855,743	-	2,611,268
Total financial liabilities	**2,611,675**	**755,525**	**1,855,804**	-	**2,611,329**

NOTE 33. OPERATING LEASES

(EUR 1,000)	2018	2017
Future minimum lease payments under non-cancellable operating leases payable		
Less than one year	-	85
Total	-	**85**

NOTE 34. RELATED PARTIES

The related parties of the Sb Central Bank's comprise the key management personnel as well as their close family members. The key management personnel of the Sb Central Bank comprise the members of the Board, Managing Director and her deputy.

With the exception of unsecured card credits, SB Central Bank has granted no related party loans or investments and has no related party business activities. Card credits to related parties are subject to the same general terms and conditions as corresponding customer credits.

(EUR 1,000)	2018	2017
Short-term employee benefits	279	415
Total	**279**	**415**

Key personnel compensation*

2018	Salary and remuneration	Statutory pension expenses
Autiosalo Kirsi, Managing Director, until 19 March	74	14
Brander Kai, Acting Managing Director, as from 19 March	170	30
Huupponen Juhani, Deputy Chairman of the Board of Directors	9	
Bondén Hans, member of the Board, until 15 March	2	
Hakala Jussi, member of the Board	6	
Näsman Niklas, member of the Board, as from 15 March	5	
Rinta Jarmo, member of the Board, as from 15 March	5	
Seppälä Risto, member of the Board, until 15 March	2	
Syvänen Hannu, member of the Board	7	
Total	**279**	**44**

2017	Salary and remuneration	Statutory pension expenses
Autiosalo Kirsi, Managing Director	202	37
Brander Kai, Deputy Managing Director	167	28
Huupponen Juhani, Deputy Chairman of the Board of Directors	10	0
Bondén Hans, member of the Board, as from 16 March	5	0
Finne Peter, member of the Board, until 16 March	4	0
Hakala Jussi, member of the Board	7	0
Rinta Jarmo, member of the Board, until 16 March	4	0
Seppälä Risto, member of the Board	7	0
Suominen Jukka, member of the Board, until 16 March	4	0
Syvänen Hannu, member of the Board	8	0
Total	**415**	**66**

NOTE 35. 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 Bank Group. Cognizant Technology Solutions will deliver a new core banking 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.

The Board of Directors of SB Central Bank is not aware of any factors that would have a material effect on its financial position after the date of completion of the financial statements.

PILLAR III DISCLOSURES

SB Central Bank is part of the Savings Banks Amalgamation and the Savings Banks Group. SB Central Bank's capital adequacy information is included in the information concerning the capital adequacy of the Savings Banks Amalgamation, presented in the consolidated financial statements of the Savings Banks Group. The Financial Supervisory Authority has granted a permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instru-ments 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).

A copy of the financial statement and Pillar III capital adequacy information of the Savings Banks Group is available online at *www.saastopankki.fi* or from the Savings Banks Union Coop offices at Teollisuuskatu 33, 00510 Helsinki, Finland.

The original Annual Report is in Finnish. This is an English version thereof.

Central Bank
of Savings Banks