CENTRAL BANK OF SAVINGS BANKS FINLAND PLC

HALF-YEAR REPORT FOR 1 JANUARY – 30 JUNE 2017

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BOARD OF DIRECTORS' REPORT FOR 1 JANUARY – 30 JUNE 2017

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.

In the end of April 2017, S&P Global Ratings (S&P) raised its long-term counterparty credit rating on SB Central Bank to 'A-' from 'BBB+'. Short-term investment grade was affirmed to 'A-2'. The outlook is stable. The previous S&P's rating report was from November 2016.

No significant changes took place in the business operations during the review period.

SB Central Bank's operating profit for January–June amounted to EUR 0.8 million, and the balance sheet total amounted to EUR 2,514 million.

The Savings Banks' Group and Amalgamation of Savings Banks

SB Central Bank is part of the Savings Banks Group and the Savings Banks Amalgamation, and its financial statements are consolidated into Savings Banks Group's consolidated financial statements.

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

The member organizations of the Savings Banks Amalgamation (hereinafter Amalgamation) form a financial entity as defined in the Act on Amalgamations, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 23 Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, as well as the companies within the consolidation groups of the above-mentioned entities, 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 organizations other than credit and financial institutions or service companies. The most significant of these are Sp-Life Insurance Ltd and Sp-Koti Ltd.

Additional information on the group structure of the Savings Banks Group is available online at *www.saastopankki.fi/saastopankkiryhma*.

Description of the operational environment

Global economic outlook

The growth outlook of the global economy improved significantly in the first half of 2017 on a very broad front. Europe and emerging economies have accelerated their growth and begun to catch up with the United States. The outlook for emerging economies has stabilised compared to the recent years, and investor confidence in emerging markets has improved. The controlled development of the Chinese economy, in particular, has supported global economic growth and trade. From the perspective of the investment markets, the risks associated with the Chinese economy have been the subject of attention, and the positive developments relative to expectations have supported returns on investments. In the United States, economic growth is approaching the peak of the current cycle in the next few years, and there are already signs that the period of the strongest growth has been passed. Global economic growth will increase to exceed three per cent, possibly next year. However, it is very unlikely that economic growth will reach the level seen before the financial crisis.

In Europe, economic growth has accelerated and it is also noteworthy that the industrial outlook has seen a recovery. The recovery of the labour markets, which began in 2013, has continued. Unemployment in the euro zone has fallen to 9.3 per cent. The growth of industrial production and GDP have remained stable in the first half of 2017. Capacity utilisation has risen to its highest level since the financial crisis, which reflects a strong increase in industrial confidence indicators. The economic situation among households improved and consumer confidence has risen rapidly. Low interest rates and energy prices have increased the disposable income of households. Increases in housing prices and the favourable development of the investment markets have also boosted household confidence regarding the future. The European Central Bank is preparing to gradually tighten its monetary policy. Changes in monetary policy will be implemented gradually and over the long term, as inflation expectations remain low and actual inflation has not increased at the expected rate. The significance of political risks was highlighted in Europe due to a number of elections. However, the result of the French presidential elections was a favourable one for the markets and it helped stabilise expectations regarding the future of the European Union. The parliamentary elections in the United Kingdom produced a disappointing outcome for the ruling party. This can complicate the progress of the Brexit negotiations this year and next.

In the United States, the economic growth cycle has continued for a record-long time, and there were signs of growth slowing down in the first half of 2017. The situation in the U.S. labour market is exceptionally good, with unemployment having fallen to a historically low level of 4.3 per cent. The rate of new job creation has, however, declined. Growth in the financial performance of U.S. corporations has also slowed down, although it remains at a good level. Profit margins have been supported by low interest rates and low wage inflation. Industrial production continues to increase and the growth of the global economy is reflected in a higher capacity utilisation rate. In the U.S., the Trump presidency got off to a challenging start. Many legislative changes were met with resistance in the Congress and expectations towards Trump's reform programme were significantly reduced. The Federal Reserve continued to tighten its monetary policy, but the slow increase of inflation in the U.S. is reducing the pressure to increase interest rates.

Interest rate environment

Interest rates have remained low and there are no significant changes expected in the short term. The prevailing interest curve is very flat. Combined with the low basic interest rate level, this presents challenges to net interest income in banking. Net interest income is also weighed down by the liquidity regulation requirements (LCR liquidity requirements) and the European Central Bank's negative deposit rate.

Investment markets

The first half of 2017 was a very favourable period for the investment markets. The improved profit performance of businesses in Europe and emerging markets has been a positive surprise, which has supported strong returns in the equity markets. Long-term interest rates being low relative to expectations and corporate loans having lower risk margins have led to higher returns for fixed income investments. Consumer confidence has been very strong, which is particularly reflected in the historically low level of volatility indices. The dissipation of political risks in Europe has also supported high returns in the equity markets. The next significant risk factor is the Italian parliamentary election in early 2018. Returns in emerging markets have been exceptionally strong. The growth outlook of businesses has been supported by the depreciation of the U.S. dollar and the decrease in long-term interest rates. The currency indices of emerging markets have improved after declining for several years.

The development of the global economy will remain favourable in the second half of the year. Expected returns in the investment markets have decreased due to high returns, but there are fewer identified risk factors than there were a year ago. Problems related to the high debt of the Chinese national economy or a petering out of economic growth in the United States would quickly lead to a weaker outlook for global economic growth. This would also have a significant negative impact on the returns of equity investments and corporate loans. Nevertheless, the strong profit performance of businesses suggests that a deterioration of the trend in the equity markets is unlikely.

The economic climate in Finland

The Finnish economy has seen a clear positive turn. The factors underlying the improved situation include growth in investments and consumption as well as the strong recovery of exports. Household and business confidence in the future has improved significantly. Consumer confidence has risen to a record high level, while the household saving rate has turned negative. Willingness to make new investments has increased among businesses, which is reflected in the higher demand for loans. The demand for labour among businesses has also grown, which supports expectations of a decrease in the unemployment rate in the coming years. The long-term unemployment rate decreased for the first time since the 2008 financial crisis. The number of bankruptcies is declining and the recovery of the export market, in particular, supports positive development. However, the public-sector economy continues to face major challenges and the government's action to push forward with structural reforms has not been adequate. Changes in the political front may weaken the government's ability to operate and potentially compromise the planned actions and projects aimed at stabilising the public-sector economy. The deterioration of the economic dependency ratio adds to the pressure to implement reforms. Nevertheless, the outlook of the Finnish economy will improve in the second half of the year, and the full-year economic growth for 2017 will be close to three per cent.

Financial position

Financial highlights

(EUR 1,000)	6/2017	12/2016	6/2016
Revenue	20,186	37,794	18,620
Net interest income	3,226	5,406	2,503
% of revenue	16.0 %	14.3 %	13.4 %
Operating profit	839	1,096	1,185
% of revenue	4.2 %	2.9 %	6.4 %
Total operating revenue	8,495	15,233	7,949
Total operating expenses (excluding depreciations)	-6,767	-12,370	-5,859
Cost to income ratio	0.8	0.8	0.7
Total assets	2,513,856	2,305,132	2,192,118
Total equity	48,433	47,820	47,622
Return on equity %	1.4 %	2.4 %	2.0 %
Return on assets %	0.03 %	0.06 %	0.05 %
Equity/assets ratio %	1.9 %	2.1 %	2.2 %
Solvency ratio %	34.5 %	33.2 %	40.0 %
Impairment losses on loans and other receivables	-605	-1,251	-650

Profit trends (comparison figures 1–6/2016)

SB Central Bank's operating profit for the review period 1–6/2017 was EUR 0.8 million and 4.2 % of revenue (EUR 1.2 million and 6.4 %, respectively, for the comparison period 1–6/2016).

SB Central Bank's operating revenue for the review period was EUR 8.5 (8.0) million. Of the operating revenue, net interest income was EUR 3.2 (2.5) million, net fee and commission income EUR 5.0 (3.9) million, net trading income EUR -0.5 (0.8) million and other operating income EUR 0.8 (0.7) million.

Interest income grew by 14 % to EUR 10.9 (9.6) million. The most significant items of the interest income were interest income from credit institutions and card credits of private customers. Whereas interest expenses grew by 8 % to EUR 7.7 (7.1) million. The most significant items of the interest expenses consisted of interest expenses from debts to credit institutions and issued bonds. The fair value hedging carried out to mitigate the interest rate risk improved the net interest income by EUR 0.8 (0.5) million. Net interest income in the review period was affected by low interest rates in general and the negative interest rate on ECB deposits.

Fee and commission income increased from the comparison period with 20 % and were in the reporting period EUR 9.0 (7.5) million. Fee and commission expenses grew by 12 % to EUR 4.0 (3.5) million. Account operator services constituted the most significant item of the 27 % increase in net fee and commission income. These services were one of the new business activities started after the comparison period.

With regard to the review period and the comparison period, other operating income is not comparable due to SB Central Bank's new business activities, of which asset and liability management and account operator services are the most significant. Other operating income consisted mainly of services based on service agreements produced for the Savings Banks Group.

Net profit from hedge accounting decreased EUR 1.4 million and ended up to EUR -0.5 (0.8) million during the review period and it is presented under Net trading income on the income statement.

Operating expenses in the review period were EUR 6.7 (5.9) million. EUR 0.6 (0.7) million of impairment and credit losses were recognised on financial assets during the review period, resulting from the credit cards of private customers. Operating expenses are not comparable with comparison period due to new business activities mentioned previously. The cost to income ratio was 0.8.

Balance sheet and financing (comparison figures 31 December 2016)

SB Central Bank's balance sheet increased during the review period by 9 % to EUR 2 514 million on 30 June 2017 (EUR 2,305 million on 31 December 2016). The increase of the balance sheet was mainly due to the loans granted to Savings Banks in the Amalgamation and Sp Mortgage Bank Plc totaling to EUR 1 644 (1 024) million at the end of the review period.

During the review period SB Central Bank issued private placement bonds amounting to EUR 35 million under the EMTN programme listed on the Irish Stock Exchange.

In the end of review period, SB Central Bank's non-performing credit card receivables remained at same level and were EUR 0.8 (0.8) million, representing 1.0 (1.0) % of all credit card receivables. A total of EUR 0.2 (0.4) million in impairments were recognised on a collective basis.

SB Central Bank's equity was EUR 48 (48) million showing an increase of 1.3 %. The change is due to the profit for the period (profit after tax). Return on equity was 1.4 (2.4) %. Return on assets was 0.03 (0.06) %.

Capital adequacy and risk position

Capital adequacy
(comparative information 31 December 2016)

SB Central Bank's capital adequacy is strong and in line with the 8 % minimum level requirement and the capital conservation and countercyclical capital buffers. The capital conservation buffer, 2.5 %, and countercyclical capital buffer were imposed at the beginning of 2015. When necessary, the authorities may set the countercyclical capital buffer to 0–2.5 %. In December 2016, the Financial Supervisory Authority set a discretionary capital conservation buffer for the Amalgamation of Savings Banks in accordance with the Act on Credit Institutions as part of the supervisor's assessment (SREP) related to the process. The discretionary capital conservation buffer is 0.5 %, and it must be fulfilled with CET1 capital. The discretionary capital conservation buffer became operative on 30 June 2017, and it is fulfilled at the Amalgamation level.

The standard method is used to calculate the capital requirement of the credit risk of the SB Central Bank. The capital requirement to the operational risk is calculated by the basic method. 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 Interim Report issued half-yearly.

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 exemptions referred to in sections 21 and 21a of the Act on the Amalgamation of Deposit Banks do not apply to SB Central Bank.

SB Central Bank's own funds totaled EUR 45.5 (44.9) million, while the minimum requirement for own funds was EUR 10.5 (10.8) million. The Tier 1 capital consisted wholly of Common Equity Tier 1 (CET1) capital, amounting to EUR 45.5 million. The capital and reserves consist of common equity tier 1 capital. SB Central Bank's capital ratio was high, standing at 34.5 % at the end of the review period (33.2 %).

SB Central Bank's capital adequacy information is included in the consolidated financial statements of the Savings Banks Amalgamation. The Savings Banks Group publishes the Pillar III capital adequacy information in its financial statements. The Savings Banks Group's financial statements are available online at *www.saastopankki.fi*.

CAPITAL ADEQUACY

Own funds (EUR 1,000)	30.6.2017	31.12.2016
Common Equity Tier 1 (CET1) capital before regulatory adjustments	48,433	47,820
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,981	-2,874
Common Equity Tier 1 (CET1) capital	**45,452**	**44,946**
Tier 1 capital (T1 = CET1 + AT1)	**45,452**	**44,946**
Total capital (TC = T1 + T2)	**45,452**	**44,946**
Risk weighted assets total	**131,763**	**135,397**
of which credit and counterparty risk	**113,125**	**113,352**
of which credit valuation adjustment (CVA)	**3,201**	**6,452**
of which operational risk	**15,436**	**15,593**
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**34.5**	**33.2**
Tier 1 (as a percentage of total risk exposure amount)	**34.5**	**33.2**
Total capital (as a percentage of total risk exposure amount)	**34.5**	**33.2**
Capital requirement		
Total capital	45,452	44,946
Capital requirement total*	13,857	14,217
Capital buffer	**31,595**	**30,729**

* 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, and the country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio

The leverage ratio of SB Central Bank was 1.7 (2.7) %. 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)	30.6.2017	31.12.2016
Tier 1 capital	45,452	44,946
Total liability	2,690,104	1 661,573
Leverage ratio	**1,7**	**2,7**

Risk management

On 24 May 2017, the Finnish Financial Stability Authority decided to impose a minimum amount of debt eligible for bail-in on the Savings Banks Amalgamation pursuant to Chapter 8, Section 7 of the Act on the Crisis Resolution of Credit Institutions and Investment Firms (1194/2014). The minimum amount of debt eligible for bail-in must be met starting from 31 December 2018. The requirement only applies at the Amalgamation level, but the Finnish Financial Stability Authority will re-evaluate whether to impose the requirement at the member credit institution level in 2018.

During the review period, the Finnish Financial Supervisory Authority has granted Savings Banks' Union Coop, which acts as the Central Institution of the Savings Banks Amalgamation, permission pursuant to the Act on the Amalgamation of Deposit Banks to decide that its member credit institutions will not be subject to the requirements stipulated by Section 6 of the EU Capital Requirements Regulation (EU 575/2013) and other EU statutes issued on the basis of the Regulation regarding the liquidity of credit institutions.

SB Central Bank's LCR ratio was 95.7 % on the 30th of June 2017 and 168.1 % respectively in the comparison period.

The objectives, principles and organization of risk management in SB Central Bank are the same as those presented in the 2016 financial statements.

Credit rating

In the end of April 2017, S&P Global Ratings (S&P) raised its long-term counterparty credit rating on SB Central Bank to 'A-' from 'BBB+'. Short-term investment grade was affirmed to 'A-2'. The outlook is stable. The previous S&P's rating report was from November 2016.

Significant events after the interim report date

The Board of Directors of SB Central Bank is not aware of any factors that would materially influence the financial position after the interim report date.

Outlook for the year

Improved growth of the general economic situation, which is described under Description of the Operational Environment, has a positive impact on SB Central Bank's operations and development of funding activities. At the same time, the low interest rate environment weakens net interest income.

SB Central Bank's result before tax is expected to be profitable.

Further information

CEO Kirsi Autiosalo
kirsi.autiosalo@saastopankki.fi
tel. +358 50 420 0867

The figures presented in the half-year report are unaudited.

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

The corresponding information on Savings Banks Group is available online at *www.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 (excluding depreciations)

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 2016. An alternative performance measure is a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the IFRS framework. Alternative Performance Measures are used to reflect financial development and enhance comparability between different reporting periods.

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

HALF-YEAR REPORT (IFRS)

Income statement

(EUR 1,000)	Note	1-6/2017	1-6/2016
Interest income		10,950	9,630
Interest expense		-7,724	-7,127
Net interest income	4	3,226	2,503
Net fee and commission income	5	4,989	3,923
Net trading income	6	-544	828
Other operating revenue		823	695
Total operating revenue		**8,495**	**7,949**
Personnel expenses		-1,711	-1,355
Other operating expenses		-5,055	-4,504
Depreciation and amortisation of property, plant and equipment and intangible assets		-285	-256
Total operating expenses		-7,052	-6,114
Net impairment loss on financial assets		-605	-650
Operating profit		**839**	**1,185**
Taxes		-168	-237
PROFIT		**671**	**947**

Statement of comprehensive income

(EUR 1,000)	1-6/2017	1-6/2016
PROFIT	**671**	**947**
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	-59	32
Total	**-59**	**32**
TOTAL COMPREHENSIVE INCOME	**612**	**979**

Statement of financial position

(EUR 1,000)	Note	30.06.2017	31.12.2016
ASSETS			
Cash and cash equivalents		704,748	1,082,955
Loans and advances to credit institutions	8	1,658,877	1,030,716
Loans and advances to customers	8	79,688	82,412
Derivatives	9	2,839	4,615
Investment assets	10	37,030	92,070
Property, plant and equipment		255	202
Intangible assets		1,871	1,590
Tax assets	11	1,110	1,284
Other assets		27,438	9,287
TOTAL ASSETS		**2,513,856**	**2,305,132**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	12	834,618	777,425
Liabilities to customers	12	32,617	9,281
Derivatives	9	46	-
Debt securities issued	13	1,485,554	1,420,273
Tax liabilities	11	49	70
Other liabilities		112,539	50,262
Total liabilities		**2,465,423**	**2,257,312**
Equity			
Share capital		40,000	40,000
Reserves		19,038	19,097
Retained earnings		-10,605	-11,276
Total equity		**48,433**	**47,820**
TOTAL LIABILITIES AND EQUITY		**2,513,856**	**2,305,132**

Statement of cash flows

(EUR 1,000)	1-6/2017	1-6/2016
Cash flows from operating activities		
Profit	671	947
Adjustments for items without cash flow effect	1,145	-224
Change in deferred tax	168	237
Cash flows from operating activities before changes in assets and liabilities	**1,984**	**961**
Increase (-) or decrease (+) in operating assets	**-583,833**	**-327,132**
Available-for-sale financial assets	54,810	11,441
Loans and advances to credit institutions	-622,976	-344,544
Loans and advances to customers	2,484	4,426
Other assets	-18,151	1,544
Increase (-) or decrease (+) in operating liabilities	**209,314**	**636,795**
Liabilities to credit institutions	57,193	98,243
Liabilities to customers	23,336	-9
Debt securities issued	66,509	546,490
Other liabilities	62,277	-7,929
Total cash flows from operating activities	**-372,536**	**310,624**
Cash flows from investing activities		
Investments in investment property and in tangible and intangible assets	-619	-107
Total cash flows from investing activities	**-619**	**-107**
Change in cash and cash equivalents	**-373,154**	**310,517**
Cash and cash equivalents at the beginning of the period	**1,089,992**	**537,723**
Cash and cash equivalents at the end of the period	**716,838**	**848,239**
Cash and cash equivalents comprise the following items:		
Cash	704,748	837,634
Receivables from central banks repayable on demand	12,090	10,605
Total cash and cash equivalents	**716,838**	**848,239**
Interest received	12,871	12,093
Interest paid	10,191	9,048

Statement of changes in equity

(EUR 1,000)	Share capital	Reserve for invested non-restricted equity	Fair value reserve (available for sale)	Total reserves	Retained earnings	Total
Equity 1 January 2016	**40,000**	**19,000**	**62**	**19,062**	**-12,418**	**46,643**
Comprehensive income						
Profit					947	947
Other comprehensive income			32	32		32
Total comprehensive income	**0**	**0**	**32**	**32**	**947**	**979**
Total equity 30 June 2016	**40,000**	**19,000**	**94**	**19,094**	**-11,471**	**47,623**
Equity 1 January 2016	**40,000**	**19,000**	**62**	**19,062**	**-12,418**	**46,643**
Comprehensive income						
Profit					1,142	1,142
Other comprehensive income			35	35		35
Total comprehensive income	**0**	**0**	**35**	**35**	**1,142**	**1,177**
Total equity 31 December 2016	**40,000**	**19,000**	**97**	**19,097**	**-11,276**	**47,820**
Equity 1 January 2017	**40,000**	**19,000**	**97**	**19,097**	**-11,276**	**47,820**
Comprehensive income						
Profit					671	671
Other comprehensive income			-59	-59		-59
Total comprehensive income	**0**	**0**	**-59**	**-59**	**671**	**612**
Total equity 30 June 2017	**40,000**	**19,000**	**38**	**19,038**	**-10,605**	**48,433**

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") is a depository bank owned by Finnish savings banks. SB Central Bank's primary function is to provide the savings banks and the Savings Banks Group with various central credit institution services. The central credit institution services includes payment services and account operator services, payment card issuing for the customers of the member Savings Banks of the Amalgamation, and services related to liquidity management, funding and asset and liability management. SB Central Bank belongs to the Savings Banks Group and its principal owners are the 23 Savings Banks of the Amalgamation and one savings bank outside the Amalgamation.

SB Central Bank's financial statements are consolidated into Savings Banks Group's consolidated financial statements.

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

The member organizations of the Savings Banks Amalgamation (hereinafter Amalgamation) form a financial entity as defined in the Act on Amalgamations, in which the Savings Banks' Union Coop and its member credit institutions are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, 23 Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, as well as the companies within the consolidation groups of the above-mentioned entities, 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 organizations other than credit and financial institutions or service companies. The most significant of these are Sp-Life Insurance Ltd and Sp-Koti Ltd.

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.

The half-year report has been prepared in accordance with the IAS 34 Interim Financial Reporting standard. Accounting principles applied in the half-year report are essentially the same as in the financial statement of 2016. A complete description of the accounting policy can be found in the notes to the financial statements of 2016.

There were no changes in the accounting policies during the reporting period.

SB Central Bank's half-year report is presented in euros, which is the Bank's functional currency.

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

The Savings Banks Group will publish one interim report during the year 2017.

The figures presented in the half-year report are unaudited.

SB Central Bank's financial statements and half-year reports are available at the website *www.spkeskuspankki.fi* or at the premises, address Teollisuuskatu 33, FI-00510 Helsinki. SB Central Bank's registered office has changed to Helsinki during the reporting period.

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

2. Critical accounting estimates and judgements

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

The critical estimates of 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.

There have not been any major changes regarding the uncertainty requiring management to exercise judgment and make estimates and assumptions compared to the financial statement of 2016.

Implementation of the IFRS 9 standard

IFRS 9 Financial Instruments (effective for financial years beginning on or after 1 January 2018): IFRS 9 replaces the existing guidance in IAS 39. The new standard includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

There is an ongoing IFRS 9 project in Savings Banks Group that covers the whole Group. A Group-level project ensures the uniform application of the IFRS 9 -standard across the Group. The project is at a deployment stage, and the objective is full IFRS 9 readiness on 1 January 2018, when the application of the IFRS 9 -standard will begin. The project has been scheduled so that parallel accounting would be possible in the second half-year period of 2017.

NOTE 3. SEGMENT INFORMATION

SB Central Bank's management reviews the performance of the company as one individual segment and therefore separate segment information, as defined in IFRS 8, is not presented.

PROFIT FOR THE PERIOD

NOTE 4. NET INTEREST INCOME

(EUR 1,000)	1-6/2017	1-6/2016
Interest income		
Debts eligible for refinancing with Central Bank	145	83
Loans and advances to credit institutions	4,154	3,243
Loans and advances to customers*	2,392	2,161
Debt securities	90	105
Derivative contracts		
Hedging	2,204	2,200
Other **)	1,965	1,838
Total	**10,950**	**9,630**
* of which interest income from impaired loans	-3	-3
**) Other interest income is made up of interest charges and limit commission based on account agreements.		
Interest expense		
Liabilities to credit institutions ***	-1,622	-1,309
Liabilities to customers	-62	-76
Debt securities issued	-4,680	-4,059
Derivative contracts		
Hedging	-1,359	-1,683
Other	0	0
Total	**-7,724**	**-7,127**
Net interest income	**3,226**	**2,503**

***) The interest expense from Liabilities to credit institutions is largely made up of the negative interest on central bank deposits.

NOTE 5. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-6/2017	1-6/2016
Fee and commission income		
Lending	5,986	5,506
Payment transfers	2,085	1,847
Securities	767	
Other	118	114
Total	**8,956**	**7,467**
Fee and commission expense		
Payment transfers	-1 237	-1 122
Securities	-201	-22
Other*	-2 530	-2 400
Total	**-3 967**	**-3 544**
Net fee and commission income	**4,989**	**3,923**

* of which the most significant were the expenses related to granting loans, EUR 2,406 thousand.

NOTE 6. NET TRADING INCOME

(EUR 1,000)	1-6/2017	1-6/2016
Net income from foreign exchange operation	-4	0
Net income from hedge accounting		
Change in hedging instruments' fair value	-1,822	7,622
Change in hedged items' fair value	1,282	-6,794
Total	**-544**	**828**

ASSETS

NOTE 7. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

30.6.2017 (EUR 1,000)	Loans and other receivables	Available-for-sale	Held-to-maturity	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	704,748				704,748
Loans and advances to credit institutions	1,658,877				1,658,877
Loans and advances to customers	79,688				79,688
Derivatives					
hedging derivatives				2,839	2,839
of which fair value				2,839	2,839
Investment assets		11,069	25,961		37,030
Total assets	**2,443,313**	**11,069**	**25,961**	**2,839**	**2,483,182**

	Other financial liabilities	Financial assets at fair value through profit or loss	Total
Liabilities to credit institutions	834,618		834,618
Liabilities to customers	32,617		32,617
Derivatives			
hedging derivatives		46	46
of which fair value		46	46
Debt securities issued	1,485,554		1,485,554
Total liabilities	**2,352,789**	**46**	**2,352,835**

31.12.2016 (EUR 1 000)	Loans and other receivables	Available-for-sale	Held-to-maturity	Financial assets at fair value through profit or loss	Total
Cash and cash equivalents	1,082,955				1,082,955
Loans and advances to credit institutions	1,030,716				1,030,716
Loans and advances to customers	82,412				82,412
Derivatives					
hedging derivatives				4,615	4,615
of which fair value				4,615	4,615
Investment assets		65,952	26,118		92,070
Total assets	**2,196,084**	**65,952**	**26,118**	**4,615**	**2,292,768**

	Other financial liabilities	Financial assets at fair value through profit or loss	Total
Liabilities to credit institutions	777,425		777,425
Liabilities to customers	9,281		9,281
Derivatives			
hedging derivatives			
of which fair value			-
Debt securities issued	1,420,273		1,420,273
Total liabilities	**2,206,979**	**-**	**2,206,979**

NOTE 8. LOANS AND ADVANCES

(EUR 1 000)	30.6.2017	31.12.2016
Loans and advances to credit institutions		
Deposits	15,166	7,037
Loans and other receivables*	1,643,711	1,023,680
Total	**1,658,877**	**1,030,716**
Loans and receivables to customers		
Account credits in use **	437	448
Loans***	79,850	82,383
Impairment losses	-599	-419
Total	**79,688**	**82,412**

* Granted to banks within the Savings Banks Amalgamation based on the Act on Amalgamations.

** Credit rating agency's rating A or better

*** Credit card portfolio

Impairment losses on loans and other receivables 2017	Measured by group	Total
Impairments 1 January 2017	**419**	**419**
+ increase in impairment losses	180	180
Impairments 30 June 2017	**599**	**599**
Impaired loans and receivables 1 January 2017	**1,397**	**1,397**
Loans and receivables classified as impaired during the year	599	599
Impaired loans and receivable 30 June 2017	**1,996**	**1,996**

Impairment losses on loans and other receivables 2016	Measured by group	Total
Impairments 1 January 2016	**33**	**33**
+ increase in impairment losses	386	386
- reversal of impairment losses	-	-
Impairments 31 December 2016	**419**	**419**
Impaired loans and receivables 1 January 2016	**110**	**110**
Loans and receivables classified as impaired during the year	1,286	1,286
Reversals for impaired receivables during the year	-	-
Impaired loans and receivables 31 december 2016	**1,397**	**1,397**

NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

SB Central Bank hedges its interest rate risk against changes in fair value and applies hedge accounting on hedging relationships. Fair value hedging is applied to fixed interest rate funding transaction and to fixed-rate borrowing. Changes in the fair value of the hedging derivatives are recognised in the income statement under Net trading income. When applying fair value hedging, also the hedged item is measured at fair value during the hedging period even if the item is otherwise measured at amortised cost. Changes in the fair value of the hedged item are recognised in the balance sheet as an adjustment to the corresponding balance sheet item and in the income statement under Net trading income. Interests arising from hedging derivatives are presented in interest expenses and income.

(EUR 1,000)	Nominal value / remaining maturity		Fair value	
30 June 2017	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts				
Fair value hedging	475,000	475,000		
Interest rate derivatives	475,000	475,000	2,839	46
Total	**475,000**	**475,000**	**2,839**	**46**

(EUR 1,000)	Nominal value / remaining maturity		Fair value	
31 December 2016	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts				
Fair value hedging	450,000	450,000		
Interest rate derivatives	450,000	450,000	4,615	-
Total	**450,000**	**450,000**	**4,615**	**-**

NOTE 10. INVESTMENT ASSETS

(EUR 1,000)	30.6.2017	31.12.2016
Available-for-sale financial assets		
Debt securities *	11,012	65,901
Shares and participations	56	51
Total	**11,069**	**65,952**
Held-to-maturity assets		
Debt securities *	25,961	26,118
Total	**25,961**	**26,118**
Total investment assets	**37,030**	**92,070**

* Credit ratings for year 2017:
- AA+: EUR 3 000 thousand
- BBB+: EUR 7 000 thousand
- BBB: EUR 9 000 thousand
- BB+: EUR 9 000 thousand
- Not rated: EUR 8 000 thousand"

Available-for-sale and Held-to-maturity financial assets 30 June 2017 (EUR 1,000)	**Available-for-sale Debt securities**	**Available-for-sale Shares and participations**	**Held-to-maturity**	
	At fair value	At fair value	At amortised cost	Total
Quoted				
From public entities	3,027		25,961	28,988
From others	7,985			7,985
Other				
From others	-	56		56
Total	**11,012**	**56**	**25,961**	**37,030**

Available-for-sale and Held-to-maturity financial assets 31 December 2016 (EUR 1,000)	**Available-for-sale Debt securities**	**Available-for-sale Shares and participations**	**Held-to-maturity**	
	At fair value	At fair value	At amortised cost	Total
Quoted				
From public entities	33,334	-	26,118	59,452
From others	11,979			11,979
Other				
From others	20,588	51	-	20,639
Total	**65,901**	**51**	**26,118**	**92,070**

NOTE 11. DEFERRED TAXES

(EUR 1,000)	30.6.2017	31.12.2016
Deferred tax assets	1,110	1,284
Tax assets	**1,110**	**1,284**
Deferred tax liabilities	49	70
Tax liability	**49**	**70**

(EUR 1,000)	30.6.2017	31.12.2016
Deferred tax assets		
Impairment	120	84
Financial assets	0	0
Approved tax losses	990	1,200
Total	**1,110**	**1,284**

(EUR 1,000)	30.6.2017	31.12.2016
Deferred tax liabilities		
Financial assets	10	25
Intangible assets	39	46
Total	**49**	**70**

(EUR 1,000)	1.1.2017	Change recognised in profit or loss	Financial assets	30.6.2017
Deferred tax assets				
Impairment	84	36		120
Financial assets	0		0	0
Approved tax losses	1,200	-210		990
Total	**1,284**	**-174**	**0**	**1,110**

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 market circumstances and the development prospects of Savings Banks Group, particularly with respect to refinancing. According to the forecasts prepared, the result is expected to show profit on a permanent basis.

Based on management's estimate on the probability and the amount of future taxable profits, EUR 1,469 thousand of deferred tax assets have not been recognized. They relate to an amount of EUR 7,347 thousand of losses, which can be utilized against the future taxable profit. The tax losses will expire from 2019 to 2023.

(EUR 1,000)	1.1.2017	Change recognised in profit or loss	Financial assets	30.6.2017
Deferred tax liabilities				
Financial assets	25		-15	10
Intangible assets	37	-6		31
Other	9	0		8
Total	**70**	**-6**	**-15**	**49**

(EUR 1,000)	1.1.2016	Change recognised in profit or loss	Financial assets	31.12.2016
Deferred tax assets				
Impairment	7	77		84
Financial assets	2		-2	0
Approved tax losses	1,244	-44		1,200
Total	**1,253**	**33**	**-2**	**1,284**

(EUR 1,000)	1.1.2016	Change recognised in profit or loss	Financial assets	31.12.2016
Deferred tax liabilities				
Financial assets	18		7	25
Intangible assets	49	-12		37
Other	9	0		9
Total	**76**	**-12**	**7**	**70**

LIABILITIES

NOTE 12. LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	30.6.2017	31.12.2016
Liabilities to credit institutions		
Liabilities to central banks	38,000	18,000
Liabilities to credit institutions	796,618	759,425
Total	**834,618**	**777,425**
Liabilities to customers		
Deposits	267	281
Other financial liabilities	32,350	9,000
Total	**32,617**	**9,281**
Total liabilities to credit institutions and customers	**867,235**	**786,707**

NOTE 13. DEBT SECURITIES ISSUED

(EUR 1,000)	30.6.2017	31.12.2016
Measured at amortised cost		
Bonds	1,101,139	1,101,975
Other		
Certificates of deposits	384,415	318,298
Total	**1,485,554**	**1,420,273**
Of which		
Variable interest rate	493,799	563,601
Fixed interest rate	991,755	856,672
Total	**1,485,554**	**1,420,273**

During the review period, SB Central Bank issued private placement bonds amounting to EUR 35 million under the EMTN programme listed on the Irish Stock Exchange.

OTHER NOTES

NOTE 14. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

Financial instruments are carried in the SB Central Bank's balance sheet at fair value or at amortised cost. The accounting policies of the annual report (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. Similarly, in the case of deposits repayable on demand the nominal value is deemed to correspond to 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 active 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 certificates of deposits.

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 the levels

Transfers between the levels of fair value hierarchy are considered to take place on the date when the event or change in circumstances causing the transfer occurred.

SB Central Bank has made no transfers between the levels during reporting period January to June 2017.

30.6.2017	Carrying amount	Fair values by valuation technique			Fair value
Financial assets (EUR 1,000)		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivative contracts	2,839		2,839		2,839
Available-for-sale financial assets	11,069	3,027	7,985	56	11,069
Measured at amortised cost					
Held-to-maturity assets	25,961				25,961
Loans and other receivables	2,443,313				2,347,500
Total financial assets	**2,483,182**	**3,027**	**10,824**	**56**	**2,387,369**

	Carrying amount	Fair values by valuation technique			Fair value
Financial liabilities (EUR 1,000)		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivative contracts	46		46		46
Measured at amortised cost					
Other financial liabilities	2,352,789				2,372,468
Total financial liabilities	**2,352,835**	**0**	**46**	**0**	**2,372,514**

31.12.2016	Carrying amount	Fair values by valuation technique			Fair value
Financial assets (EUR 1,000)		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivative contracts	4,615		4,615		4,615
Available-for-sale financial assets	65,952	53,922	11,979	51	65,953
Measured at amortised cost					
Held-to-maturity assets	26,118				26,118
Loans and other receivables	2,196,084				2,158,362
Total financial assets	**2,292,768**	**53,922**	**16,594**	**0**	**2,255,047**

	Carrying amount	Fair values by valuation technique			Fair value
Financial liabilities (EUR 1,000)		Level 1	Level 2	Level 3	total
Measured at fair value					
Derivative contracts	-				-
Measured at amortised cost					
Other financial liabilities	2,206,979				2,211,964
Total financial liabilities	**2,206,979**	**0**	**0**	**0**	**2,211,964**

Changes at level 3

Reconciliation of changes in financial assets at level 3

Available-for-sale financial assets	
Carrying amount 1 January 2017	**51**
Changes in value recognised in the income statement, non-realised	-4
Changes in value recognised in the statement of comprehensive income	10
Carrying amount 30 June 2017	**56**

Sensitivity analysis of financial assets at level 3	Effect of hypothetical changes' on profit		
30 June 2017	Carrying amount	Positive	Negative
Available-for-sale financial assets	56	65	48
Total	**56**	**65**	**48**

Sensitivity analysis of financial assets at level 3	Effect of hypothetical changes' on profit		
31 December 2016	Carrying amount	Positive	Negative
Available-for-sale financial assets	51	58	43
Total	**51**	**58**	**43**

The above table shows the sensitivity of fair value for level 3 instruments in the event of assumed market change by 15 percentage.

NOTE 15. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

30.6.2017				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Net amount
Assets						
Derivative contracts	-	-	-	2,839	2,500	339
Total	**-**	**-**	**-**	**2,839**	**2,500**	**339**
Liabilities						
Derivative contracts	-	-	-	46	0	46
Total	**-**	**-**	**-**	**46**	**0**	**46**

31.12.2016				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Net amount
Assets						
Derivative contracts	-	-	-	4,615	7,300	-2,685
Total	**-**	**-**	**-**	**4,615**	**7,300**	**-2,685**
Liabilities						
Derivative contracts	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**

The derivative contracts of the SB Central Bank are subject to ISDA Master Agreement. Based on ISDA agreement, 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.

NOTE 16. COLLATERAL GIVEN AND RECEIVED

(EUR 1,000)	30.6.2017	31.12.2016
Given on behalf of Sb Central Bank's own liabilities and commitments		
Securities	50,891	25,924
Total collateral given	**50,891**	**25,924**
Securities	52,179	57,502
Other	2,500	7,300
Total collateral received	**54,679**	**64,802**

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

NOTE 17. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	30.6.2017	31.12.2016
Guarantees	6,000	49
Loan commitments	207,332	208,739
Off balance-sheet commitments	**213,332**	**208,788**

NOTE 18. RELATED PARTIES

Related party refers to SB Central Bank's key management personnel and their close family members. SB Central Bank's related parties include the members of the Board of Directors, Managing Director and Deputy Managing Director. No significant changes have taken place in key personnel compensation during the review period.

With the exception of uncollateralised credit cards, SB Central Bank has granted no related party loans or investments and has no related party business activities. Credit cards granted to related parties are subject to the same general terms and conditions that apply to corresponding customer credits.

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 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). A copy of the financial statement of the Savings Banks Group is available online at *www.saastopankki.fi* or from the Savings Banks' Union Coop offices at Teollisuuskatu 33, FI-00510 Helsinki, Finland.

The original Half-year Report is in Finnish. This is an English version thereof.

Central Bank
of Savings Banks Finland Plc