CENTRAL BANK OF SAVINGS BANKS FINLAND PLC

BOARD OF DIRECTORS' REPORT
AND IFRS FINANCIAL STATEMENTS
31 DECEMBER 2017

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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 includes 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 2017 the focus of the SB Central Bank's business operations and its objectives changed as planned from establishing business operations in the previous years towards maintaining and developing functions in a way that has allowed the SB Central Bank to support the implementation of the Savings Banks Group's strategy in accordance with its role.

As the issuer of Savings Banks Group cards, the SB Central Bank celebrated Finland's 100 years of independence by being the first Finnish bank to launch a card made using Finnish birch. The birch card became popular among our customers. The competitiveness of the Savings Banks' credit cards was also increased during the year by adding purchase protection insurance to them free of charge of the cardholders.

In April 2017 S&P Global Ratings (S&P) upgraded its long-term counterparty credit rating for SB Central Bank, to 'A-' from 'BBB+'. The outlook is stable. At the same time, the 'A-2' short-term counterparty credit rating on SB Central Bank was affirmed.

SB Central Bank's profit for the financial year was EUR 1.9 million, and the balance sheet total amounted to EUR 2,674 million.

Kirsi Autiosalo, Managing Director of the SB Central Bank, has announced that she will vacate her position as the Managing Director of the SB Central Bank as of 19 March 2018. The search for a new Managing Director has begun.

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

Global economic growth strengthened substantially in 2017. A particularly positive aspect of the growth was that it occurred on a broad front: none of the world's top 50 economies were in a recession. The average growth rate of the global economy increased to about 3.5 per cent. The industrial countries reached a growth rate of approximately 2.5 per cent, which was reflected in a significant improvement in employment rates. The unemployment rate fell to a level approaching four per cent in the United States and was substantially below nine per cent in the euro zone. Economic growth in the developing markets was also better than anticipated. Growth in China remained stable at slightly under seven per cent, while Russia and Brazil resumed growth after a recession in the previous years. The GDP growth rate of the emerging economies increased to an average of 4.5 per cent.

At the start of 2018, the outlook for the global economy remains very positive. General economic confidence in Europe is the strongest it has been in more than 17 years and, in the United States, consumer confidence has risen to a level that substantially exceeds the highs seen before the financial crisis. Leading economic indicators in summer 2017 showed symptoms of economic growth having already peaked, but these signs dissipated later in the year and the outlook improved, suggesting stronger growth. In the final months of 2017, macroeconomic indicators were systematically and broadly higher than expected.

The global economy has now been expanding for long enough that supply-side constraints may begin to limit growth prospects in certain economic areas. In many European countries, such as Germany and Sweden, capacity utilisation rates are already close to the levels typically seen at the peak of the economic cycle, while in the United States, unemployment has fallen below the natural rate of unemployment. President Trump's tax cuts will likely support short-term growth in the United States, but they will also exacerbate the federal deficit, which may become a constraint on growth in the long run. In China, the debt-driven growth model based on investments is no longer working and the demand structure will inevitably need to become more balanced and based on private consumption. This structural transformation is underway in China, but its controlled execution involves risks and there may be unexpected bumps on the path to growth.

The most significant uncertainty in the global economy relates to the change in the direction of the central banks' monetary policy. In the United States, the Federal Reserve already began to slowly hike up interest rates in December 2015, but the rate of increase is now expected to pick up. In autumn 2017, the Fed also began to allow its balance sheet to contract. The European Central Bank (ECB) will halve the monthly volume of its securities purchases to EUR 30 billion starting from the beginning of 2018. This level of purchases will be maintained at least until the end of September 2018. The ECB is expected to gradually move away from quantitative easing thereafter, and the first interest rate hikes – if permitted by the economic climate – could be implemented in the second half of 2019. Tighter monetary policy always involves the risk that the tightening measures begin to slow down growth too much. This risk is exceptionally high at the present time because the massive stimulation measures of central banks have perhaps been the key driver of economic growth and higher asset values in the 2010s.

Interest rate environment

Interest rates have remained low and there are no significant changes expected in the near future. Long-term interest rates also increased very little in 2017 in spite of strong growth. In the United States, the gap between long-term and short-term interest rates narrowed quite significantly during the past year. The flattening yield curve may indicate concerns that tighter monetary policy will lead to slower growth. The yield curve is also quite flat in the EU. 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 ECB's negative deposit interest rate.

The economic climate in Finland

The Finnish economy saw a stronger-than-expected upswing in growth in early 2017. The boost from the global economy was reflected in a substantial increase in exports and strong investment growth. As the year went on, the growth levelled off slightly due to a slowing down of exports. It is possible that production capacity constraints began to compromise Finland's ability to respond to external demand. The labour market mismatch problem also seemed to get worse: the number of vacancies was historically high, but filling them was difficult. Thanks to the growth spurt early in the year, the Finnish GDP probably grew by slightly more than three per cent in 2017.

The employment rate improved surprisingly little considering the brisk GDP growth in 2017. However, this is a fairly typical phenomenon in the early stage of recovery, as businesses initially try to satisfy the increased demand by making more efficient use of their existing capacity. The slower-than-expected decrease in unemployment can also be attributed to a reduction in disguised unemployment: people outside the labour force were encouraged to be more active in seeking work. The supply of labour increased, which will eventually be reflected in a higher employment rate. The trend of decreasing unemployment will continue in 2018.

The slight slowing down of growth seen in the second half of 2017 now appears to have been temporary, and economic development is again improving as we enter 2018. As the global economic outlook has become brighter again, the international economy will increasingly boost the Finnish economy. At the same time, the strong growth in investments will reduce capacity constraints. The general economic climate remains favourable with respect to consumer demand: consumer confidence is historically high, the employment rate is improving, interest rates are very low and purchasing power is increasing in spite of the slight acceleration of inflation. However, household debt is starting to become a factor that constrains consumption, and the growth in private consumption may slow down slightly compared to 2017. The Finnish GDP is expected to grow by 2.5–3 per cent in 2018.

Ensuring the long-term growth potential of the Finnish economy requires the continued structural reform of the labour market, social security, social services and health care, higher education, business subsidies and taxation. However, decision-making on these reforms is politically difficult and the results are slow to come. Due to the fiscal sustainability gap caused by the increasing age-related cost of care, the public-sector economy has very little latitude in spite of the favourable macroeconomic conditions.

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

During 2017, treasury operations focused on the funding for the Savings Banks and on the short-term funding of Sp Mortgage Bank Plc.

Asset and liability management

During 2017, asset and liability management focused on completing the application process for an exemption from the liquidity coverage ratio of the Savings Banks Amalgamation, implementation of regulatory changes to interest rate risk calculation and establishment of asset and liability management services for Savings Banks.

Issuing of payment cards

SB Central Bank acts as the issuer of the Savings Banks Group's Visa payment cards. The usability of payment cards and processes of sales support were enhanced during the year. However, the most visible changes from the cardholders' point of view were related to the Savings Banks Group celebrating Finland's 100 years of independence by being the first Finnish bank to launch a card made using Finnish birch. The birch card became popular among our customers. The competitiveness of the Savings Banks' credit cards was also increased during the year by adding purchase protection insurance to them free of charge of the cardholders.

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

During 2017, the account management operations of SB Central Bank developed and automated processes associated with securities clearing and custodian services and prepared for the deployment of Euroclear Finland's Infinity system, which will reform the Finnish securities clearing and custodian service market. Infinity will replace all Finnish central securities depository systems, change the structure of the clearing and custodian service market and open competition between central securities depositories and banks.

Financial position

Financial highlights

(EUR 1,000)	12/2017	12/2016	12/2015*
Revenue	41,722	37,794	16,088
Net interest income	6,707	5,406	-205
% of revenue	16,1 %	14,3 %	-1,3 %
Operating profit	1,900	1,096	-942
% of revenue	4.6 %	2.9 %	-5.9 %
Total operating revenue	17,624	15,233	5,105
Total operating expenses (excluding depreciations)	-14,530	-12,885	-5,616
Cost to income ratio	0.8	0.8	1.1
Total assets	2,673,522	2,305,132	1,547,912
Total equity	49,901	47,820	46,643
Return on equity %	4.0 %	2.4 %	0.7 %
Return on assets %	0.1 %	0.1 %	0.0 %
Equity/assets ratio %	1.9 %	2.1 %	3.0 %
Solvency ratio %	31.7 %	33.2 %	39.8 %
Impairment losses on loans and other receivables	-1,195	-1,251	-61
Number of employees converted to FTEs	35	30	21
Average number of FTEs during the financial year	34	26	21

* With regard to the review period and the comparison periods, the indicators for 2015 are not directly comparable with 2016 and 2017, as the card issuing services was not started until December 2015, and the short term funding of Sp Mortgage Bank Plc began in early 2016.

Profit trends (comparison figures 1–12/2016)

The operating profit of the SB Central Bank increased by 73% during the year and amounted to EUR 1.9 million, or 4.6% of revenue (EUR 1.1 million and 2.9 %, respectively, for the comparison period 1–12/2016).

The operating revenue of the SB Central Bank amounted to EUR 17.6 (15.2) million. Net interest income increased by 24% to EUR 6.7 (5.4) million. Interest income increased by 9% to EUR 22.6 (20.6) million. The majority of interest income in 2017 consisted of interest income from credit institutions and credit cards for private customers. Interest expenses increased correspondingly by 4%, amounting to EUR 15.9 (15.2) 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 1.7 (1.4) million. Net interest income was still affected by low interest rates and the negative interest rate on central bank deposits. The favourable development of the card credit portfolio and decreased funding expenses contributed to the increase in net interest income.

Net fee and commission income increased by 24% to EUR 10.2 (8.2) million. This amount consisted of EUR 18.4 (15.6) million in fee income and EUR 8.2 (7.3) 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 2017. 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 1.5 million, consisting of services based on service agreements produced for the Savings Banks Group. During the comparison period, other operating income equally amounted to EUR 1.5 million, but comprised EUR 0.4 million of income from the Visa Europe transaction in addition to income from service agreements for the Group.

Operating expenses in the financial year increased by 13%, amounting to EUR 14.5 (12.9) million. Personnel expenses consisted of salaries, as well as pension expenses and other personnel expenses. These expenses totaled EUR 3.3 (2.8) million with increase of 19% from the comparison period. The amount of total resources increased by 15% to 35 FTE in the financial year 2017. Other administrative expenses increased by 13% to EUR 9.7 (8.6) million. Other expenses, EUR 1.5 (1.5) million, consisted of depreciation and amortisation of property, plant and equipment and intangible assets, amounting to EUR 0.6 (0.5) million, and other operating expenses. During the financial year, impairments and credit losses recognised on a collective basis amounted to EUR 1.2 (1.3) 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 62 thousand (46 thousand). The tax effect (tax income) for the review period is related to changes in deferred tax liabilities and receivables.

Balance sheet and financing (comparison figures 31 December 2016)

SB Central Bank's balance sheet continued to grow and was EUR 2,674 (2,305) million. The amount of loans granted to Savings Banks in the Amalgamation and Sp Mortgage Bank Plc increased 34% to EUR 1,372 (1,024) million. In addition to the cash and cash equivalents, EUR 1,102 (1,083) million, SB Central Bank's assets are mainly invested in ECB eligible debt instruments, EUR 26 (59) million.

Loans to credit card holders increased by 13% during the financial year to EUR 93 (82) million, representing the most significant part of loans and advances to customers. The amount of bonds issued was EUR 1,535 (1,420) million at the end of the financial year.

During the review period, the SB Central Bank issued senior unsecured bonds with a total value of EUR 165 million under the EMTN programme listed on the Irish Stock Exchange.

Liabilities to customers consisted of deposits from governments, multinational organisations and foreign funds, amounting to EUR 263 (9) million at the end of the year.

At the end of December, SB Central Bank had EUR 0.7 (0.8) million in non-performing credit card receivables, representing 0.8% (1.0%) of all credit card receivables. A total of EUR 0.4 million (0.4) in impairments were recognised on a collective basis. Irrevocable commitments made to clients, included in off-balance sheet liabilities, amounted to EUR 535 (209) million at the end of the financial year and consisted mainly of granted undrawn credits. The growth of EUR 326 million in the financial year is due to financing 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.

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 2017 was EUR 49.9 (47.8) 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). Return on equity was 4.0% (2.4%). Return on assets was 0.1 % (0.1 %).

Capital adequacy and risk position

Capital adequacy (comparative information 31 December 2016)

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 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, the 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 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, the 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 the 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 the 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

SB Central Bank's capital adequacy is strong and complies 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%. The Financial Supervisory Authority has 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 was implemented on 30 June 2017, and it must be fulfilled at the Amalgamation level.

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 47.0 (44.9) million, while the minimum requirement for own funds was EUR 11.8 (10.8) million. The Tier 1 capital consisted wholly of Common Equity Tier 1 (CET1) capital, amounting to EUR 47.0 million. The capital reserves consist mostly of common equity tier 1 capital.

SB Central Bank's capital adequacy ratio was high at 31.7 (33.2) 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 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 in 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)	2017	2016
Common Equity Tier 1 (CET1) capital before regulatory adjustments	49,901	47,820
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,896	-2,874
Common Equity Tier 1 (CET1) capital	**47,005**	**44,946**
Tier 1 capital (T1 = CET1 + AT1)	**47,005**	**44,946**
Total capital (TC = T1 + T2)	**47,005**	**44,946**
Risk weighted assets		
Credit and counterparty risk	**118,886**	**113,352**
Items in balance sheet	87,734	82,286
Off balance-sheet commitments	29,477	29,176
Derivative contracts	1,674	1,890
Credit valuation adjustment (CVA)	**4,194**	**6,452**
Market risk	**1,251**	**-**
Currency risk	1,251	-
Operational risk	**23,726**	**15,593**
Risk-weighted assets total	**148,056**	**135,397**
Minimum standard of Own funds	**11,845**	**10,832**
Amount which exceeds minimum standard of Own funds	**35,160**	**34,114**
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**31.7**	**33.2**
Tier 1 (as a percentage of total risk exposure amount)	**31.7**	**33.2**
Total capital (as a percentage of total risk exposure amount)	**31.7**	**33.2**
Capital requirement		
Total capital	47,005	44,946
Capital requirement*	15,546	14,217
Capital buffer after capital requirement	**31,459**	**30,729**

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

Leverage ratio

The leverage ratio of SB Central Bank was 1.6% (1.8%). 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)	2017	2016
Tier 1 capital	47,005	44,946
Leverage ratio exposure	2,849,598	2,474,106
Laverage ratio	**1.6**	**1.8**

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 31 December 2018. The requirement will not be directed at the member credit institutions. The MREL requirement is in nature a Pillar 2 -type minimum requirement, which must be fulfilled continuously.

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 2017, 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 2017.

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

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 2017, 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. 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 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 nearmiss 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

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.

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 that 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 ascertained 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 16 March 2017. The Board's proposal 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
Kämäri Pasi	member, Chairman, until 22 August 2017
Huupponen Juhani	member, Deputy Chairman
Bondén Hans	member, as from 16 March 2017
Finne Peter	member, until 16 March 2017
Hakala Jussi	member
Rinta Jarmo	member, until 16 March 2017
Seppälä Risto	member
Suominen Jukka	member, until 16 March 2017
Syvänen Hannu	member

The Board members hold management positions in the financial sector. During the financial year, the Board convened sixteen (16) times.

Pasi Kämäri, Chairman of the Board of Directors of SB Central Bank, resigned from his position as member and Chairman of the Board on 23 August 2017, when his term as the Managing Director of Savings Banks' Union Coop ended. After Pasi Kämäri's resignation, the Board of Directors has been chaired by Deputy Chairman Juhani Huupponen.

Kirsi Autiosalo, Managing Director of SB Central Bank, announced that she will resign from her position as the Managing Director of SB Central Bank as of 19 March 2018. The search for a new Managing Director has begun.

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 2017 was 35.

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 management of the Bank and is always implemented within the framework of the current risk management 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 16 March 2017 decided on the remuneration of the Board of Directors 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 the 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 website 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 company to the Savings Bank group. SB Central Bank purchases a variety of services related to payment 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 Samlink's wholly-owned subsidiary Paikallispankkien PP-Laskenta Oy. SB Central Bank purchases its internal audit services from the internal audit of Savings Banks' Union Coop.

Social responsibility

The social responsibility policy of the Savings Banks Group is set out in its Board of Director's Report. SB Central Bank's social responsibility refers to its responsibility for the impacts of its business activities 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

IFRS 9 came into effect 1 January 2018 fully replacing the prior IAS 39 standard. The adoption of the standard resulted in changes in accounting policies and adjustments to the amounts previously recognized in the financial statements on the opening balances for 2018. SB Central Bank did not early adopt any of IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, SB Central Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period. Due to IFRS 9, the most significant accounting policy changes relate to changes in classification and measurement as well as calculation of expected credit losses in accordance with IFRS 9. The effects of IFRS 9 are presented as part of the financial statements in Note 2.

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 2018

Outlook for the operational environment

The slight slowing down of growth seen in the second half of 2017 now appears to have been temporary, and economic development is again improving as we enter 2018. As the global economic outlook has become brighter again, the international economy will increasingly boost the Finnish economy. At the same time, the strong growth in investments will reduce capacity constraints. The general economic climate remains favourable with respect to consumer demand: consumer confidence is historically high, the employment rate is improving, interest rates are very low and purchasing power is increasing in spite of the slight acceleration of inflation. However, household debt is starting to become a factor that constrains consumption, and the growth in private consumption may slow down slightly compared to 2017. The Finnish GDP is expected to grow by 3 per cent in 2018.

Ensuring the long-term growth potential of the Finnish economy requires the continued structural reform of the labour market, social security, social services and health care, higher education, business subsidies and taxation. However, decision-making on these reforms is politically difficult and the results are slow to come. Due to the fiscal sustainability gap caused by the increasing age-related costs of care, the public-sector economy has very little latitude in spite of the favourable macroeconomic conditions. Political discussion over these themes is presumable increasing due to region election and parliamentary election held in spring 2019.

The new 2018 is getting off to a favourable start from the perspective of the investment markets. Strong economic growth supports investment returns and the outlook for businesses remains positive. The high valuation of stocks and corporate bonds is a risk factor. A substantial increase in real interest rates would likely lead to major movements in the investment markets. Changes in the central banks' monetary policy play a more significant role from the perspective of the investment markets compared to previous years. However, interest rate level is expected to stay still exceptionally low during year 2018.

Business outlook

The low level of market interests will still challenge the economic performance in 2018. However, the low interest rates will not jeopardise the performance or capital adequacy of SB Central Bank.

In 2018 the focus of SB Central Bank's business operations will be even stronger in its ability to support and ensure the implementation of Savings Banks Group's strategy.

SB Central Bank's result for 2018 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 9,685,607.60.

The SB Central Bank Board of Directors proposes to the Annual General Meeting that the profit for the financial year of EUR 1,961,894.28 is entered as accumulated retained earnings with no dividend paid.

Information

Further information Managing Director Kirsi Autiosalo

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Releases and other corporate data are available on the SB Central Bank's website at *www.spkeskuspankki.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 in the IFRS financial statements, nor have any changes occurred in the financial highlights.

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC: IFRS FINANCIAL STATEMENT 2017

Income statement

(EUR 1,000)	Note	1-12/2017	1-12/2016
Interest income		22,629	20,648
Interest expense		-15,922	-15,242
Net interest income	6	6,707	5,406
Net fee and commission income	7	10,238	8,242
Net trading income	8	-774	83
Other operating revenue	10	1,454	1,501
Total operating revenue		**17,624**	**15,233**
Personnel expenses	11	-3,328	-2,796
Other operating expenses	12	-10,623	-9,574
Depreciation and amortisation of property, plant and equipment and intangible assets	13	-579	-515
Total operating expenses		**-14,530**	**-12,885**
Net impairment loss on financial assets	17	-1,195	-1,251
Operating profit		**1,900**	**1 096**
Taxes	14	62	46
PROFIT		**1,962**	**1,142**

Statement of comprehensive income

(EUR 1,000)	1-12/2017	1-12/2016
Profit	**1,962**	**1,142**
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	119	35
Total	**119**	**35**
TOTAL COMPREHENSIVE INCOME	**2,080**	**1,177**

Statement of financial position

(EUR 1,000)	Note	31.12.2017	31.12.2016
ASSETS			
Cash and cash equivalents	16	1,102,254	1,082,955
Loans and advances to credit institutions	17	1,376,815	1,030,716
Loans and advances to customers	17	93,133	82,412
Derivatives	18	3,169	4,615
Investment assets	19	35,039	92,070
Property, plant and equipment	20	284	202
Intangible assets	21	1,561	1,590
Tax assets	22	1,335	1,284
Other assets	23	59,933	9,287
TOTAL ASSETS		**2,673,522**	**2,305,132**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	24	813,497	777,425
Liabilities to customers	24	263,255	9,281
Derivatives	18	61	-
Debt securities issued	25	1,534,862	1,420,273
Tax liabilities	22	89	70
Other liabilities	26	11,858	50,262
Total liabilities		**2,623,621**	**2,257,312**
Equity			
Share capital		40,000	40,000
Reserves		19,215	19,097
Retained earnings		-9,314	-11,276
Total equity	27	**49,901**	**47,820**
TOTAL LIABILITIES AND EQUITY		**2,673,521**	**2,305,132**

Statement of cash flows

(EUR 1,000)	1-12/2017	1-12/2016
Cash flows from operating activities		
Profit	1,962	1,142
Adjustments for items without cash flow effect	1,665	882
Change in deferred tax	-62	-46
Cash flows from operating activities before changes in assets and liabilities	**3,565**	**1,978**
Increase (-) or decrease (+) in operating assets	**-352,739**	**-200,869**
Available-for-sale financial assets	56,861	4,397
Loans and advances to credit institutions	-348,176	-204,042
Loans and advances to customers	-11,097	-470
Increase in held-to-maturity financial assets	318	-
Other assets	-50,646	-755
Increase (-) or decrease (+) in operating liabilities	**367,088**	**751,515**
Liabilities to credit institutions	36,072	85,040
Liabilities to customers	253,973	-11,012
Debt securities issued	115,447	644,427
Other liabilities	-38,404	33,060
Total cash flows from operating activities	**17,914**	**552,624**
Cash flows from investing activities		
Investments in investment property and in tangible and intangible assets	-631	-354
Total cash flows from investing activities	**-631**	**-354**
Adjustments for items without cash flow effect		
Impairment losses on financial assets	376	386
Changes in fair value	711	-81
Depreciation, amortisation and impairment of property, plant and equipment and intanqible assets	579	515
Other adjustments	-	62
Total	**1,665**	**882**
Change in cash and cash equivalents	**17,283**	**552,269**
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	**1,107,275**	**1,089,992**
Cash and cash equivalents comprise the following items:		
Cash	1,102,254	1,082,955
Receivables from central banks repayable on demand	5 022	7,037
Total cash and cash equivalents	**1,107,275**	**1,089,992**
Interest received	22,189	20,764
Interest paid	15,323	15,187

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					1,142	1,142
Other comprehensive income			35	35		35
Total comprehensive income			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					1,962	1 962
Other comprehensive income			119	119		119
Total comprehensive income			119	119	1,962	2,080
Total equity 31 December 2017	40,000	19,000	215	19,215	-9,314	49,901

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 Finland 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 abovementioned 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 Teollisuuskatu 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 2017 on 6 February 2018, and the financial statement will be presented to the Annual General Meeting of 2018 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

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 liabilities

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 recognised 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 amortised 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 widely 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 repayment 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 value changes are recognised in the balance sheet and income statement or in other comprehensive 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 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 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 losses. 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 office premise and 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 constructive 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 straightline 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. Revenue recognition

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 2017 the following new and amended standards that have come into effect:

Amendments to IAS 7 Disclosure Initiative (effective for financial years beginning on or after 1 January 2017). The changes were made to enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The standard change has an affect the notes of the SB Central Bank.

Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses (effective for financial years beginning on or after 1 January 2017). The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The changes have not had an impact on the financial statements of SB Central Bank.

Amendments to IFRS 12 (not yet endorsed for use by the European Union as of 31.12.2017), Annual Improvements to IFRSs (2014-2016 cycle) (effective for financial years beginning on or after 1 January 2017). 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 changes have not had an impact on the financial statements of SB Central Bank.

Adoption of new and amended standards and interpretations applicable 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 the date is other than the first day of the financial year, from the beginning of the subsequent financial year.

* = not yet endorsed for use by the European Union as of 31 December 2017.

IFRS 15 Revenue from Contracts with Customers, Effective date of IFRS 15 and Clarifications to IFRS 15 (effective for financial years beginning on or after 1 January 2018): The new standard replaces current IAS 18 and IAS 11 -standards and related interpretations. 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. The standard introduces also extensive new disclosure requirements.

The new standard does not affect the revenue recognition from financial instruments or insurance contracts, and it concerns mainly various net fee and commission income items. The revenue recognition from interest and dividend yield will be based in the future on the IFRS 9 -standard, and no changes are expected for the revenue recognition compared with the current treatment of the IAS 18 -standard. The revenue recognition of SB Central Bank is thus based to a significant degree on the IFRS 9 -standard (replaces as of 1 January 2018 the current IAS 39 -standard).

The net fee and commission income of SB Central Bank mainly includes fees that are recorded in a performance-based manner, when a certain service or measure has been performed. Such services include services related to payment transactions, card issuing, online payments and account operator services. With regard to these services, the fulfilment of the performance obligations of the customer agreement can be clearly verified, and no changes are expected to the entry of income compared with the current practice. The impact of the IFRS 15 -standard on the income of SB Central Bank and its financial statements are immaterial, as a whole.

IFRS 16 Leases (effective for financial years beginning on or after 1 January 2019): The new standard replaces the current IAS 17 –standard and related interpretations. IFRS 16 requires the lessees to recognise the lease agreements on the balance sheet as a right-of-use assets and lease liabilities. The accounting model is similar to current finance lease accounting according to IAS 17. There are two exceptions available, these relate to either short term contacts in which the lease term is 12 months or less, or to low value items i.e. assets of value about USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. SB Central Bank has started the preliminary assessment of the impact of the standard. SB Central Bank has no financial lease contracts. The impacts of the standard on the profit and loss, balance sheet and financial statements are considered to not be material due to the exceptions and the amount of lease contracts.

IFRIC 22 Interpretation Foreign Currency Transactions and Advance Consideration* (effective for financial years beginning on or after 1 January 2018). 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 standard change does not have a significant impact on the financial statements of SB Central Bank, as the Bank has very few items denominated in foreign currencies and/or operations.

Annual Improvements to IFRSs (2014-2016 cycle)* (effective for financial years beginning on or after 1 January 2018). 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. Their impacts vary standard by standard but are not significant.

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 standard change does not have an impact on the financial statements of SB Central Bank for the foreseeable future.

Amendments to IFRS 9: Prepayment Features with Negative Compensation* (effective for financial years beginning on or after 1 January 2019). The amendments enable entities to measure at amortised cost some prepayable financial assets with so-called negative compensation. The standard change does not have an impact on the financial statements of SB Central Bank for the foreseeable future.

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. The amendments have no significant impact on Savings Banks Groups's consolidated financial statements.

IFRS 9 Financial Instruments and improvements (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.

Implementation of the IFRS 9 standard

IFRS 9 came into effect 1 January 2018 fully replacing the prior IAS 39 standard. SB Central Bank did not early adopt any of IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, SB Central Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current period.

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

Sb Central Bank has elected to apply the IFRS 9 hedge accounting requirements to general hedge accounting.

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

As permitted by the IFRS 9 transitional provisions the effects of the transition, changes in classification and measurement as well as expected credit losses are booked directly to retained earnings therefore effecting the capital ratios and own funds of SB Central Bank. Going forward, the own funds are mainly effected by the expected credit losses booked through profit and loss. The risk-weighted assets are effected by the accounting principle changes that cause changes to carrying amounts

SB Central Bank has elected to not apply transitional arrangements for mitigating the impact of the introduction of IFRS 9 on own funds. All effect of IFRS 9 will therefore be accounted fully since the beginning of 2018.

Changes to classification and measurement

To determine their classification and measurement category, IFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of SB Central Bank's business model for managing the financial assets and these instruments' contractual cash flow characteristics.

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:

- Fair value through other comprehensive income (FVOCI)
- Amortised cost
- Fair value through profit and loss (FVTPL)

The classification of financial liabilities remains largely the same and the changes under IFRS 9 have no significant effect on SB Central Bank.

Classification and measurement of financial assets and liabilities

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

(EUR 1,000)	Measurement category IAS 39	Measurement category IFRS 9	Carrying amount IAS 39 31 December 2017	Carrying amount IFRS 9 1 January 2018
Cash and cash equivalents	Loans and receivables	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	Reclassifications	Remeasurements	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	Reclassifi-cations	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 (equity instruments)				
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**

The new classification requirements of IFRS 9 led to changes in classification of equity instruments classified as fair value through other comprehensive income:

SB Central Bank has elected to irrevocably designate its strategically important Visa Inc. equity shares as fair through other comprehensive income. The changes in fair value of these shares will no longer be reclassified to profit or loss when they are sold. In accordance with IAS 39 these securities were classified as available for sale.

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

Changes to the impairment calculation

The adoption of IFRS 9 changed the accounting for loan loss impairments by replacing the IAS 39 incurred loss approach with a forward-looking expected credit loss (ECL) approach. The expected credit loss allowance is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination.

Expected credit losses are booked for all loans and other debt financial assets held at fair value through other comprehensive income or amortised cost, together with loan commitments and financial guarantee contracts.

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

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

Reconciliation of equity balances from IAS 39 to IFRS 9

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

(EUR 1,000)	31 December 2017	Change	1 January 2018
Fair value reserve	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	
Total			-866
Tax effect		173	
Profit (loss) for previous financial years	-9,314	-692	-10,007
Total equity*	49,901	-683	49,217

* 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.

SB Central Bank estimates that the other new and amended standards and interpretations applicable in future financial years will not have a significant impact on SB Central Bank's financial reporting.

NOTE 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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.

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".

Impairment of financial assets

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 effective 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 measurement 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. SB Central Bank's risk management strategy is based on its mission and business strategy, risk management guidelines, authorizations, and the risk and deviation reporting covering the major business activities, as approved by the Board of Directors.

SB Central Bank does not have excessively large customer or investment portfolio risk concentrations 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:

- 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 SB Central Bank 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 purpose of internal control at SB Central Bank 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 internal supervision 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. Moreover, clerical employees are required to report deviations and misconduct to those higher up in the organisation.

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

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.

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 exposures). 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.

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 liquidity. 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.

During the period under review, the Finnish Financial Supervisory Authority 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.

Maturity distribution of financial assets and liabilities:

2017 (EUR 1,000)	under 3 months	3 - 12 months	1 - 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**

2016 (EUR 1,000)	under 3 months	3 - 12 months	1 - 5 years	Total
Financial assets				
Cash and cash equivalents	1,082,955			1,082,955
Loans and advances to credit institutions	181,887	279,800	569,030	1,030,716
Loans and advances to customers	82,412			82,412
Investment assets		65,901	26,169	92 070
Total	**1,347,254**	**345,701**	**595,198**	**2,288,154**
Financial liabilities				
Liabilities to credit institutions	752,425	6,000	19,000	777,425
Liabilities to customers	281	9,000		9,281
Debt securities issued	39,998	278,300	1,101,975	1,420,273
Off balance-sheet commitments	208,788			208,788
Total	**1,001,493**	**293,300**	**1,120,975**	**2,415,767**

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 exposed to interest rate and currency risk in the reporting period 2017, 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 it uses interest rate swaps to manage its interest rate risk. SB Central Bank monitors interest rate risk both with present value and income risk method.

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 interest 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 December 2017
(EUR 1,000)	Down	Up
Period		
Change, next 12 months	5,036	-1,422
Change, 12–24 months	4,766	3,071

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.

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 nearmiss situations.

During the financial year 2017, 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.

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 resulting 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 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 the 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

SB Central Bank's capital adequacy is strong and complies 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 was implemented on 30 June 2017, and it must be fulfilled at the Amalgamation level.

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 totalled EUR 47.0 (44.9) million, while the minimum requirement for own funds was EUR 11.8 (10.8) million. The Common Equity Tier 1 (CET1) stood at EUR 47.0 million. Tier 1 capital amounted to 47.0 EUR (44.9) 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 31.7 (33.2) 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 subconsolidation 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 in-cluded 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 information in 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)	2017	2016
Common Equity Tier 1 (CET1) capital before regulatory adjustments	49,901	47,820
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,896	-2,874
Common Equity Tier 1 (CET1) capital	**47,005**	**44,946**
Tier 1 capital (T1 = CET1 + AT1)	**47,005**	**44,946**
Total capital (TC = T1 + T2)	**47,005**	**44,946**
Risk weighted assets		
Credit and counterparty risk	**118,886**	**113,352**
Items in balance sheet	87,734	82,286
Off balance-sheet commitments	29,477	29,176
Derivative contracts	1,674	1,890
Credit valuation adjustment (CVA)	**4,194**	**6,452**
Market risk	**1,251**	**-**
Currency risk	**1,251**	-
Operational risk	**23,726**	**15,593**
Risk-weighted assets total	**148,056**	**135,397**
Minimum standard of Own funds	**11,845**	**10,832**
Amount which exceeds minimum standard of Own funds	**35,160**	**34,114**
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**31.7**	**33.2**
Tier 1 (as a percentage of total risk exposure amount)	**31.7**	**33.2**
Total capital (as a percentage of total risk exposure amount)	**31.7**	**33.2**
Capital requirement		
Total capital	47,005	44,946
Capital requirement*	15,546	14,217
Capital buffer after capital requirement	31,459	30,729

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

Leverage ratio

The leverage ratio of SB Central Bank was 1.6% (1.8%). 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 liabilities.

Tier 1 capital	47,005	44,946
Leverage ratio exposure	2,849,598	2,474,106
Laverage ratio	1.6	1.8

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 31 December 2018. The requirement will not be directed at the member credit institutions. The MREL requirement is in nature a Pillar 2 type minimum requirement, which must be fulfilled continuously.

PROFIT FOR THE PERIOD

NOTE 6. NET INTEREST INCOME

(EUR 1,000)	1-12/2017	1-12/2016
Interest income		
Debts eligible for funding with Central Bank	484	138
Loans and advances to credit institutions	9,627	6,948
Loans and advances to customers*	5,091	4,429
Debt securities	123	190
Derivative contracts		
Hedging	4,557	4,500
Other **)	2,747	4,443
Total	**22,629**	**20,648**
Interest expense		
Liabilities to credit institutions	-3,431	-3,119
Liabilities to customers	-289	-132
Debt securities issued	-9,349	-8,883
Derivative contracts***		
Hedging	-2,853	-3,108
Other	0	0
Total	**-15,922**	**-15,241**
Net interest income	**6,707**	**5,406**
* of which interest income from impaired loans	36	31

**) Other interest income consists of interest charges based on account agreements and limit provisions.

***) The interest expense from Liabilities to credit institutions is consists mainly of the negative interest on central bank deposits (for the year 2017 EUR 3,410 thousand, for the year 2016 EUR 2,874 thousand).

NOTE 7. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2017	1-12/2016
Fee and commission income		
Lending*	12,340	11,279
Payment transfers	4,262	3,884
Securities	1,261	-
Other	550	399
Total	**18,413**	**15,562**
Fee and commission expense		
Payment transfers	-2,838	-2,388
Securities	-451	-53
Other**	-4,887	-4,879
Total	**-8,176**	**-7,320**
Net fee and comission income	**10,238**	**8,242**

* which are mainly income from credit card issuing.

** which are mainly expenses from credit card issuing.

NOTE 8. NET TRADING INCOME

(EUR 1,000)	1-12/2017	1-12/2016
Net income from foreign exchange operation	-63	2
Net income from hedge accounting		
Change in hedging instruments' fair value	-1,507	4,980
Change in hedged items' fair value	796	-4,899
Total	**-774**	**83**

NOTE 9. INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(EUR 1,000)	1-12/2017	1-12/2016
Interest income on:		
Unimpaired held-to-maturity		
investments	257	261
Loans and receivables	17,465	15,820
Available-for-sale financial assets	350	67
Total interest income arising from financial assets not measured at fair value through profit or loss.	**18,072**	**16,148**
Financial assets at fair value through profit or loss:	4,557	4,500
Financial assets at fair value through profit or loss	4,557	4,500
Finance income	**22,629**	**20,648**
Interest expence on:		
Financial liabilities measured at amortised cost	-13,069	-12,134
Financial assets at fair value through profit or loss:	-2,853	-3,108
Financial assets at fair value through profit or loss	-2,853	-3,108
Finance expenses	**-15,922**	**-15,242**
Net financial expenses recognised in profit or loss	**6,707**	**5,406**

NOTE 10. OTHER OPERATING REVENUE

(EUR 1,000)	1-12/2017	1-12/2016
Other income from Banking*	1 454	1,501
Total	**1,454**	**1,501**

* Other operating income for the period under review amounted to EUR 1.5 million, consisting of services based on service agreements produced for the Savings Banks Group. During the comparison period, other operating income equally amounted to EUR 1.5 million, but comprised EUR 0.4 million of income from the Visa Europe transaction in addition to income from service agreements for the Group.

NOTE 11. PERSONNEL EXPENSES

(EUR 1,000)	1-12/2017	1-12/2016
Wages and salaries	-2,741	-2,293
Pension expenses	-504	-416
Defined contribution plans	-504	-416
Other personnel related costs	-83	-87
Total	**-3,328**	**-2,796**
Full-time	33.0	27.0
Part-time	1.0	-
Temporary	3.0	3.0
Total	**37.0**	**30.0**
Number of employees converted to FTEs	34.6	30.0
Average number of FTEs during the financial year	33.7	26.1

NOTE 12. OTHER OPERATING EXPENSES

(EUR 1,000)	1-12/2017	1-12/2016
Other administrative expenses		
Other personnel expenses	-178	-123
Office expenses	-5,027	-4,255
ICT expenses	-4,020	-3,629
Telecommunications	-488	-520
Representation expenses	0	0
Marketing	-18	-96
Total	**-9,730**	**-8,623**
Other operating expenses		
Rental expenses	-286	-261
Office expenses	-19	-18
Other operating expenses*	-589	-671
Total	**-893**	**-951**
Other operating expenses total	**-10,623**	**-9,574**
***Audit fees**		
Statutory audit	-19	-21
Audit related services	-	-7
Other services	-27	-55
Total	-46	-84

NOTE 13. DEPRECIATION AND AMORTISATION OF PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(EUR 1,000)	1-12/2017	1-12/2016
Depreciation and amortisation of machinery and equipment	-62	-52
Amortisation of intangible assets	-517	-463
Total depreciation and amortisation	**-579**	**-515**

NOTE 14. INCOME TAXES

(EUR 1,000)	1-12/2017	1-12/2016
Change in deferred tax assets	51	33
Change in deferred tax liabilities	11	12
Income taxes	**62**	**46**

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	1,900	1,096
Differences between accounting and taxable profit	416	440
Taxable profit	**2,316**	**1,537**
Tax using the domestic corporation tax rate	-380	-219
Non-deductible expenses	0	-44
Unrecognised deductible expenses (education deduction)	2	2
Use of approved tax losses for prior years	439	307
Tax expense	**62**	**46**
Corporate income tax rate	**20 %**	**20 %**

More information on deferred taxes is provided in Note 22.

ASSETS

NOTE 15. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

31.12.2017 (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	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
of which 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**

	Other financial liabilities	Financial assets at fair value through profit or loss	Total
Liabilities to credit institutions	813,497		813,497
Liabilities to customers	263,255		263,255
Derivatives			
hedging derivatives		61	61
of which fair value		61	61
Debt securities issued	1,534,862		1,534,862
Total liabilities	**2,611,675**	**61**	**2,611,675**

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 16. CASH AND CASH EQUIVALENTS

(EUR 1,000)	31.12.2017	31.12.2016
Receivables from central banks repayable on demand	1,102,254	1,082,955
Total	**1,102,254**	**1,082,955**

Cash and cash equivalents are specified in the cash flow statement.

NOTE 17. LOANS AND ADVANCES

(EUR 1,000)	31.12.2017	31.12.2016
Loans and advances to credit institutions		
Deposits	5,022	7,037
Loans and other receivables*	1,371,793	1,023,680
Total	**1,376,815**	**1,030,716**
Loans and receivables to customers		
Account credits in use	487	448
Loans**	93,441	82,383
Impairment losses	-795	-419
Total	**93,133**	**82,412**

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

** 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	376	376
Impairments 31 December 2017	**795**	**795**
Impaired loans and receivables 1 January 2017	**1,397**	**1,397**
Loans and receivables classified as impaired during the year	1,252	1,252
Impaired loans and receivables 31 december 2017	**2,649**	**2,649**

Impairment losses on loans and other receivables 2016	Measured by group	Total
Impairments 1 January 2016	**33**	**33**
+ increase in impairment losses	386	386
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
Impaired loans and receivables 31 december 2016	**1,397**	**1,397**

NOTE 18. 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	
31.12.2017	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**

(EUR 1,000)	Nominal value / remaining maturity		Fair value	
31.12.2016	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts				
Fair value hedging				
Interest rate derivatives	450,000	450,000	4,615	-
Total	**450,000**	**450,000**	**4,615**	**-**

NOTE 19. INVESTMENT ASSETS

(EUR 1,000)	31.12.2017	31.12.2016
Available-for-sale financial assets		
Debt securities *	7,988	65,901
Shares and participations	1,251	51
Total	**9,239**	**65,952**
Held-to-maturity assets		
Debt securities **	25,800	26,118
Total	**25,800**	**26,118**
Total investment assets	**35,039**	**92,070**

* Credit ratings for year 2017:
- Not rated: EUR 7 988 thousand
** Credit ratings for year 2017:
- BBB: EUR 8 984 thousand
- BBB+: EUR 7 041 thousand
- BB+: EUR 9 774 thousand

Available-for-sale and Held-to-maturity financial assets 2017 (EUR 1,000)			
	Available-for-sale Debt securitiest	**Held-to-maturity**	**Total**
	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	**9,239**	**25,800**	**35,039**

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

NOTE 20. PLANT AND EQUIPMENT

(EUR 1,000)	31.12.2017	31.12.2016
Machinery and equipment	266	202
Other equipment	17	-
Total plant and equipment	**248**	202

2017 (EUR 1,000)	Machinery and equipment	Other equipment	Plant and equipment total
Changes in 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
Other changes	16		16
Accumulated depreciation and impairments 31 December	**-148**	**-1**	**-149**
Carrying amount 31 December	**266**	**17**	**284**

2016 (EUR 1,000)	Machinery and equipment	Other equipment	Plant and equipment total
Changes in plant and equipment			
Acquisition cost 1 January	276		276
Increases	114		114
Decreases	-85		-85
Acquisition cost 31 December	**305**		**305**
Accumulated depreciation and impairments 1 January	-62		-62
Depreciation for the financial year	-52		-52
Accrued depreciation on divestments	11		11
Accumulated depreciation and impairments 31 December	**-103**		**-103**
Carrying amount 31 December	**202**	-	**202**

NOTE 21. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2017	31.12.2016
Intangible rights	1,060	1,474
Intangible assets under development	500	116
Total	**1,561**	**1,590**

2017 (EUR 1,000)	Intangible rights	Intangible assets under development	Intangible assets 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
Amortisations for the financial year	-517		-517
Accumulated amortisation and impairments 31 December	**-1,541**		**-1,541**
Carrying amount 31 December	**1,060**	**500**	**1,561**

2016 (EUR 1,000)	Intangible rights	Intangible assets under development	Intangible assets total
Changes in intangible assets			
Acquisition cost 1 January	2,303		2,303
Increases	196	116	312
Acquisition cost 31 December	**2,499**	**116**	**2,615**
Accumulated depreciation and impairments 1 January	-561		-561
Amortisations for the financial year	-463		-463
Accumulated amortisation and impairments 31 December	**-1,024**		**-1,024**
Carrying amount 31 December	**1,474**	**116**	**1,590**

NOTE 22. DEFERRED TAXES

(EUR 1,000)	31.12.2017	31.12.2016
Deferred tax assets	1,335	1,284
Tax assets	**1,335**	**1,284**
Deferred tax liabilities	89	70
Tax liability	**89**	**70**

(EUR 1,000)	31.12.2017	31.12.2016
Deferred tax assets		
Impairment	159	84
Financial assets	-	0
Approved tax losses	1,176	1,200
Total	**1,335**	**1,284**

(EUR 1,000)	31.12.2017	31.12.2016
Deferred tax liabilities		
Financial assets	54	25
Intangible assets	35	46
Total	**89**	**70**

(EUR 1,000)	1.1.2017	Change recognised in profit or loss	Other comprehensive income	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**

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, 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 820 thousand of deferred tax assets have not been recognized. They relate to an amount of EUR 4,101 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	Other comprehensive income	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**

(EUR 1,000)	1.1.2016	Change recognised in profit or loss	Other comprehensive income	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	Other comprehensive income	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**

NOTE 23. OTHER ASSETS

(EUR 1,000)	31.12.2017	31.12.2016
Accrued income and prepaid expenses	9,196	8,442
Interest	6,331	6,209
Other accrued income and prepaid expenses	2,865	2,233
Other	50,736	845
Total	**59,933**	**9,287**

LIABILITIES AND EQUITY

NOTE 24. LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31.12.2017	31.12.2016
Liabilities to credit institutions		
Liabilities to central banks	38,000	18,000
Liabilities to credit institutions	775,497	759,425
Total	**813,497**	**777,425**
Liabilities to customers		
Deposits	3	281
Other financial liabilities*	263,251	9,000
Total	**263,255**	**9,281**
Total liabilities to credit institutions and customers	**1,076,752**	**786,707**

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

NOTE 25. DEBT SECURITIES ISSUED

	31.12.2017		31.12.2016	
(EUR 1,000)	Nominal value	Book value	Nominal value	Book value
Measured at amortised cost				
Bonds	1,229,000	1,232,479	1,099,000	1,101,975
Other				
Certificates of deposits	302,500	302,383	318,700	318,298
Total	**1,531,500**	**1,534,862**	**1,417,700**	**1,420,273**
Of which				
Variable interest rate	**609,000**	**608,857**	**564,000**	**563,601**
Fixed interest rate	**922,500**	**926,004**	**853,700**	**856,672**
Total	**1,531,500**	**1,534,862**	**1 417,700**	**1,420,273**

During the review period, SB Central Bank issued senior unsecured bonds with a total value of EUR 165 million under the EMTN programme listed on the Irish Stock Exchange.

NOTE 26. OTHER LIABILITIES

(EUR 1,000)	31.12.2017	31.12.2016
Other Liabilities	4,195	43,538
Accrued expenses	7,663	6,724
Interest	4,813	4,214
Prepaid payments	274	242
Other accrued expenses	2,576	2,268
Total	**11,858**	**50,262**

SB Central Bank has not booked any provisions.

NOTE 27. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2017	31.12.2016
Share capital	40,000	40,000
Reserves		
Reserve for invested non-restricted equity	19,000	19,000
Fair value reserve	215	97
Retained earnings		
Profit (loss) for previous financial years	-11,276	-12,418
Profit for the period	1,962	1,142
Total capital and reserves	**49,901**	**47,820**

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)	2017	2016
Specification of changes in fair value reserve		
Fair value reserve 1 January	121	46
Profit/loss from fair value measurements, shares and participations	234	25
Profit/loss from fair value measurements, debt securities	-86	49
Deferred tax from fair value measurements	-54	-24
Fair value reserve 31 December	**215**	**97**

SB Central Bank's distributable funds amount to EUR 9,685,607.60. 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 28. COLLATERAL

(EUR 1,000)	31.12.2017	31.12.2016
Given on behalf of SB Central Bank's own liabilities and commitments		
Securities	48,395	25,924
Total collateral given	**48,395**	**25,924**
Securities	51,750	57,502
Other	5,330	7,300
Total collateral received	**57,080**	**64,802**

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

NOTE 29. OFF BALANCESHEET COMMITMENTS

(EUR 1,000)	31.12.2017	31.12.2016
Guarantees	6,000	6,000
Loan commitments	204,711	202,788
Other*	324,500	-
Off balance sheet commitments	**535,211**	**208,788**

* Other off balancesheet 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 30. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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 in balance sheet, gross	Financial instruments held as collateral in balance sheet, gross	Net amount
Liabilities						
Derivative contracts	-	-	-	3,108	5,330	-2,222
Total	**-**	**-**	**-**	**3,108**	**5,330**	**-2,222**

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.

31.12.2016				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 in balance sheet, gross	Financial instruments held as collateral in balance sheet, gross	Net amount
Liabilities						
Derivative contracts	-	-	-	4,615	7,300	-2,685
Total	**-**	**-**	**-**	**4,615**	**7,300**	**-2,685**

NOTE 31. 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 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 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 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 December 2017.

31.12.2017	Carrying amount	Fair values by valuation technique			Fair value total
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					
Held-to-maturity assets	25,800	25,800			25,800
Loans and other 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**	**93,156**	**2,622,082**

	Carrying amount	Fair values by valuation technique			Fair value total
Financial liabilities (EUR 1,000)		Level 1	Level 2	Level 3	Total
Measured at fair value					
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**

31.12.2016	Carrying amount	Fair values by valuation technique			Fair value total
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			26,118
Loans and other receivables	2,196,084	1,090,440	985,849	82,073	2,158,362
Total financial assets	**2,292,768**	**1,170,480**	**1,002,442**	**82,073**	**2,255,046**

	Carrying amount	Fair values by valuation technique			Fair value total
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	631,007	1,580,957		2,211,964
Total financial liabilities	**2,206 979**	**631,007**	**1,580,957**	**-**	**2,211,964**

Events at level 3

Reconciliation of changes in financial assets that belong to level 3

Available-for-sale financial assets (EUR 1,000)	
Carrying amount on 1 Jan 2017	**51**
Acquisitions	1,029
Changes in value recognised in the income statement, non-realised	-63
Changes in value recognised in the statement of comprehensive income	234
Carrying amount on 31 Dec 2017	**1,251**

Changes in value recognised through the income statement are recorded in net trading income.

Sensitivity analysis of financial assets that belong to level 3	Result impact for assumed changes		
31.12.2017	Carrying amount	Positive	Negative
Available-for-sale financial assetst	**1,251**	**1,438**	**1,063**

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.

NOTE 32. OPERATING LEASES

Sb Central Bank acts as a lessee of office space.

(EUR 1,000)	2017	2016
Future minimum lease payments under non-cancellable operating leases payable		
Less than one year	85	209
Between one and five years	-	82
Total	**85**	**291**

NOTE 33. 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 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)	2017	2016
Key management personnel compensation*		
Short-term employee benefits	415	585
Total	**415**	**585**

Key personnel compensation*

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	-
Bondén Hans, member of the Board, as from 16 March	5	-
Finne Peter, member of the Board, until 16 March	4	-
Hakala Jussi, member of the Board	7	-
Rinta Jarmo, member of the Board, until 16 March	4	-
Seppälä Risto, member of the Board	7	-
Suominen Jukka, member of the Board, until 16 March	4	-
Syvänen Hannu, member of the Board	8	-
Total	**415**	**66**

Key personnel compensation*

2016	Salary and remuneration	Statutory pension expenses
Lanteri Hannu, Managing Director, until 23 February	268	37
Autiosalo Kirsi, Managing Director, as from 1 May	112	21
Brander Kai, Deputy Managing Director	156	28
Kämäri Pasi, Chairman of the Board of Directors	3	-
Huupponen Juhani, Deputy Chairman of the Board of Directors	8	-
Finne Peter, member of the Board	7	-
Hakala Jussi, member of the Board, as from 17 March	6	-
Moilanen Markku, member of the Board, until 17 March	2	-
Rinta Jarmo, member of the Board	6	-
Seppälä Risto, member of the Board	5	-
Suominen Jukka, member of the Board	7	-
Syvänen Hannu, member of the Board	6	-
Total	**585**	**86**

* Key persons to whom compensation was paid.

NOTE 34. MATERIAL EVENTS AFTER THE CLOSING DATE

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 instruments when calculating own funds at the individual institution level and subconsolidation 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). 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, 00510 Helsinki, Finland.

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

Central Bank
of Savings Banks

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