CENTRAL BANK OF SAVINGS BANKS FINLAND PLC

BOARD OF DIRECTORS' REPORT AND
IFRS FINANCIAL STATEMENTS
31 DECEMBER 2016

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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 2016, the focus of SB Central Bank's funding activities was on ensuring funding for the banks in the Savings Banks Amalgamation and for Sp Mortgage Bank Plc, which commenced its operations in March. During the financial year, SB Central Bank issued senior unsecured bonds, both via public issuance and private placements with a total value of EUR 524 million under the Euro Medium Term Note (EMTN) programme listed on the Irish Stock Exchange.

In May 2016, S&P Global Ratings confirmed that the credit rating of SB Central Bank was to remain at BBB+. The short-term credit rating remained at A-2. The outlook was stable. In November 2016, S&P confirmed that the credit ratings were to remain at the same level. However, the outlook was changed from stable to positive.

With regard to its other operations, SB Central Bank continued to maintain and develop its central credit institution services in accordance with its strategy and business plan.

SB Central Bank's profit for the financial year was EUR 1.1 million, and the balance sheet total amounted to EUR 2,305 million.

The Savings Banks Group and the Savings Banks Amalgamation

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

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

The member organisations of the Savings Banks Amalgamation (hereinafter also "the Amalgamation") form a financial entity as defined in the Act on the Amalgamation of Deposit Banks, in which the Savings Banks' Union Coop and its member credit institutions ultimately are jointly liable for each other's liabilities and commitments. The Amalgamation comprises the Savings Banks' Union Coop which acts as the Central Institution of the Amalgamation, 23 Savings Banks, Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc and the companies within the consolidation groups of the above-mentioned entities, as well as Sp-Fund Management Company Ltd. The operations of the Savings Banks Amalgamation were launched on 31 December 2014. The structure of the Savings Banks Group differs from that of the Savings Banks Amalgamation in that the Savings Banks Group also includes institutions other than credit and financial institutions or service companies. The most significant of these are Sb Life Insurance Ltd and Sp-Koti Ltd.

Sp Mortgage Bank Plc, a part of the Savings Banks Amalgamation founded by the Savings Banks, received in March 2016 authorisation from the European Central Bank to operate as a mortgage credit bank, and the Bank's operations were commenced immediately. Sp Mortgage Bank Plc is responsible for the Savings Banks Group's covered bond issuance. In November 2016, Sp Mortgage Bank issued a covered bond of 500 million euros. S&P Global Ratings granted AAA rating for the covered bond. Sp Mortgage Bank belongs to the Savings Banks Amalgamation and is a member credit institution of Savings Banks' Union Coop from March 2016. Only Savings Banks belonging to the Savings Banks Amalgamation can act as intermediary banks for Sp Mortgage Bank.

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

Description of the operational environment

The global economy

During 2016, a number of politically important changes were seen. The exit of Great Britain by a referendum from EU membership was a continuation of the recurrent political crises in the union. The presidential elections in the United States were another significant change, whose effects on world trade and geopolitics will be seen in the coming years. Despite the significant changes, the investment markets continued to believe in the strong recovery of the economy, and in the second half of the year, the recovery of the global economy continued well with regard to the expectations A significant factor from the point of view of the global economy was the improvement of the situation in China as a result of recovery measures.

In Europe, the growth outlook was fragmented, and the differences between countries were significant. The slow progress of the structural changes and the difficulties within the banking sector, for their part, influenced the speed of recovery in the economy. In particular, the uncertainty of the impact of the voting result of Great Britain slowed down the investment growth, but the improvement in the employment situation and the positive development in the services sector maintained the positive figures. In the United States, the situation in the labour market has improved for a number of years, and this development also continued during 2016. The low growth in industrial investments, for its part, put pressure on the growth figures, but the oil price increase seen at the end of the year also contributed positively to expectations regarding the development of investment demand.

Investment markets

In the investment market, the year 2016 started weakly, but investment income recovered significantly towards the end of the year. The exception was government bond investments. From the point of view of the fixed income market, the most significant change was the gradual decrease in the monetary easing by the Central Banks. In the last quarter of the year, this led to an increase in long interest rates and the steepening of the interest rate curve. This had, for its part, a positive impact on the profits of the banking sector. The increase in the key reference rates will take place over a long period, and the shutdowns of recovery programmes will take years. The outlook on improvement of corporate profits supported the stock market, and the investor confidence remained strong despite the increase in interest rates. The positive development in the stock market was also reflected in the corporate debt markets. The recovery in the United States economy led to the strengthening of the dollar towards the end of the year, which had a negative impact on the performance of investments in emerging markets.

The Finnish economy

The development of economic growth in Finland has been weaker than in other parts of Europe. The export driven economy has suffered from the slow growth of the global economy and lack of investments. However, the recovery started in 2016 has provided confidence in a better future. Unemployment has decreased, and the household confidence has improved significantly. Growth in private consumption and the low interest rates support the purchasing power of households. The outlook in the industry has also recovered, but industrial production is still at a low level.

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 2016, treasury operations focused on ensuring the funding for the Amalgamation and on the short-term funding prior the inaugural covered bond issuance of Sp Mortgage Bank Plc.

Asset and liability management

The Amalgamation's asset and liability management operations were established in SB Central Bank in June 2016. During 2016, the focus areas included the organising the operations, ensuring the commencing of Sp Mortgage Bank Plc's operations together with planning and building the service concept of the asset and liability management.

Issuing of payment cards

SB Central Bank has been issuing the Savings Banks Group's Visa payment cards since December 2015. During the review period, the operations were developed according to plan. Processes and functionalities related to card credit decisions, the usability of payment cards and sales support were developed and implemented during the year.

Payments

Payment processes were developed over the year, with the most important development being the decision to support and finance the EBA Clearing instant payment project. The decision was made in the spring. The purpose of the project is to develop and build a new, Europe-wide instant payment infrastructure.

Account operator services

As part of the Savings Banks Group's strategic targets, the account operator services were transferred within the Group from Nooa Savings Bank Ltd to SB Central Bank in October 2016. SB Central Bank is centrally responsible for the management of the book-entry accounts of the customers of the Savings Banks, the clearing of securities trades, return payments and the processing of company events. Euroclear Finland Oy granted the necessary authorisations for the operations of the Central Bank on 10 October 2016.

Financial position

Financial highlights

(EUR 1,000)	12/2016	12/2015
Revenue	37,794	16,088
Net interest income	5,406	-205
% of revenue	14.3 %	-1.3 %
Operating profit	1,096	-942
% of revenue	2.9 %	-5.9 %
Total operating revenue	15,233	5,105
Total operating expenses (excluding depreciations)	-12,370	-5,616
Cost to income ratio	0.8	1.1
Total assets	2,305,132	1,547,912
Total equity	47,820	46,643
Return on equity %	2.4 %	0.7 %
Return on assets %	0.1 %	0.0 %
Equity/assets ratio %	2.1 %	3.0 %
Solvency ratio %	33.2 %	39.8 %
Impairment losses on loans and other receivables	-1,251	-61
Number of employees converted to FTEs	30	21
Average number of FTEs during the financial year	26	21

Profit trends (comparison figures 1–12/2015)

SB Central Bank's operating profit for the financial year was EUR 1.1 million or 2.9% of revenue (EUR -0.9 million and -5.9%, respectively, in the comparison period 1–12/2015). With regard to the review period and the comparison period, the results are not directly comparable, as the payment card issuing was not started until December 2015, and the financing of Sp Mortgage Bank Plc began in early 2016.

SB Central Bank's operating revenue amounted to EUR 15.2 (5.1) million. Net interest income amounted to EUR 5.4 (-0.2) million. Interest income was EUR 20.6 (8.5) million. The majority of interest income in 2016 consisted of interest income from credit institutions and credit card holders. Interest expenses amounted to EUR 15.2 (8.7) million. Interest expenses consisted mainly of liabilities to credit institutions and interest paid on debt securities issued. Interest rate risk was mitigated during the financial year through fair value hedging. This improved net interest income by EUR 1.4 (1.0) million. Net interest income was still affected by low interest rates and the negative interest rate on central bank deposits.

Net fee and commission income amounted to EUR 8.2 (2.5) million. This amount consisted of EUR 15.6 (4.7) million in revenues and EUR 7.3 (2.3) million in expenses. Fee and commission income from the payment card issuing and payment services were the most significant fee and commission income items in 2016.

Other operating income amounted to EUR 1.5 (3.0) million. In the review period, SB Central Bank received non-recurring returns from the Visa Europe transaction. In late 2015, the Board of Directors of Visa Europe agreed to sell the company to the United States Visa Inc. in accordance with the authorisation from the company's owners. The transaction was completed on 21 June 2016. Other operating income includes SB Central Bank's share (EUR 0.4 million) of the income from the Visa Europe transaction. Apart from that, other operating income consisted of services based on service agreements produced for the Savings Banks Group.

Operating expenses in the financial year amounted to EUR 12.9 (6.0) million. Personnel expenses consisted of salaries, as well as pension expenses and other personnel expenses. These expenses totaled EUR 2.8 (2.1) million. Other administration expenses amounted to EUR 8.6 (1.6) million. Other expenses, EUR 1.5 (2.2) million, consisted of depreciation and amortization of property, plant and equipment and intangible assets, amounting to EUR 0.5 (0.4) million, and other operating expenses. During the financial year, impairments and credit losses recognised on a collective basis amounted to EUR 1.3 (0.1) million. Items related to payment card issuing had a key effect on the increase in expenses, as such items were recorded only for December in 2015. In addition, investments in development and the introduction of new services had a significant effect on expenses. As a result of the effects of the changes in business operations, the cost-to-income ratio was 0.8 (1.1).

SB Central Bank's income taxes amounted to EUR 46 thousand (1.3 million). 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 2015)

SB Central Bank's balance sheet continued to grow and was EUR 2,305 (1,548) million. The amount of loans granted to Savings Banks in the Amalgamation and Sp Mortgage Bank Plc increased to EUR 1,024 (820) million. In addition to the cash liquidity reserve, EUR 1 083 (527) million, SB Central Bank's assets are mainly invested in ECB eligible debt instruments, EUR 59 (58) million.

The amount of bonds issued was EUR 1,420 (771) million at the end of the financial year. Loans to credit card holders amounted to EUR 82 (82) million at the end of the financial year, representing the most significant proportion of loans and advances to customers.

During the review period, SB Central Bank issued senior unsecured bonds with a total value of EUR 524 million under the EMTN programme listed on the Irish Stock Exchange. Of this issuance amount EUR 250 million was done with a public issuance with two year maturity in January 2016.

Liabilities to customers consisted mainly of deposits from companies, amounting to EUR 9 (20) million at year-end.

At the end of December, SB Central Bank had EUR 0.8 (0.8) million in non-performing credit card receivables, representing only 1.0% (0.9%) of all credit card receivables. A total of EUR 0.4 million (33 thousand) thousand in impairments were recognised on a collective basis. Irrevocable commitments made to clients, included in off-balance sheet liabilities, amounted to EUR 209 (174) million at the end of the financial year and consisted of granted undrawn credits.

Shareholdings and equity

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

Equity capital on 31 December 2016 was EUR 48 (47) million consisting wholly of CET1 capital. The change in equity is due to the profit for the period (profit after tax). Return on equity was 2.4% (0.7%). Return on assets was 0.1 % (0.0 %).

Capital adequacy and risk position

Capital adequacy (comparative information 31 December 2015)

SB Central Bank has adopted capital adequacy management process, the aim of which is to ensure the bank's risk-bearing capacity is sufficient in relation to all the major risks in its business operations. SB Central Bank identifies and comprehensively assesses the risks inherent in its operations and matches its risk-bearing capacity to the total sum of SB Central Bank's exposures. To ensure its capital adequacy, SB Central Bank sets risk-based capital targets and draws up a capital plan in order to reach the targets. An additional aim of the capital adequacy management process is to maintain and develop the risk management framework.

Equity 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, 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). The discretionary capital conservation buffer is 0.5%, and it must be fulfilled with CET1 capital. The discretionary capital conservation buffer will be implemented on 30 June 2017, and it must be fulfilled at the Amalgamation level.

The key risk barometers for SB Central Bank's capital planning are capital adequacy in accordance with the Act on Credit Institutions and the internal monitoring limit in the risk buffer set for the equity capital over and above the Bank's Internal Capital Adequacy Assessment Process (ICAAP).

In its capital adequacy calculation, SB Central Bank applies the standard method of credit risk calculation and the basic method in calculating operational risk. 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 44.9 (44.9) million, while the minimum requirement for own funds was EUR 10.8 (8.8) million. The Tier 1 capital consisted wholly of Common Equity Tier 1 (CET1) capital, amounting to EUR 44.9 million. The capital reserves consist mostly of Common Equity Tier 1 capital.

SB Central Bank's capital adequacy ratio was high, standing at 33.2 per cent at year-end. The high capital adequacy figure is due to the exemption granted to the Amalgamation by the Financial Supervisory Authority, according to which the risk weight applied to the Amalgamation's internal financing items in capital adequacy calculation is 0%.

SB Central Bank's capital adequacy information is included in the consolidated financial statements of the Savings Banks Amalgamation. The Financial Supervisory Authority has granted a permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual institution level and sub-consolidation group level. In addition, the Financial Supervisory Authority has granted a permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint and several liability. These permissions are based on the European Union Capital Requirements Regulation (EU 575/2013) and the Act on the Amalgamation of Deposit Banks (599/2010). The Savings Banks Group publishes the so-called Pillar III capital adequacy information 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 Linnoitustie 9, 02600 Espoo, Finland.

CAPITAL ADEQUACY

Own Funds (EUR 1,000)	2016	2015
Common Equity Tier 1 (CET1) capital before regulatory adjustments	47,820	46,643
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,874	-2,995*
Common Equity Tier 1 (CET1) capital	**44,946**	**43,649**
Tier 1 capital (T1 = CET1 + AT1)	**44,946**	**43,649**
Total capital (TC = T1 + T2)	**44,946**	**43,649**
Risk weighted assets		
Credit and counterparty risk	113,352	101,177
Items in balance sheet	82,286	73,013
Off balance-sheet commitments	29,176	27,714
Derivative contracts	1,890	450
Credit valuation adjustment (CVA)	**6,452**	**1,996**
Operational risk	**15,593**	**6,526**
Risk-weighted assets total	**135,397**	**109,699**
Minimum standard of Own funds	**10,832**	**8,776**
Amount which exceeds minimum standard of Own funds	**34,114**	**34,873**
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**33,2**	**39,8**
Tier 1 (as a percentage of total risk exposure amount)	**33,2**	**39,8**
Total capital (as a percentage of total risk exposure amount)	**33,2**	**39,8**

* Figure for the comparison period is adjusted by recognised deferred tax arising from tax losses.

Leverage ratio

The leverage ratio of SB Central Bank was 1.8% (2.6%). The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Bank's Tier 1 capital to total exposures.

(EUR 1,000)	2016	2015
Tier 1 capital	44,946	43,649
Leverage ratio exposure	2,474,106	1,661,573
Leverage ratio	**1,8**	**2,6**

Risk management

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 capitalization based on 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 activities and closely related risks. The purpose of risk management is to reduce the probability of unanticipated losses or threats to the Bank's reputation and thus ensure the implementation of 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 client and investment 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 2016, 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 lack of control and/or predictability of incoming and outgoing cash flows. An uncontrolled rise of funding costs may also be defined as liquidity risk. Liquidity risk can be more precisely 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 2016. SB Central Bank's LCR-ratio was 168.1% on the 31st of December 2016 and 99.9% respectively in the comparison period.

Market risk

Market risk refers to the impact of changes in interest rates and market prices on the bank's income statement and own funds. Of the market risks, SB Central Bank was only exposed to interest rate risk in the reporting period 2016, 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 swap fixed rate bond issuance into floating rate. SB Central Bank monitors interest rate risk both with net present value method and income risk method.

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

Business risk

Business risk describes the impact of uncertainties caused by the operating environment on Bank's business. Business risks arise from competition, changes in markets and customer behaviour, and unexpected fluctuations in profit margins. Business risks may also arise from selecting the wrong strategy, inadequate management, or slow reaction to changes in the operational environment. Business risk is managed and minimised through strategy and business plans drawn up by the SB Central Bank Board of Directors. An assessment of business risks is included in the capital management plan approved by the Board.

Internal control

The purpose of internal control at SB Central Bank is to ensure that the goals and targets set at different levels in the bank are reached, while complying with the agreed and established internal control guidelines. Internal control is conducted by SB Central Bank's governing bodies and organisation itself, and focuses on primarily at the status, quality and results of the operations. Internal control is conducted by the Board of Directors, Managing Director, the risk control function, superiors and employees. Moreover, employees are obliged to report any deviances and non-compliance to the higher organisation.

Internal audit

The Board of Directors has established an internal audit function for SB Central Bank, as well as approving an annual audit schedule and reporting principles.

The internal audit assess the extent and adequacy of the internal controls of SB Central Bank's operational organisation and monitor and evaluate of the functionality of the risk management systems. The internal audit reports its findings to the Managing Director. SB Central Bank's Board of Directors receives the summary of the conducted audits prepared by the internal audit on annual basis. SB Central Bank purchased internal audit services from PwC (PricewaterhouseCoopers Ltd).

Credit rating

On 17 November 2016, S&P Global Ratings confirmed SB Central Bank's credit ratings and upgraded the outlook from stable to positive. Its long-term credit rating is BBB+, and its short-term rating is A-2 (positive outlook). The previous credit rating assessment by S&P was made in May 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. 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 17 March 2016. 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
Huupponen Juhani	member, Deputy Chairman
Finne Peter	member
Hakala Jussi	member, as from 17 March 2016
Moilanen Markku	member, until 17 March 2016
Rinta Jarmo	member
Seppälä Risto	member
Suominen Jukka	member
Syvänen Hannu	member

The Board members hold management positions in the financial sector. During the financial year, the Board convened eighteen (18) times.

SB Central Bank carried out internal restructuring during the review period. The Board of Directors of Savings Banks' Union and the Board of Directors of the companies jointly owned by Savings Banks decided that Savings Banks' Union, which serves as the Central Institution of the Savings Banks Group, together with SB Central Bank, Sp Mortgage Bank, Sp-Fund Management Company, SB Life Insurance and Sp-Koti will constitute a competence centre, Savings Bank Centre, as of 1 May 2016. The objective continues to be the promotion of the Group's competitiveness and performance through more compact operations. The changes have no effect on the company's legal structure or contractual relationships.

In connection with the restructuring, Hannu Lanteri left his position as Managing Director on 23 February 2016, and Deputy Managing Director Kai Brander became interim Managing Director. Kirsi Autiosalo, MSc (Econ.), was appointed as the company's new Managing Director on 1 May 2016.

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 2016 was thirty (30).

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 systems" refer to the decisions, contracts, policies and procedures followed in rewarding the management and personnel. The remuneration system includes both the rewarding method and the processes related to its development and implementation. The remuneration system is developed actively and taking a long-term view in order to secure the Amalgamation's competitiveness, good economic growth, 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 17 March 2016 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 900**

*In accordance with the decision of the appointments 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 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.

The remuneration details in accordance with Pillar III are published in the Savings Banks Group financial statement. The financial statement is available online on the Savings Banks Group web-site at *www.saastopankki.fi* or from the Savings Banks Union Coop offices at Linnoitustie 9, 02600 Espoo, Finland.

Main outsourced functions

SB Central Bank's banking system is outsourced to Oy Samlink AB, in which the Savings Banks have a majority holding. 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's bookkeeping and accounts are handled by Paikallispankkien PP-Laskenta Ltd, which is wholly owned by Samlink. SB Central Bank purchased internal audit services from PwC (PricewaterhouseCoopers Ltd).

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

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

Outlook for the year 2017

Outlook for the operational environment

During 2017, the positive development in the labour market will continue, and the outlook in the industry will also improve. The structural reforms driven by the Government have progressed more slowly than expected and, as a result, the sufficiency of the measures can be called into question. The employment targets set by the Government will not be achieved. To support economic growth, additional measures to improve the functionality of the employment market should be examined to drive the structural reforms further.

The year 2017 will be coloured by political risks in Europe. At the same time, the new President of the United States will launch the changes presented in the election programme. These factors will cause uncertainty in the investment markets, but the positive development in the economy will continue next year. This will have a stabilising impact on the investment markets.

The great debt burden in the Chinese national economy and the slowdown of economic growth will be, for their part, significant risk factors in the coming years. Significant risks are still connected to the growth outlook in the emerging markets, but the recovery of the raw material prices and the economic growth experienced in the Western countries are stabilising factors. Global economic growth will recover close to the 3 per cent level during next year, and the most significant positive impact will be the development of the economy in the United States.

Business outlook

SB Central Bank will continue to develop its services during 2017 and will plan and implement other necessary projects to promote the business of the Amalgamation banks.

The result for 2017 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 7,723,713.32.

The SB Central Bank Board of Directors proposes to the Annual General Meeting that the profit for the financial year of EUR 1,142,136.50 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 (excluding depreciations)

Cost to income ratio:

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

Return on equity % :

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

Return on assets %:

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

Equity/assets ratio %:

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

Solvency ratio, %:

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

CENTRAL BANK OF SAVINGS BANKS FINLAND PLC: IFRS FINANCIAL STATEMENT 2016

Income statement

(EUR 1,000)	Note	1-12/2016	1-12/2015
Interest income		20,648	8,512
Interest expense		-15,242	-8,716
Net interest income	7	5,406	-205
Net fee and commission income	8	8,242	2,474
Net trading income	9	83	-154
Other operating revenue	11	1,501	2,990
Total operating revenue		**15,233**	**5,105**
Personnel expenses	12	-2,796	-2,144
Other operating expenses	13	-9,574	-3,472
Depreciation and amortisation of property, plant and equipment and intangible assets	14	-515	-370
Total operating expenses		-12,885	-5,986
Net impairment loss on financial assets	18	-1,251	-61
Operating profit		**1,096**	**-942**
Taxes	15	46	1,282
PROFIT		**1,142**	**339**

Statement of comprehensive income

(EUR 1,000)	1-12/2016	1-12/2015
Profit	**1,142**	**339**
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	35	-2
Total	**35**	**-2**
TOTAL COMPREHENSIVE INCOME	**1,177**	**337**

Statement of financial position

(EUR 1,000)	Note	31.12.2016	31.12.2015
ASSETS			
Cash and cash equivalents	17	1,082,955	526,993
Loans and advances to credit institutions	18	1,030,716	830,367
Loans and advances to customers	18	82,412	82,073
Derivatives	19	4,615	-
Investment assets	20	92,070	96,738
Property, plant and equipment	21	202	214
Intangible assets	22	1,590	1,742
Tax assets	23	1,284	1,253
Other assets	24	9,287	8,532
TOTAL ASSETS		**2,305,132**	**1,547,912**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	25	777,425	692,385
Liabilities to customers	25	9,281	20,293
Derivatives	19	-	366
Debt securities issued	26	1,420,273	770,947
Tax liabilities	23	70	76
Other liabilities	27	50,262	17,202
Total liabilities		**2,257,312**	**1,501,269**
Equity			
Share capital		40,000	40,000
Reserves		19,097	19,062
Retained earnings		-11,276	-12,418
Total equity	**28**	**47,820**	**46,643**
TOTAL LIABILITIES AND EQUITY		**2,305,132**	**1,547,912**

Statement of cash flows

(EUR 1,000)	1-12/2016	1-12/2015
Cash flows from operating activities		
Profit	1,142	339
Adjustments for items without cash flow effect	882	622
Change in deferred tax	-46	-1,263
Income taxes paid	-	-19
Cash flows from operating activities before changes in assets and liabilities	**1,978**	**-320**
Increase (-) or decrease (+) in operating assets	**-200,869**	**-812,177**
Available-for-sale financial assets	4,397	-15,437
Loans and advances to credit institutions	-204,042	-682,080
Loans and advances to customers	-470	-81,801
Increase in held-to-maturity financial assets	-	-26,508
Other assets	-755	-6,351
Increase (-) or decrease (+) in operating liabilities	**751,515**	**833,384**
Liabilities to credit institutions	85,040	39,290
Liabilities to customers	-11,012	19,593
Debt securities issued	644,427	758,179
Other liabilities	33,060	16,322
Total cash flows from operating activities	**552,624**	**20,886**
Cash flows from investing activities		
Investments in investment property and in tangible and intangible assets	-354	-812
Total cash flows from investing activities	**-354**	**-812**
Adjustments for items without cash flow effect		
Impairment losses on financial assets	**386**	**23**
Changes in fair value	**-81**	**154**
Depreciation, amortisation and impairment of property, plant and equipment and intanqible assets	**515**	**370**
Other adjustments	**62**	**75**
Total	**882**	**622**
Change in cash and cash equivalents	**552,269**	**20,074**
Cash and cash equivalents at the beginning of the period	**537,723**	**517,649**
Cash and cash equivalents at the end of the period	**1,089,992**	**537,723**
Cash and cash equivalents comprise the following items:		
Cash	1,082,955	526,993
Receivables from central banks repayable on demand	7,037	10,729
Total cash and cash equivalents	**1,089,992**	**537,723**
Interest received	20,764	3,394
Interest paid	15,187	4,335

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 2015	**40,000**	**19,000**	**64**	**19,064**	**-12,758**	**46,306**
Comprehensive income						
Profit					339	339
Other comprehensive income			-2	-2		-2
Total comprehensive income	**0**	**0**	**-2**	**-2**	**339**	**337**
Total equity 31 December 2015	**40,000**	**19,000**	**62**	**19,062**	**-12,418**	**46,643**
Equity 1 January 2016	**40,000**	**19,000**	**62**	**19,062**	**-12,418**	**46,643**
Comprehensive income						
Profit					1,142	1,142
Other comprehensive income			35	35		35
Total comprehensive income	**0**	**0**	**35**	**35**	**1,142**	**1,177**
Total equity 31 December 2016	**40,000**	**19,000**	**97**	**19,097**	**-11,276**	**47,820**

BASIS OF PREPARATION

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

Central Bank of Savings Banks Finland Ltd (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 principal 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 forming 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 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, as well as the companies within the consolidation groups of the above-mentioned entities.

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

Savings Banks' Union Coop steers the operations of the Group and is responsible for the internal control framework. According to the Amalgamation Act, Savings Banks' Union Coop acting as the Central Institution of the Amalgamation is obligated to prepare consolidated financial statements for the Group. SB Central Bank is also included in proportion to the Amalgamation banks' shareholdings. The Board of directors of Savings Banks' Union Coop is responsible for preparing the financial statements. The financial statements are prepared for the financial group formed by the Group, in which SB Central Bank is also included.

The head office of Central Bank of Savings Banks Finland Ltd is in Espoo, and its registered address is Hevosenkenkä 3, 02600 Espoo, Finland. A copy of SB Central Bank's financial statement is available online from *www.spkeskuspankki.fi* or from the Bank's offices at Hevosenkenkä 3, 02600 Espoo, Finland.

Similarly, copies of the Group's financial statements are available online at *www.saastopankki.fi/saastopankkiryhma* or at Savings Banks' Union Coop's offices at Linnoitustie 9, FI-02600 Espoo, Finland.

SB Central Bank's Board of Directors has approved the Bank's financial statement 2016 on 7 February 2017, and the financial statement will be presented to the Annual General Meeting of 2017 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' Union Coop 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 accounting and 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 profit and loss. 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 re-payment option, and other such factors that may impact the fair value of the financial instrument to be determined reliably.

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

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

The fair value hierarchy level to which an item measured at fair value is classified in its entirety is determined at the lowest level of input information for the whole item. The significance of the input data is evaluated in its entirety in the case of the item which is valued at fair value.

Derivatives and hedge accounting

Derivative financial instruments are valued at fair value in the financial statements, and fair 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 is 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 credit card portfolio. 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 credit card portfolio 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 the part of credit card portfolio that has 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 financial asset classified as available-for-sale is decreased, the financial asset is subjected to an impairment test. If the impairment assessment provides evidence that the financial asset is impaired, the impairment loss is recognised in the income statement under "Net investment income".

Objective evidence when evaluating impairment of an investment made in an equity instrument includes, among other things, 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. Decrease in fair value, which is solely due to the increase in risk-free market interest rates, does not indicate a need 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 premises, printers 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 computer software and software licences.

An intangible asset is recognised only when it is probable that economic benefits from the asset are likely to benefit 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 using the asset.

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

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

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

The estimated useful lives are mainly as follows:

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

Other intangible assets .... 5 years

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

6. Property, plant and equipment and investment properties

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

Property and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. The acquisition cost includes all costs that are directly attributable to the acquisition of the asset. Assets are depreciated on a straight-line basis over their estimated useful lives. Costs generated after the original acquisition are capitalised in the carrying amount only when it is probable that the asset will generate greater economic benefits than was initially estimated.

The estimated useful lives are mainly as follows:

Machinery and equipment .... 3–5 years

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

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

7. Income taxes

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

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

A deferred tax asset related to the unused, confirmed tax losses is recognised when the accrual of future taxable profit is probable and deferred tax asset can be utilised.

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 monitors Bank's operations as one 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 as part of Group's banking segment, 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 2016 the following new and amended standards that have come into effect:

Annual Improvements to IFRSs (2012-2014 cycle) (effective for financial years beginning on or after 1 January 2016): 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 cycle contains amendments to four standards. Their impacts vary standard by standard but are not significant.

Amendment to IAS 1 Presentation of Financial Statements: Disclosure Initiative (effective for financial years beginning on or after 1 January 2016). The amendments clarify the guidance in IAS 1 in relation to applying the materiality concept, disaggregating line items in the balance sheet and in the statement of profit or loss, presenting subtotals and to the structure and accounting policies in the financial statement. SB Central Bank has made only modest changes to the presentation of its financial statements.

Amendments to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Clarification of Acceptable Methods of Depreciation and Amortisation (effective for financial years beginning on or after 1 January 2016): The amendments state that revenue-based methods of depreciation cannot be used for property, plant and equipment and may only be used in limited circumstances to amortise intangible assets if revenue and the consumption of the economic benefits of the intangible assets are highly correlated. The depreciation method based on sales gains cannot be applied to tangible assets. The amendments to the standard have not had an effect on SB Central Bank's financial statements, as depreciation has not been recognised based on sales revenue.

Amendments to IAS 27 Separate Financial Statements – Equity Method in Separate Financial Statements (effective for financial years beginning on or after 1 January 2016): The amendments to IAS 27 will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. The amendments to the standard have not had an effect on SB Central Bank's financial statements, as the company has not made investments in joint ventures or associated companies.

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

The Central Bank of Savings Banks 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 2016.

IFRS 15 Revenue from Contracts with Customers

(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 have an effect on the entry of income from financial instruments, and it mainly concerns net fee and commission income. In the future, the entry of interest income and dividend yield will be based on the IFRS 9 standard, and no changes are expected for the entry of income compared with the current treatment in line with the IAS 18 standard. With regard to financial instruments, the entry of SB Central Bank's income is based on the IFRS 9 standard to a significant degree, and IFRS 9 will replace the current IAS 39 standard on 1 January 2018.

As a rule, SB Central Bank's net fee and commission income contains fees that are recognised in a performance-based manner, when a certain service or a 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 total impact of the IFRS 15 standard on the SB Central Bank's result and financial statements is estimated to be slight.

Amendments to IFRS 15 - Clarifications to IFRS 15 Revenue from Contracts with Customers*

(effective for financial years beginning on or after 1 January 2018). The amendments include clarifications and further examples on how to apply certain aspects of the five-step recognition model. The impact assessment of the clarifications has been included in the IFRS 15 impact assessment described above.

IFRS 9 Financial Instruments

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

Introduction of the IFRS 9 standard

SB Central Bank has prepared a feasibility study on the implementation of the IFRS 9 standard. On the basis of the study, it estimates that the introduction of the IFRS 9 standard will have significant effects on SB Central Bank's financial statements, internal processes and system requirements. With regard to financial statements, the most significant effect will be a change in the recognition of impairment.

A Group-level IFRS 9 project is in progress at the Savings Banks Group, to which SB Central Bank also belongs. A Group-level project ensures the uniform application of the IFRS 9 standard across the Group. A dedicated steering group guides the IFRS 9 project and reports to the Audit Committee of the Savings Banks' Union Coop on the progress of the project. The project involves employees from the financial administration, risk control, asset and liablility management and ICT. The project is at a deployment stage, and the objective is full IFRS 9 compliance on 1 January 2018, when the application of the IFRS standard will begin. The project has been scheduled so that parallel accounting would be possible in the second half of 2017.

The Savings Banks Amalgamation and SB Central Bank apply the standard approach to the calculation of credit risk capital requirements. For this reason, it is not possible to use capital adequacy models and system readiness in the implementation of IFRS 9. Instead, models need to be created specifically for the application of the IFRS 9 standard.

SB Central Bank is going to apply the exceptions provided by the transition provisions for the non-presentation of the comparison information in accordance with the IFRS 9 standard.

Classification and measurement

According to the IFRS 9 standard, financial assets are classified both on the basis of the business model used for the management of assets and on the basis of the properties related to contract-based cash flows. On the basis of the business model and cash flow properties, the financial assets are classified at fair value through profit or loss, classified at fair value through other items of comprehensive income or valued at amortised cost.

In the classification of the financial assets of SB Central Bank, no significant changes are to be expected between the valuation at fair value and valuation at amortised cost. As a rule, instruments that have been classified as loans and receivables in accordance with IAS 39 will still be valued at amortised cost when applying the IFRS 9 standard. The most significant change with regard to classification will take place between the result and other items of comprehensive income, so that more financial assets will be assessed at fair value through profit or loss than before. SB Central Bank does not have significant equity securities that would be classified at fair value when the IFRS 9 standard is applied, to be measured through other items of comprehensive income.

As a rule, the principles applied to the classification of financial liabilities are the same in the IFRS 9 standard as in IAS 39. Financial liabilities are still valued either at amortised cost or at fair value through profit or loss.

Classification and measurement are not estimated to have a significant effect on SB Central Bank's capital adequacy, as any changes in classification take place between the result and other items of comprehensive income, which are both included in SB Central Bank's Tier 1 capital and, consequently, do not have an effect on the bank's own funds.

Impairment

The treatment of impairment will change significantly with the IFRS 9 standard. In the IAS 39 standard, impairment has been recognised in line with the model of realised impairment. In the IFRS 9 standard, the recognition of impairment is based on the model of expected credit losses.

Expected credit losses will be recognised at amortised cost with regard to the valued instruments and those liability instruments that are valued at fair value through other items of comprehensive income. In addition, the scope of application includes credit commitments and guarantee contracts.

The Savings Banks Group will allocate receivables for the purpose of calculating expected credit losses according to their risk properties in six segments:

1) Retail customers (excluding housing loans)

2) Corporate customers (excluding housing loans)

3) Housing loans (including housing loans of retail customers and corporate customers)

4) Public sector (includes the whole public sector and study loans guaranteed by the state)

5) Financial institutions and non-profit institutions

6) Investment portfolio

SB Central Bank does not have housing loans on its balance sheet.

In the calculation of the expected credit losses, the Group is mainly going to use a model that is based on the exposure to probability of default (PD) and loss given default (LGD) and the amount of liabilities at the time of insolvency (exposure at default, EAD). With regard to financial assets, which are divided into sectors (public sector, financial institutions and non-profit institutions), the Group is going to use an approach based on the loss rate in the calculation of expected credit losses. With regard to SB Central Bank's credit card receivables, expected credit losses will be determined based on the roll-rate approach.

The IFRS 9 standard requires that all available financial information, including forecasts on future financial circumstances, is reasonably utilised when determining expected credit losses. For this reason, macroeconomic data is used when calculating the credit losses expected over the life cycle of the agreement. Macroeconomic data contains information about unemployment, interest and inflation rates, among other aspects.

According to the IFRS 9 standard, it must be assessed whether the credit risk related to the receivable has grown significantly since its recognition on the balance sheet. The assessment of the significant growth of the credit risk is based on the change in credit classification (both absolute and relative), payment delay information and information on loan management flexibility, among other aspects. The probability of default is determined in the calculation of expected credit losses in accordance with the credit policy. A relief concerning low credit risk will be applied to loans granted by the state.

On 10 November 2016, the European Banking Authority (EBA) published the results of an effectiveness analysis of 58 banks in the EU area (the Savings Banks Group or SB Central Bank did not participate in the survey). According to the effectiveness analysis, impairment is estimated to grow by 18–30% on average in the banks participating in the effectiveness analysis. This corresponds to the Savings Banks Group's own preliminary estimate of the total growth of impairment in the Savings Banks Group. At this stage of the implementation, it is not possible to specify the estimate at the bank level. SB Central Bank estimates that a more specific calculation on the amount of expected credit losses will be available during the third quarter of 2017.

One of the reasons why the amount of impairment will grow is that expected credit losses will be recognised in line with the IFRS 9 standard, as opposed to realised impairment in line with IAS 39. It will also be necessary to estimate impairment on all items falling within the scope of the standard, including loans granted to companies of high creditworthiness. In the IFRS 9 standard, the impairment assessment will also be expanded to cover off-balance sheet liabilities.

According to the current proposal of the EU Commission, the treatment of credit losses in the capital adequacy accounting required under IFRS 9 has no significant impact on SB Central Bank's own funds or capital adequacy.

Hedge accounting

With the IFRS 9 standard, the application of hedge accounting will be more principle based, and the opportunities to use hedged items and hedging instruments will increase. Hedge accounting and risk management strategies will be combined even more strongly than previously. With regard to general hedge accounting, the transition to the application of the IFRS 9 standard is not estimated to have an effect on the existing hedge relationships. The changes to hedge accounting are not estimated to have an effect on SB Central Bank's capital adequacy.

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 USD 5 000 or less. The lessor accounting remains mostly similar to current IAS 17 accounting. SB Central Bank has estimated that the amendment to the standard will not have a significant effect on its financial statements.

Amendments to IAS 7 Statement of Cash Flows - 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 amendment to the standard will have an effect on the presentation of notes to SB Central Bank's financial statements.

Amendments to IAS 12 Income Taxes - 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 amendment to the standard will not have an effect on SB Central Bank's financial statements, as the current treatment of income taxes corresponds to the clarifications of the standard.

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 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 amendment to the standard will not have a significant effect on SB Central Bank's financial statements, as the bank has very few asset items and/or business transactions denominated in foreign currencies.

Annual Improvements to IFRSs (2014-2016 cycle)*

(effective for financial years beginning on or after 1 January 2017 for IFRS 12 and on or after 1 January 2018 for IFRS 1 and IAS 28). 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 cycle contains amendments to three standards. Their impacts vary standard by standard but are not significant.

The Central Bank of Savings Banks estimates that the other new and amended standards and interpretations applicable in future financial years will not have a significant impact on the Central Bank of Savings Banks' 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 expenses. 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 operation. The risk-bearing capacity comprises adequate and effective risk management based on the scale and demands of the operation, as well as a sufficient degree of liquidity and capitalization based on profitable business operations.

Principles and organisation 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 reduce the probability of unanticipated losses or threats to the Banks reputation and thus ensure the implementation of 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 create the conditions for risk identification, assessment, quantification, and the limitation of risks at a safe level for SB Central Bank. The capital requirements necessitated by various risk areas and business activities are defined reliably and independently, and the capital is allocated systematically in accordance with current and planned risk-taking and in accordance with SB Central Bank's 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 business strategy, risk management guidelines, authorisations 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 client or investment 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 capitalization at a safe level.

The Board of Directors is regularly informed on the various risks affecting SB Central Bank and their levels. The Board also approves the authorisations and guidelines of risk-taking by determining risk limits for different risk types. The management is responsible for the daily risk monitoring and control within their authorisations. The systems and procedures regarding risk reporting and monitoring fulfil the criteria set for risk management, taking into account the nature and scope of SB Central Bank's operation.

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, debt 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 receivables from customers at an acceptable level. The business and risk management strategies approved by the Board of Directors set the maximum exposures for concentration risks and guidelines for 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 and several liability, no specific plan on impairments has been prepared for the loans.

The credit decisions regarding uncollateralised 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 and credit cards in the Savings Bank Group. The latter is based on credit guidelines that determine the principles of granting credit cards, 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 lack of control and/or anticipation of incoming and outgoing cash flows. An uncontrolled increase of funding cost may also be defined as liquidity risk. Liquidity risk can be more precisely 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 2016. Daily liquidity is monitored at SB Central Bank and a liquidity status report of Amalgamation member banks is also provided to the Savings Banks Union Coop risk control function. Funding risk is managed by ensuring adequate long-term financing in relation to long-term receivables. SB Central Bank's LCR-ratio was 168.1% on the 31st of December 2016 and 99.9% respectively in the comparison period.

Maturity distribution of financial assets and liabilities

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**

2015 (EUR 1,000)	under 3 months	3 - 12 months	1 - 5 years	Total
Financial assets				
Cash and cash equivalents	526,993			526,993
Loans and advances to credit institutions	149,279	150,700	530,388	830,367
Loans and advances to customers	82,073			82,073
Investment assets	20,000	40,785	35,953	96,738
Total	**778,346**	**191,485**	**566,341**	**1,536,171**
Financial liabilities				
Liabilities to credit institutions	592,385	10,000	90,000	692,385
Liabilities to customers	293	20,000		20,293
Debt securities issued	62,963	39,935	668,048	770,946
Off balance-sheet commitments	173,871			173,871
Total	**829,512**	**69,935**	**758,048**	**1,657,495**

Market risk

Market risk refers to the impact of interest rates and market prices on the bank's income statement and own funds. Of the market risks, SB Central Bank was only exposed to interest rate risk in the reporting period 2016, 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 swap fixed rate bond issuance into floating-rate. SB Central Bank monitors interest rate risk both with 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:		31.12.2016
(EUR 1,000)	Down	Up
Period		
Change, next 12 months	6	22
Change, 12–24 months	1064	1394

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

During the financial year 2016, 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 aim of which is to ensure the bank's risk-bearing capacity is sufficient in relation to all the main risks in its operation. SB Central Bank identifies and comprehensively assesses the risks inherent in its operation and matches its risk-bearing capacity to the total sum of SB Central Bank's exposures. To ensure its capital adequacy, SB Central Bank sets risk-based capital targets and draws up a capital plan in order to reach the targets. An additional aim of the capital adequacy management process is to maintain and develop the risk management framework.

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. SB Central Bank's capital adequacy management is the responsibility of the Bank's Board of Directors, which also sets the operational risk limits. The SB Central Bank Board carries out an annual review of the risks associated with the Bank's capital adequacy, capital plan and set exposure limits.

As part of its capital adequacy management process, SB Central Bank prepares forecasts on items such as profit and loss, growth and solvency. SB Central Bank uses the forecasts in mapping the necessary measures in order to secure the level of capital adequacy required by the business strategy.

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). The discretionary capital conservation buffer is 0.5%, and it must be fulfilled with CET1 capital. The discretionary capital conservation buffer will be implemented on 30 June 2017, and it must be fulfilled at the Amalgamation level.

In its capital adequacy calculation, SB Central Bank applies the standard method of credit risk calculation and the basic method in calculating operational risk. 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.

The key risk barometers for SB Central Bank's capital planning are capital adequacy in accordance with the Act on Credit Institutions and the internal monitoring limit in the risk buffer set for the equity capital over and above the Bank's Internal Capital Adequacy Assessment Process (ICAAP). Various scenario analyses are prepared as part of capital planning. The scenario analyses are used for the assessment of how various exceptionally serious but possible circumstances can impact the liquidity of SB Central Bank and the Savings Banks Group, as well as the profitability and capital adequacy of SB Central Bank. According to the analysis results, SB Central Bank's loss-absorption capacity is sufficient and its capital adequacy in the next few years would fulfil the requirements of current legislation, even during a serious recession.

SB Central Bank's own funds totalled EUR 44.9 (44.9) million, while the minimum requirement for own funds was EUR 10.8 (8.8) million. The Common Equity Tier 1 (CET1) stood at EUR 44.9 million. Tier 1 capital amounted to 44.9 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, standing at 33.2 per cent at year-end. The high capital adequacy figure is due to the exemption granted to the Amalgamation by the Financial Supervisory Authority, according to which the risk weight applied to the Amalgamation's internal financing items in capital adequacy calculation is 0%.

SB Central Bank's capital adequacy information is included in the consolidated financial statements of the Savings Banks Amalgamation. The Financial Supervisory Authority has granted a permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual institution level and sub-consolidation group level. In addition, the Financial Supervisory Authority has granted a permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint and several liability. These permissions are based on the European Union Capital Requirements Regulation (EU 575/2013) and the Act on the Amalgamation of Deposit Banks (599/2010). The Savings Banks Group publishes the so-called Pillar III capital adequacy information 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 Linnoitustie 9, 02600 Espoo, Finland.

CAPITAL ADEQUACY

Own Funds (EUR 1,000)	2016	2015
Common Equity Tier 1 (CET1) capital before regulatory adjustments	47,820	46,643
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,874	-2,995*
Common Equity Tier 1 (CET1) capital	**44,946**	**43,649**
Tier 1 capital (T1 = CET1 + AT1)	**44,946**	**43,649**
Total capital (TC = T1 + T2	**44,946**	**43,649**
Risk weighted assets		
Credit and counterparty risk	113,352	101,177
Items in balance sheet	82,286	73,013
Off balance-sheet commitments	29,176	27,714
Derivative contracts	1,890	450
Credit valuation adjustment (CVA)	**6,452**	**1,996**
Operational risk	**15,593**	**6,526**
Risk-weighted assets total	**135,397**	**109,699**
Minimum standard of Own funds	**10,832**	**8,776**
Amount which exceeds minimum standard of Own funds	**34,114**	**34,873**
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**33.2**	**39.8**
Tier 1 (as a percentage of total risk exposure amount)	**33.2**	**39.8**
Total capital (as a percentage of total risk exposure amount)	**33.2**	**39.8**

* Figure for the comparison period is adjusted by recognised deferred tax arising from tax losses

Leverage ratio

The leverage ratio of SB Central Bank was 1.8% (2.6%). The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Bank's Tier 1 capital to total liabilities.

(EUR 1,000)	2016	2015
Tier 1 capital	44,946	43,649
Leverage ratio exposure	2,474,106	1,661,573
Laverage ratio	**1.8**	**2.6**

COMPARABILITY OF THE REVIEW PERIOD AND COMPARISON PERIOD

NOTE 6. COMPARABILITY OF THE INFORMATION PRESENTED

With regard to the review period and the comparison period, the results are not directly comparable, as the payment card issuing business was not started until December 2015, and the financing of Sp Mortgage Bank Plc began in early 2016. Sp Mortgage Bank Plc was established by the member banks of the Amalgamation and is responsible for the secured loan refinancing of the Savings Banks Group in the wholesale market.

The changes in the business operations mentioned above have had an effect on the information presented in the notes to the financial statements with regard to net interest income and net fee and commission income, as well as other operating income and expenses, in the income statement. Consequently, the financing of Sp Mortgage Bank Plc has had an effect on the notes to the financial statements with regard to the classification of financial assets and liabilities, loans and receivables and bonds issued on the balance sheet.

PROFIT FOR THE PERIOD

NOTE 7. NET INTEREST INCOMEE

(EUR 1,000)	1-12/2016	1-12/2015
Interest income		
Debts eligible for refinancing with Central Bank	138	37
Loans and advances to credit institutions	6,948	3,400
Loans and advances to customers*	4,429	447
Debt securities	190	177
Derivative contracts		
Hedging	4,500	3,612
Other **)	4,443	839
Total	**20,648**	**8,512**
* of which interest income from impaired loans	31	1
Interest expense		
Liabilities to credit institutions	-3,119	-1,515
Liabilities to customers	-132	-141
Debt securities issued	-8,883	-4,405
Derivative contracts ***)		
Hedging	-3,108	-2,655
Other	0	-
Total	**-15,242**	**-8,716**
Net interest income	**5,406**	**-205**

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

***) The interest expense from Liabilities to credit institutions is largely made up of the negative interest on central bank deposits (for the year 2016 EUR 2,874 thousand, for the year 2015 EUR 1,246 thousand).

NOTE 8. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-12/2016	1-12/2015
Fee and commission income		
Lending	11,279	1,027
Payment transfers	3,884	3,559
Other	399	155
Total	**15,562**	**4,741**
Fee and commission expense		
Payment transfers	-2,388	-2,243
Securities	-53	-14
Other	-4,879	-10
Total	**-7,320**	**-2,267**
Net fee and comission income	**8,242**	**2,474**

* which are expenses related to granting loans to a significant degree.

NOTE 9. NET TRADING INCOME

(EUR 1,000)	1-12/2016	1-12/2015
Net income from foreign exchange operation	2	-
Net income from hedge accounting		
Change in hedging instruments' fair value	4,980	-366
Change in hedged items' fair value	-4,899	212
Total	**83**	**-154**

NOTE 10. INCOME AND EXPENSES FROM FINANCIAL INSTRUMENTS

(EUR 1,000)	1-12/2016	1-12/2015
Interest income on:		
Unimpaired held-to-maturity		-
investments	261	68
Loans and receivables	15,820	4,685
Available-for-sale financial assets	67	147
Total interest income arising from financial assets not measured at fair value through profit or loss	**16,148**	**4,900**
Financial assets at fair value through profit or loss:	4,500	3,612
Financial assets at fair value through profit or loss	4,500	3,612
Finance income	**20,648**	**8,512**
Interest expence on:		
Financial liabilities measured at amortised cost	-12,134	-6,062
Financial assets at fair value through profit or loss:	-3,108	-2,655
Financial assets at fair value through profit or loss	-3,108	-2,655
Finance expenses	**-15,242**	**-8,716**
Net financial expenses recognised in profit or loss	**5,406**	**-205**

NOTE 11. OTHER OPERATING REVENUE

(EUR 1,000)	1-12/2016	1-12/2015
Other income from Banking*	1,501	2,990
Total	**1,501**	**2,990**

* In the review period, SB Central Bank received non-recurring returns from the Visa Europe transaction. In late 2015, the Board of Directors of Visa Europe agreed to sell the company to the United States Visa Inc. in accordance with the authorisation from the company's owners. The transaction was completed on 21 June 2016. Other operating income includes SB Central Bank's share (EUR 0.4 million) of the income from the Visa Europe transaction. Apart from that, other operating income consisted of services based on service agreements produced for the Savings Banks Group.

NOTE 12. PERSONNEL EXPENSES

(EUR 1,000)	1-12/2016	1-12/2015
Wages and salaries	-2,293	-1,775
Pension expenses	-416	-310
Defined contribution plans	-416	-310
Other personnel related costs	-87	-59
Total	**-2,796**	**-2,144**

Full-time	27,0	21,0
temporary	3,0	1,0
Total	**30,0**	**22,0**

Number of employees converted to FTEs	30,0	21,0
Average number of FTEs during the financial year	26,1	21,1

NOTE 13. OTHER OPERATING EXPENSES

(EUR 1,000)	1-12/2016	1-12/2015
Other administrative expenses		
Other personnel expenses	-123	-106
Office expenses *	-4,255	-441
ICT expenses *	-3,629	-994
Postage expenses *	-520	-71
Representation expenses	0	-1
Marketing	-96	-26
Total	**-8,623**	**-1,640**
Other operating expenses		
Rental expenses	-261	-265
Office expenses	-18	-14
Other operating expenses**	-671	-1,552
Total	**-951**	**-1,832**
Other operating expenses total	**-9,574**	**-3,472**

* The increase in office, ICT and postage expenses costs is related to card business operations.

*** Audit fees**

Statutory audit	-21	-24
Audit related services	-7	-7
Other services	-55	-48
Total	-84	-80

NOTE 14. DEPRECIATION AND AMORTISATION OF PLANT AND EQUIPMENT AND INTANGIBLE ASSETS

(EUR 1,000)	1-12/2016	1-12/2015
Depreciation and amortisation of machinery and equipment	-52	-32
Amortisation of intangible assets	-463	-338
Total depreciation and amortisation	**-515**	**-370**

NOTE 15. INCOME TAXES

(EUR 1,000)	1-12/2016	1-12/2015
Tax for prior years	-	19
Change in deferred tax assets	33	1,251
Change in deferred tax liabilities	12	12
Income taxes	**46**	**1,282**

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	1,096	-942
Differences between accounting and taxable profit	440	53
Taxable profit	**1,537**	**-889**
Tax using the domestic corporation tax rate	-220	188
Non-deductible expenses	-44	7
Unrecognised deductible expenses (educationdeduction)	2	2
Use of approved tax losses for prior years	307	-
Deferred tax assets arising from tax losses	-	1,244
Recognition of previously unrecognised tax losses	-	-178
Tax for prior years	-	19
Tax expense	**46**	**1,282**
Corporate income tax rate	**20 %**	**20 %**

More information on deferred taxes is provided in Note 23.

ASSETS

NOTE 16. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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**

31.12.2015 (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	526,993				526,993
Loans and advances to credit institutions	830,367				830,367
Loans and advances to customers	82,073				82,073
Investment assets		70,306	26,433		96,738
Total assets	**1,439,433**	**70,306**	**26,433**	**-**	**1,536,172**

	Other financial liabilities	Financial assets at fair value through profit or loss	Total
Liabilities to credit institutions	692,385		692,385
Liabilities to customers	20,293		20,293
Derivatives			
hedging derivatives			
of which fair value		366	366
Debt securities issued	770,947		770,947
Total liabilities	**1 483,625**	**366**	**1 483,991**

NOTE 17. CASH AND CASH EQUIVALENTS

(EUR 1,000)	31.12.2016	31.12.2015
Receivables from central banks repayable on demand	1,082,955	526,993
Total	**1,082,955**	**526,993**

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

NOTE 18. LOANS AND ADVANCES

(EUR 1,000)	31.12.2016	31.12.2015
Loans and advances to credit institutions		
Deposits	7,037	10,729
Loans and other receivables*	1,023,680	819,638
Total	**1,030,716**	**830,367**
Loans and receivables to customers		
Account credits in use **	448	893
Loans***	82,383	81,213
Impairment losses	-419	-33
Total	**82,412**	**82,073**

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

** Credit rating agency's rating A or better

*** Credit card portfolio

Impairment losses on loans and other receivables 2016	Measured by individual contract	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**

Impairment losses on loans and other receivables 2015	Measured by individual contract	Measured by group	Total
Impairments 1 January 2015	**10**	**0**	**10**
+ increase in impairment losses	0	33	33
- reversal of impairment losses	-10	0	-10
Impairments 31 December 2015	**0**	**33**	**33**
Impaired loans and receivables 1 January 2015	10	0	10
Loans and receivables classified as impaired during the year	0	110	110
Reversals for impaired receivables during the year	-10	0	-10
Impaired loans and receivables 31 december 2015	**0**	**110**	**110**

NOTE 19. DERIVATIVES AND HEDGE ACCOUNTING

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

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

(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**	**-**

(EUR 1,000)	Nominal value / remaining maturity		Fair value	
31.12.2015	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts				
Fair value hedging				
Interest rate derivatives	450,000	450,000	-	366
Total	**450,000**	**450,000**	**-**	**366**

NOTE 20. INVESTMENT ASSETS

(EUR 1,000)	31.12.2016	31.12.2015
Available-for-sale financial assets		
Debt securities *	65,901	70,306
Shares and participations	51	-
Total	**65,952**	**70,306**
Held-to-maturity assets		
Debt securities	26,118	26,433
Total	**26,118**	**26,433**
Total investment assets	**92,070**	**96,738**

* Credit ratings for year 2016:
- AA+: EUR 33 300 thousand
- BBB+: EUR 16 000 thousand
- BB+: EUR 10 100 thousand
- Banks included in the Savings Banks Amalgamation EUR 20 600 thousand
- Not rated: EUR 12 100 thousand

Available-for-sale and Held-to-maturity financial assets 2016 (EUR 1,000)	Available-for-sale Debt securities	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	20,639	-	20,639
Total	**65,952**	**26,118**	**92,070**

Available-for-sale and Held-to-maturity financial assets 2015 (EUR 1,000)	Available-for-sale Debt securities	Held-to-maturity	Total
	At fair value	At amortised cost	
Quoted			
From public entities	31,168	26,433	57,601
Other			
From others	39,138	-	39,138
Total	**70,306**	**26,433**	**96,738**

NOTE 21. PLANT AND EQUIPMENT

(EUR 1,000)	31.12.2016	31.12.2015
Machinery and equipment	202	214
Total plant and equipment	**202**	**214**

2016 (EUR 1,000)	Machinery and 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**

2015 (EUR 1,000)	Machinery and equipment	Plant and equipment total
Changes in plant and equipment		
Acquisition cost 1 January	119	119
Increases	157	157
Acquisition cost 31 December	**276**	**276**
Accumulated depreciation and impairments 1 January	-30	-30
Depreciation for the financial year	-32	-32
Accumulated depreciation and impairments 31 December	**-62**	**-62**
Carrying amount 31 December	**214**	**214**

NOTE 22. INTANGIBLE ASSETS

(EUR 1,000)	31.12.2016	31.12.2015
Intangible rights	1,474	1,742
Intangible assets under development	116	-
Total	**1,590**	**1,742**

2016 (EUR 1,000)	Intangible rights	Intangible assets under development	Intangible assets total
Changes in intangible assets			
Acquisition cost 1 January	2,303	0	2,303
Increases	196	116	312
Acquisition cost 31 December	**2,499**	**116**	**2,615**
Accumulated depreciation and impairments 1 January	-561	0	-561
Amortisations for the financial year	-463	0	-463
Accumulated amortisation and impairments 31 December	-1,024	0	-1,024
Carrying amount 31 December	**1,474**	**116**	**1,590**

2015 (EUR 1,000)	Intangible rights	Intangible assets under development	Intangible assets total
Changes in intangible assets			
Acquisition cost 1 January	1,546	101	1,647
Increases	656	0	656
Transfers between items	101	-101	0
Acquisition cost 31 December	**2,303**	**0**	**2,303**
Accumulated depreciation and impairments 1 January	-223	0	-223
Amortisations for the financial year	-338	0	-338
Accumulated amortisation and impairments 31 December	-561	0	-561
Carrying amount 31 December	**1,742**	**0**	**1,742**

NOTE 23. DEFERRED TAXES

(EUR 1,000)	31.12.2016	31.12.2015
Deferred tax assets	1,284	1,253
Tax assets	**1,284**	**1,253**
Deferred tax liabilities	70	76
Tax liability	**70**	**76**

(EUR 1,000)	31.12.2016	31.12.2015
Deferred tax assets		
Impairment	84	7
Financial assets	0	2
Approved tax losses	1,200	1,244
Total	**1,284**	**1,253**

(EUR 1,000)	31.12.2016	31.12.2015
Deferred tax liabilities		
Financial assets	25	18
Intangible assets	46	58
Total	**70**	**76**

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

Tax assets arising from confirmed unused tax losses are recognised 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 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 1 259 thousand of deferred tax assets have not been recognised. They relate to an amount of EUR 6 294 thousand of losses, which can be utilized against the future taxable profit. The tax losses will expire from 2019 to 2025.

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

(EUR 1,000)	1.1.2015	Change recognised in profit or loss	Financial assets	31.12.2015
Deferred tax assets				
Impairment		7		7
Financial assets	0		2	2
Approved tax losses		1,244		1,244
Total	**0**	**1,251**	**2**	**1,253**

(EUR 1,000)	1.1.2015	Change recognised in profit or loss	Financial assets	31.12.2015
Deferred tax liabilities				
Financial assets	16		1	18
Intangible assets	62	-12		49
Other	9			9
Total	**87**	**-12**	**1**	**76**

NOTE 24. OTHER ASSETS

(EUR 1,000)	31.12.2016	31.12.2015
Accrued income and prepaid expenses	8,442	8,213
Interest	6,209	6,299
Other accrued income and prepaid expenses	2,233	1,914
Other	845	319
Total	**9,287**	**8,532**

LIABILITIES AND EQUITY

NOTE 25. LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	31.12.2016	31.12.2015
Liabilities to credit institutions		
Liabilities to central banks	18,000	90,000
Liabilities to credit institutions	759,425	602,385
Total	**777,425**	**692,385**
Liabilities to customers		
Deposits	281	293
Other financial liabilities	9,000	20,000
Total	**9,281**	**20,293**
Total liabilities to credit institutions and customers	**786,707**	**712,678**

NOTE 26. DEBT SECURITIES ISSUED

(EUR 1,000)	31.12.2016	31.12.2015
Measured at amortised cost		
Bonds	1,101,975	668,048
Other		
Certificates of deposits	318,298	102,898
Total	**1,420,273**	**770,947**
Of which		
Variable interest rate	563,601	99,956
Fixed interest rate	856,672	600,991
Total	**1,420,273**	**700,947**

During the review period, SB Central Bank issued two-year senior unsecured bonds with a total value of EUR 524 million under the EMTN programme listed on the Irish Stock Exchange, of which 250 million were through a public two-year emission.

NOTE 27. OTHER LIABILITIES

(EUR 1,000)	31.12.2016	31.12.2015
Other Liabilities	43,538	10,882
Accrued expenses	6,724	6,320
Interest	4,214	4,410
Prepaid payments	242	331
Other accrued expenses	2,268	1,579
Total	**50,262**	**17,202**

SB Central Bank has not booked any provisions.

NOTE 28. CAPITAL AND RESERVES

(EUR 1,000)	31.12.2016	31.12.2015
Share capital	40,000	40,000
Reserves		
Reserve for invested non-restricted equity	19,000	19,000
Fair value reserve	97	62
Retained earnings		
Profit (loss) for previous financial years	-12,418	-12,758
Profit (loss) for the period	1,142	339
Total capital and reserves	**47,820**	**46,643**

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)	2016	2015
Specification of changes in fair value reserve		
Fair value reserve 1 January	46	80
Profit/loss from fair value measurements, shares and participations	25	-
Profit/loss from fair value measurements, debt securities	49	-34
Deferred tax from fair value measurements	-24	15
Fair value reserve 31 December	**97**	**62**

SB Central Bank's distributable funds amount to EUR 7,723,713,32. The SB Central Bank Board of Directors proposes to the Annual General Meeting that the profit for the financial year is entered as accumulated retained earnings with no dividend paid.

OTHER NOTES

NOTE 29. COLLATERAL

(EUR 1,000)	31.12.2016	31.12.2015
Given on behalf of Sb Central Bank's own liabilities and commitments		
Securities	25,924	101,760
Total colateral given	**25,924**	**101,760**
Securities	57,502	79,509
Other	7,300	1,500
Total collateral received	**64,802**	**81,009**

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

NOTE 30. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	31.12.2016	31.12.2015
Guarantees	49	-
Loan commitments	208,739	173,871
Off balance-sheet commitments	**208,788**	**173,871**

NOTE 31. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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.

31.12.2015				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held as collateral	Net amount
Liabilities						
Derivative contracts	-	-	-	366	1,500	1,866
Total	**-**	**-**	**-**	**366**	**1,500**	**1,866**

NOTE 32. FAIR VALUES BY VALUATION TECHNIQUE

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

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

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

Fair value hierarchy

Level 1 contains financial assets whose fair value is determined by quotations obtainable from 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 2016.

31.12.2016	Carrying amount	Fair values by valuation technique			Fair value
Financial assets (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**total**
Measured at fair value					
Derivative contracts	4,615		4,615		4,615
Available-for-sale financial assets	65,952	53,922	11,979	51	65,952
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
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**

31.12.2015	Carrying amount	Fair values by valuation technique			Fair value
Financial assets (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**total**
Measured at fair value					
Available-for-sale financial assets	70,306	54,772	15,533		70,306
Measured at amortised cost					
Held-to-maturity assets	26,433	26,685			26,685
Loans and other receivables	1,439,433	538,616	816,350	81,191	1,436,157
Total financial assets	**1,536,172**	**620,074**	**831,883**	**81,191**	**1,533,148**

	Carrying amount	Fair values by valuation technique			Fair value
Financial liabilities (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**total**
Measured at fair value					
Derivative contracts	366		366		366
Measured at amortised cost					
Other financial liabilities	1,483,625	586,678	896,935		1,483,613
Total financial liabilities	**1,483,991**	**586,678**	**897,301**	**-**	**1,483,979**

Events at level 3

Reconciliation of changes in financial assets that belong to level 3

Available-for-sale financial assets	
Carrying amount on 1 Jan 2016	**0**
Acquisitions	23
Changes in value recognised in the income statement, non-realised	2
Changes in value recognised in the statement of comprehensive income	25
Carrying amount on 31 Dec 2016	**51**

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		
31.12.2016	Carrying amount	Positive	Negative
Available-for-sale financial assets	**51**	**58**	**43**

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

31.12.2015

No information to present for the comparison period.

NOTE 33. OPERATING LEASES

Sb Central Bank acts as a lessee of office space.

(EUR 1,000)	2016	2015
Future minimum lease payments under non-cancellable operating leases payable		
Less than one year	209	216
Between one and five years	82	190
Total	**291**	**406**

NOTE 34. RELATED PARTIES

The related parties of the Sb Central Bank's comprise the key management personnel as well as their close family members. The key management personnel of the Sb Central Bank comprise the members and deputy members of the Supervisory Board, the members of the Board, the Managing Director and his deputy. In connection with the internal restructuring carried out by SB Central Bank, Hannu Lanteri left his position as Managing Director on 23 February 2016, and Deputy Managing Director Kai Brander became interim Managing Director. Kirsi Autiosalo, MSc (Econ.), was appointed as the company's new Managing Director on 1 May 2016.

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)	2016	2015
Key management personnel compensation*		
Short-term employee benefits	585	455
Total	**585**	**455**

Key personnel compensation*

2016	Salary and remuneration	Statutory pension expesces
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**

2015	Salary and remuneration	Statutory pension expesces
Lanteri Hannu, Managing Director	242	41
Brander Kai, Deputy Managing Director	163	27
Kämäri Pasi, Chairman of the Board of Directors	5	-
Huupponen Juhani, Deputy Chairman of the Board of Directors	8	-
Finne Peter, member of the Board	6	-
Moilanen Markku, member of the Board	6	-
Rinta Jarmo, member of the Board	6	-
Seppälä Risto, member of the Board	6	-
Suominen Jukka, member of the Board	6	-
Syvänen Hannu, member of the Board	6	-
Total	**455**	**68**

* Key persons to whom compensation was paid.

NOTE 35. 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 sub-consolidation group level. In addition, the Financial Supervisory Authority has granted a permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint and several liability. These permissions are based on the European Union Capital Requirements Regulation (EU 575/2013) and the Act on the Amalgamation of Deposit Banks (599/2010). A copy of the financial statement of the Savings Banks Group is available online at *www.saastopankki.fi* or from the Savings Banks Union Coop offices at Linnoitustie 9, 02600 Espoo, Finland.

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

Central Bank
of Savings Banks Finland Plc

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