CENTRAL BANK OF SAVINGS BANKS FINLAND PLC

HALF-YEAR REPORT FOR
1 JANUARY – 30 JUNE 2018

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BOARD OF DIRECTORS' REPORT FOR 1 JANUARY – 30 JUNE 2018

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.

The acting Managing Director of the SB Central Bank has been Kai Brander since 20.3.2018. Kirsi Autiosalo served as Managing Director until 19.3.2018.

During the review period SB Central Bank renewed application process of payment cards and automatisation of credit card decisions. Otherwise the focus of the review period has been maintaining and developing of the functions.

SB Central Bank's operating profit for January–June amounted to EUR 1.7 million, and the balance sheet total amounted to EUR 2,511.5 million.

The Savings Banks' Group and Amalgamation of Savings Banks

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

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

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

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

Description of the operational environment

Global economic outlook

At the start of 2018, expectations regarding the development of the international economy were exceptionally high. Economic development during the first half of the year did not, however, quite live up to the expectations—especially in Europe—and global economic growth appears to be slowing down. This may be explained by normal fluctuation: economic boom periods include "minicycles" during which GDP growth picks up slows down at times. It is also possible that the macroeconomic disappointments of the first half of the year are purely due to random fluctuation and that is not a sign of a more significant change.

Nevertheless, the international operational environment has certain characteristics that indicate a slightly elevated risk of a more serious and prolonged dip in growth. For the first time since the financial crisis, growth is slowing down in circumstances where one of the world's most significant central banks is tightening its monetary policy. Interest rate hikes by the Federal Reserve and the unwinding of its balance sheet have a broad impact on the debt servicing costs of dollar-denominated loans, which may have a higher-than-expected impact on investment activity among businesses. Many leading economies are also starting to show symptoms that are typical of the peak of the economic cycle: in the United States, unemployment has fallen below four per cent and in the European industrial sector, capacity utilisation is at a high level. At the same time, threats of a trade war are beginning to turn from mere rhetoric into a spiral of concrete measures and countermeasures between the United States and its key trading partners. Tensions are further increased by political uncertainty in Italy and the UK's complicated Brexit negotiations.

In spite of the risks, it would appear that, for the time being, we are seeing a moderate slowing down of growth rather than the end of the current cycle of economic expansion. Stock markets have become more volatile, but so far there are no significant indications of prices reflecting a turn in the economic cycle. As for monetary policy, the only industrialised country where tighter measures have been implemented is the strongest economic area, i.e. the United States. The Fed expects to raise its benchmark interest rate to 2.50 per cent by the end of 2018. The European Central Bank (ECB), for its part, has announced that it will not end quantitative easing until the end of the year and it will maintain its key benchmark rates at their current levels at least until late summer 2019. The euro zone outlook is also brightened by the depreciation of the euro in the second quarter of 2018.

While the global growth outlook is declining to some extent, the global economy can be expected to continue to grow at a rate exceeding three per cent in 2018. Concerns about the economic cycle would appear to influence the outlook of the developed economies more than the developing economies. In the developing economies GDP growth has even accelerated during the first half of the year.

Interest rate environment

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

Investment markets

The first half of 2018 was characterised by uncertainty in the investment markets. Expectations of corporate profit performance declined and the increase of political risks, in particular, has been noted by the markets. The political situation in Italy has raised questions about the future of the euro zone. At the same time, tariffs and other barriers to trade announced by the United States are reducing the growth prospects of international trade.

The upcoming measures by central banks to tighten monetary policy have contributed to uncertainty in the fixed income markets. In the United States, long-term interest rates have risen substantially and the spread between U.S and euro zone government bonds has increased. Combined with the appreciation of the U.S. dollar, the rise in interest rates has led to lower returns from fixed income investments in the developing markets. The risk margins of corporate bonds increased, reducing returns in this asset class in the first half of the year.

Return expectations remain low for fixed income investments during the second half of the year. The low expected inflation in the euro zone limits the rise in interest rates, but long-term interest rates will nevertheless increase towards the end of the year. The stock market outlook is more unstable than last year, but stock market returns are expected to significantly exceed the returns of fixed income investments. The uncertainty associated with returns in the developing markets will remain high during the second half of the year.

The Finnish economy

Trends in the Finnish economy have remained positive. The Finnish GDP increased faster than anticipated during the first half of 2018. The continued strong growth, and even accelerated growth, of investments has been a particularly favourable sign. Brisk investment activity strengthens the economy's long-term production capacity and increases productivity. The rather substantial slowing down of export growth is a slight concern. The recent weakening of the global growth outlook seems to already be reflected in export figures. However, private consumption continues to show a strengthening trend. While the growth of household debt has accelerated in recent years and the household saving rate has fallen into negative territory, the significant improvement in employment and the development of wages supports household consumption prospects. The increase in employment accelerated significantly in the second half of 2017. While the rate of recruitment is now clearly levelling off, the decrease in unemployment is continuing and the unemployment rate is expected to fall below 8% in 2018.

For the past couple of years, Finland has been in a situation where the economy has been able to recover without significant internal or external restrictions. However during next years the circumstances will change and maintaining growth will become more difficult. The global economy is already showing indications of slower growth, which dampens the positive effect of the export markets. At the same time, the availability of skilled labour in the domestic labour market is starting to become an obstacle to growth. Increased household debt can also turn out to be a problem in case expectations of higher interest rates become stronger.

In spite of these limitations, GDP growth may continue at a rate exceeding the long-term trend (approx. 1.5%) even after the current year. In order for this to happen, however, it is necessary to ensure the competitiveness of the economy, strengthen the public economy and introduce labour market, social security and training reforms to make the labour reserve more accessible to the economy. The current estimate is that economic growth will be close to 3% in 2018.

Financial position

Financial highlights

(EUR 1,000)	6/2018	12/2017	6/2017
Revenue	22,214	41,722	20,186
Net interest income	4,478	6,707	3,226
% of revenue	20.2 %	16.1 %	16.0 %
Operating profit	1,703	1,900	839
% of revenue	7.7 %	4.6 %	4.2 %
Total operating revenue	10,756	17,624	8,495
Total operating expenses*	-8,823	-14,530	-7,052
Cost to income ratio	0.8	0.8	0.8
Total assets	2,511,457	2,673,522	2,513,856
Total equity	50,828	49,901	48,433
Return on equity %	2.8 %	4.0 %	1.4 %
Return on assets %	0.05 %	0.08 %	0.03 %
Equity/assets ratio %	2.0 %	1.9 %	1.9 %
Solvency ratio %	32.0 %	31.7 %	34.5 %
Impairment losses on loans and other receivables*	-229	-1,195	-605

* Actual credit losses are presented under Other operating expenses in accordance with Financial supervisory authority's Regulations and guidelines 2/2016 from 1 January 2018. Comparison periods' actual credit losses are presented under Impairment losses on loans and other receivables. Actual credit losses for the review period EUR 0.3 million and for the comparison periods EUR 0.8 million 12/2017 and EUR 0.8 million 6/2018.

Profit trends (comparison figures 1–6/2017)

SB Central Bank's operating profit for the review period 1–6/2018 increased significantly compared with comparison period and amounted to EUR 1.7 million and 7.7 % of revenue (EUR 0.8 million and 4.2 %, respectively, for the comparison period 1–6/2017).

SB Central Bank's operating revenue for the review period grew by 27 % and amounted to EUR 10.8 (8.5) million. Of the operating revenue, net interest income was EUR 4.5 (3.2) million, net fee and commission income EUR 5.3 (5.0) million, net trading income EUR 0.2 (-0.5) million and other operating income EUR 0.8 (0.8) million.

Interest income grew by 4 % to EUR 11.4 (10.9) million. The most significant items of the interest income were interest income from credit institutions and card credits of private customers. Whereas interest expenses decreased by 10 % to EUR 6.9 (7.7) million. The most significant items of the interest expenses consisted of interest expenses from debts to credit institutions and issued bonds. The fair value hedging carried out to mitigate the interest rate risk improved the net interest income by EUR 0.9 (0.8) million. Net interest income in the review and comparison period was affected by the negative interest rate on ECB deposits. Decreased funding expenses contributed the biggest impact to the increase in net interest income during the review period.

Fee and commission income increased from the comparison period with 10 % and were in the reporting period EUR 9.9 (9.0) million. Fee and commission expenses grew by 14 % to EUR 4.5 (4.0) million. The growth in fee and commission income from the payment card issuing contributed the most significant item of the 7 % increase in net fee and commission income.

Other operating income amounted to the same level, EUR 0.8 (0.8) with the comparison period, and consisted mainly of services based on service agreements produced for the Savings Banks Group.

Net profit from hedge accounting grew EUR 0.7 million and ended up to EUR 0.2 (-0.5) million during the review period and it is presented under Net trading income on the income statement.

Operating expenses increased by 25 % during the review period and were EUR 8.8 (7.1) million. Personnel expenses consisted of salaries, as well as pension expenses and other personnel expenses. These expenses totaled EUR 2.0 (1.7) million with increase of 14 % from the comparison period. Other administrative expenses increased by 17 % to EUR 5.5 (4.7) million. Depreciation and amortisation of property, plant and equipment and intangible assets, amounting remained at the same level with comparison period and were EUR 0.3 (0.3) million. During the review period EUR 0.2 million of expected credit losses (ECL) according to IFRS9 was recognised on financial assets compared to comparison period where EUR 0.2 million of credit losses was recognised on a collective basis according to IAS 39. Investments in the development of operations contributed to the growth in expenses. The cost to income ratio remained at the same level with comparison period 0.8 (0.8).

Balance sheet and financing (comparison figures 31 December 2017)

SB Central Bank's balance sheet remained near the same level with the comparison period and was EUR 2,511 million on 30 June 2018 (EUR 2,674 million on 31 December 2017).

Loans granted to Savings Banks in the Amalgamation and Sp Mortgage Bank Plc grew by 13 % totaling to EUR 1,493 (1,325) million at the end of the review period.

Loans to credit card holders amounted to EUR 97 (93) million, representing the most significant part of loans and advances to customers. In the end of review period, SB Central Bank's non-performing credit card receivables remained almost at same level and were EUR 0.9 (0.7) million, representing 0.9 % (0,8 %) of all credit card receivables.

Liabilities to customers consisted of deposits from governments, multinational organisations and foreign funds. These deposits grew by 20 % totaling to EUR 317 (263) million.

During the review period SB Central Bank issued three-year bond with variable interest rate, amounting to EUR 300 million, under the EMTN programme listed on the Irish Stock Exchange.

SB Central Bank's equity was EUR 51 (50) million showing an increase of 2 %. The change is due to the profit for the period (profit after tax) and changes relating to IFRS 9 transition made 1 January 2018, EUR 0.6 million. IFRS 9 transition impacts are described more detailed in Financial statement 2017. Return on equity was 2.8 % (1.4 %). Return on assets was 0.05 % (0.03 %).

Capital adequacy and risk position

Capital adequacy (comparative information 31 December 2017)

SB Central Bank's capital adequacy is strong and exceeds clearly regulatory minimum and buffer requirements. Own funds consists wholly of CET1 capital and totalled EUR 48 million (EUR 47 million) at the end of the review period. SB Central Bank's capital ratio was 32.0 % at the end of the review period (31.7 %).

The capital requirement of SB Central Bank was EUR 16 million (EUR 16 million) that equals to 10.5 % of risk-weighted assets. The capital buffer over the capital requirement was EUR 32 million (EUR 31 million). The components of the capital requirement have remained unchanged compared to the previous year. The capital requirement is formed by:

- Minimum capital requirements set by Capital Requirement Regulation (CRR) (capital ratio of 8%),
- 2.5% CET1 capital conservation buffer of according to the Act on Credit Institutions and
- the country-specific countercyclical CET1 capital requirements of foreign exposures.

In the beginning of the year 2018 Credit Institution Act was updated to include a new macroprudential measure, Systemic Risk Buffer (SRB). FIN-FSA may impose SRB on the basis of the structural characteristics of the financial system. FIN-FSA made decision on the level of systemic risk buffer requirements for Finnish credit institutions on 29 June 2018. The systemic risk buffer requirement for Savings Banks Amalgamation will be 1 % of risk weighted assets, and this requirement enters into effect at the Amalgamation level on 1 July 2019.

The standard method is used to calculate the capital requirement of the credit risk of the SB Central Bank. The capital requirement to the operational risk is calculated by the basic method. SB Central Bank has published the relevant information with regard to capital adequacy calculation each year as part of its Annual Report and Notes to the Financial Statement. The main capital adequacy information has been published in the Half-year report.

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).

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

CAPITAL ADEQUACY'S MAIN ITEMS

Own funds (EUR 1,000)	30.6.2018	31.12.2017
Common Equity Tier 1 (CET1) capital before regulatory adjustments	50,828	49,901
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2,820	-2,896
Common Equity Tier 1 (CET1) capital	**48,009**	**47,005**
Tier 1 capital (T1 = CET1 + AT1)	**48,009**	**47,005**
Total capital (TC = T1 + T2)	**48,009**	**47,005**
Risk weighted assets	**150,053**	**148,056**
of which: credit and counterparty risk	**122,481**	**118,886**
of which: credit valuation adjustment (CVA)	**2,352**	**4,194**
of which: market risk	**1,494**	**1,251**
of which: operational risk	**23,726**	**23,726**
Common Equity Tier 1 (as a percentage of total risk exposure amount)	**32.0**	**31.7**
Tier 1 (as a percentage of total risk exposure amount)	**32.0**	**31.7**
Total capital (as a percentage of total risk exposure amount)	**32.0**	**31.7**
Capital requirement		
Total capital	48,009	47,005
Capital requirement total*	15,756	15,546
Capital buffer	**32,253**	**31,459**

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

Leverage ratio

The leverage ratio of SB Central Bank was 1.8 (1.6) %. The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Bank's Tier 1 capital to total liability. The SB Central Bank monitors the indebtedness as part of the ICAAP process.

(EUR 1,000)	30.6.2018	31.12.2017
Tier 1 capital	48,009	47,005
Total liability	2,717,769	2,849,598
Leverage ratio	**1.8**	**1.6**

Risk management

On 24 May 2017, the Financial Stability Authority decided to impose a minimum requirement of own funds and eligible liabilities (MREL) at amalgamation level. The requirement set is twice the capital requirement (11%) of the Savings Banks Amalgamation, however, at least 8 % of the balance sheet total. The requirement set only applies at the amalgamation level and the requirement must be fulfilled starting from 31 December 2018.

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

The objectives, principles and organization of risk management in SB Central Bank are the same as those presented in the 2017 financial statements.

Credit rating

S&P Global Ratings (S&P) has given long-term counterparty credit rating 'A-' on SB Central Bank. Short-term investment grade is 'A-2'. The outlook is stable. Credit rating has not changed during the review period and is from April 2017.

Significant events after the interim report date

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

Outlook for the year

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

Further information

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

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

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

Formulas used in calculating the financial highlights:

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

Cost to income ratio:

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

Return on equity % :

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

Return on assets %:

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

Equity/assets ratio %:

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

Solvency ratio, %:

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

Alternative Performance Measures

European Securities and Markets Authority's Guidelines on Alternative Performance measures came into effect on 3 July 2017. An alternative performance measure is a financial measure of historical or future financial performance, financial position or cash flows, other than a financial measure defined or specified in the IFRS framework. Alternative Performance Measures are used to reflect financial development and enhance comparability between different reporting periods.

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

HALF-YEAR REPORT (IFRS)

Income statement

(EUR 1,000)	Note	1-6/2018	1-6/2017
Interest income		11,402	10,950
Interest expense		-6,923	-7,724
Net interest income	4	4,478	3,226
Net fee and commission income	5	5,319	4,989
Net trading income	6	162	-544
Net investment income		-2	-
Other operating revenue		798	823
Total operating revenue		**10,756**	**8,495**
Personnel expenses		-1,954	-1,711
Other operating expenses		-6,562	-5,055
Depreciation and amortisation of property, plant and equipment and intangible assets		-308	-285
Total operating expenses		-8,823	-7,052
Net impairment loss on financial assets		-229	-605
Operating profit		**1,703**	**839**
Income tax expense		-301	-168
PROFIT		**1,402**	**671**

Statement of comprehensive income

(EUR 1,000)	1-6/2018	1-6/2017
PROFIT	**1,402**	**671**
OTHER COMPREHENSIVE INCOME		
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	148	-59
Total	**148**	**-59**
TOTAL COMPREHENSIVE INCOME	**1,550**	**612**

Statement of financial position

(EUR 1,000)	Note	30.06.2018	31.12.2017
ASSETS			
Cash and cash equivalents		817,626	1,102,254
Loans and advances to credit institutions	8	1,546,330	1,376,815
Loans and advances to customers	8	98,155	93,133
Derivatives	9	3,204	3,169
Investment assets	10	34,838	35,039
Property, plant and equipment		257	284
Intangible assets		1,992	1,561
Tax assets		1,194	1,335
Other assets		7,862	59,933
TOTAL ASSETS		**2,511,457**	**2,673,522**
LIABILITIES AND EQUITY			
Liabilities			
Liabilities to credit institutions	11	795,112	813,497
Liabilities to customers	11	316,754	263,255
Derivatives	10	156	61
Debt securities issued	12	1,341,367	1,534,862
Tax liabilities		115	89
Other liabilities		7,125	11,858
Total liabilities		**2,460,629**	**2,623,621**
Equity			
Share capital		40,000	40,000
Reserves		19,372	19,215
Retained earnings		-8,543	-9,314
Total equity		**50,828**	**49,901**
TOTAL LIABILITIES AND EQUITY		**2,511,457**	**2,673,522**

Statement of cash flows

(EUR 1,000)	1-6/2018	1-6/2017
Cash flows from operating activities		
Profit	1,402	671
Adjustments for items without cash flow effect	731	1,145
Change in deferred tax	301	168
Cash flows from operating activities before changes in assets and liabilities	**2,543**	**1,984**
Increase (-) or decrease (+) in operating assets	**-121,563**	**-583,833**
Loans and advances to credit institutions	-168,000	-622,976
Loans and advances to customers	-5,793	2,484
Investment assets, at fair value through other comprehensive income	1	-
Investment assets, at amortized cost	159	-
Available-for-sale financial asset	-	54,810
Other assets	52,071	-18,151
Increase (-) or decrease (+) in operating liabilities	**-163,429**	**209 314**
Liabilities to credit institutions	-18,385	57,193
Liabilities to customers	53,500	23,336
Debt securities issued	-193,704	66,509
Other liabilities	-4,839	62,277
Total cash flows from operating activities	**-282,557**	**-372,536**
Cash flows from investing activities		
Investments in property, plant and equipment and intangible assets	-755	-619
Disposals of investment property and property, plant and equipment and intangible assets	35	-
Total cash flows from investing activities	**-721**	**-619**
Change in cash and cash equivalents	**-283,277**	**-373,154**
Cash and cash equivalents at the beginning of the period	**1,107,275**	**1,089,992**
Cash and cash equivalents at the end of the period	**823,998**	**716,838**
Cash and cash equivalents comprise the following items:		
Cash	817,626	704,748
Receivables from central banks repayable on demand	6,372	12,090
Total cash and cash equivalents	**823,997**	**716,838**
Interest received	12,036	12,871
Interest paid	6,815	10,191

Statement of changes in equity

(EUR 1,000)	Share capital	Share premium	Fair value reserve	Total reserves	Retained earnings	Total equity
Equity 1 January 2017	**40,000**	**19,000**	**97**	**19,097**	**-11,276**	**47,820**
Comprehensive income						
Profit					671	671
Other comprehensive income			-59	-59		-59
Total comprehensive income			**-59**	**-59**	**671**	**612**
Total equity 30 June 2017	**40,000**	**19,000**	**38**	**19,038**	**-10,605**	**48,433**
Equity 1 January 2017	**40,000**	**19,000**	**97**	**19,097**	**-11 276**	**47,820**
Comprehensive income						
Profit					1,962	1,962
Other comprehensive income			119	119		119
Total comprehensive income			**119**	**119**	**1,962**	**2,080**
Total equity 31 December 2017	**40,000**	**19,000**	**215**	**19,215**	**-9,314**	**49,901**
Effect of IFRS 9 transition 1 January 2018			**9**	**9**	**-631**	**-622**
Equity 1 January 2018	**40,000**	**19,000**	**224**	**19,224**	**-9,945**	**49,279**
Comprehensive income						
Profit					1,402	1,402
Other comprehensive income			148	148		148
Total comprehensive income			**148**	**148**	**1,402**	**1,550**
Total equity 30 June 2018	**40,000**	**19,000**	**372**	**19,372**	**-8,543**	**50,828**

BASIS OF PREPARATION

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

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

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

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

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NOTE 2. ACCOUNTING POLICIES

1. Overview

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

The half-year report has been prepared in accordance with the IAS 34 Interim Financial Reporting standard. Changes in accounting policies during the financial year are described below. A complete description of the accounting policy can be found in the notes to the financial statements of 2017.

Changes in the accounting policies during the reporting period:

IFRS 9 Financial instruments:

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

The IFRS 9 standard introduced a major change in the calculation of expected loan losses. SB Central Bank calculates expected Credit Loss (ECL) for low-risk loans using the Loss Rate – model (ECL = Loss Rate *EAD) and ECL for other loans is calculated using the PD / LGD – model (ECL = PD * LGD * EAD).

Components used in the PD / LGD model:

- EAD (Exposure At Default) ie the amount of liability at the time of insolvency.
- PD % (Probability of Default) is based on internal credit ratings.
- LGD % (Loss Given Default), ie the estimated amount of loss at the time of the insol-vency, taking into account the collateral available for the contract.

The Group categorise contracts in three diffrerent stages, when it calculates expected credit losses (ECL).

Stage 1: 12 months' ECL

- If credit risk has not increased significantly since initial recognition, expected credit loss is calculated based on 12 months credit loss.

Stage 2: ECL for remaining duration - non-performing (not defaulted)

- If credit risk has increased significantly since initial recognition, expected credit loss is calculated based on credit loss expected during the remaining duration.

Stage 3: ECL for remaining duration – defaulted

- If contract has defaulted, expected credit loss is calculated based on credit loss expected during the remaining duration. Stage 3 includes exposures which have one or more actual events that have negative impact on cash flows.

The expected credit losses of SB Central Bank on 1 January 2018 were EUR 1.7 million and 30 June 2018 EUR 1.8 million.

Amendments to the IFRS 9 standard for accounting policies and calculations describing the transitional changes can be found in section of Adoption of new IFRS Standards and Interpretations in the Financial Statements 2017.

IFRS 15 Revenue from Contracts with Customers:

IFRS 15 Revenue from Contracts with Customers standard came into effect 1 January 2018. Standard had no effect on SB Central Banks's income or financial statements. More precise description of SB Central Bank's revenue recognition can be found in section Accounting policies - New IFRS standards and interpretations in Financial statements 2017

Changes in presentation

Actual credit losses are presented in income statement within "Other operating expences" from 1 January 2018. Before 1 January 2018 actual credit losses were presented within "Net impairment loss on financial assets". Comparative figures are not restated to be equivalent with the new accounting policy.

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

SB Central Bank will publish one interim report during the year 2018.

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

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

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

2. Critical accounting estimates and judgements

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

The critical estimates of SB Central Bank concern the future and key uncertainties related to estimates at the reporting date, and they relate in particular to determining fair value, impairment of financial assets and recognition of deferred tax on confirmed tax losses.

There have not been any major changes regarding the uncertainty requiring management to exercise judgment and make estimates and assumptions compared to the financial statement of 2017.

NOTE 3. SEGMENT INFORMATION

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

PROFIT FOR THE PERIOD

NOTE 4. NET INTEREST INCOME

(EUR 1,000)	1-6/2018	1-6/2017
Interest income		
Debts eligible for refinancing with Central Bank	127	145
Loans and advances to credit institutions	5,379	4,154
Loans and advances to customers*	3,127	2,392
Debt securities	32	90
Derivative contracts		
Hedging derivatives	2,280	2,204
Other **)	456	1,965
Total	**11,402**	**10,950**
Interest expense		
Liabilities to credit institutions ***	-1,736	-1,622
Liabilities to customers	-37	-62
Derivative contracts		
Hedging derivatives	-1,391	-1,359
Debt securities issued	-3,757	-4,680
Other	-2	0
Total	**-6,923**	**-7,724**
Net interest income	**4,478**	**3,226**
* of which interest income from impaired loans	7	3

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

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

NOTE 5. NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-6/2018	1-6/2017
Fee and commission income		
Lending	6,601	5,986
Payment transfers	2,197	2,085
Securities	795	767
Other	262	118
Total	**9,854**	**8,956**
Fee and commission expense		
Payment transfers	-1,264	-1,237
Securities	-271	-201
Other*	-3,000	-2,530
Total	**-4,535**	**-3,967**
Net fee and commission income	**5,319**	**4,989**

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

NOTE 6. NET TRADING INCOME

(EUR 1,000)	1-6/2018	1-6/2017
Expected Credit Losses for investments at amortized cost	45	-
Net income from foreign exchange operation	-	-4
Net income from hedge accounting		
Change in hedging instruments' fair value	-60	-1,822
Change in hedged items' fair value	177	1,282
Total	**162**	**-544**

ASSETS

NOTE 7. CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

30 June 2018 (EUR 1,000)	Amortized costs	Fair value through other comprehensive income	Fair value through profit or loss	Other financial liabilities	Total
Cash and cash equivalents			817,626		817,626
Loans and advances to credit institutions	1,546,330				1,546,330
Loans and advances to customers	98,155				98,155
Derivatives					
hedging derivatives					
fair value			3,204		3,204
Investment assets	25,356	9,482			34,838
Total assets	**1,669,841**	**9,482**	**820,829**		**2,500,152**
Liabilities to credit institutions	795,112				795,112
Liabilities to customers	316,754				316,754
Derivatives					
hedging derivatives			156		156
fair value			156		156
Debt securities issued	1,341,367				1,341,367
Total liabilities	**2,453,233**		**312**		**2,453,389**

31 December 2017 (EUR 1 000)	Loans and receivables	Available-for-sale	Held-to-maturity	Fair value through profit or loss	Other financial liabilities	Total
Cash and cash equivalents	1,102,254					1,102,254
Loans and advances to credit institutions	1,376,815					1,376,815
Loans and advances to customers	93,133					93,133
Derivatives						
hedging derivatives				3,169		3,169
fair value				3,169		3,169
Investment assets		9,239	25,800			35,039
Total assets	**2,572,202**	**9,239**	**25,800**	**3,169**		**2,610,410**
Liabilities to credit institutions					813,497	813,497
Liabilities to customers					263,255	263,255
Derivatives						
hedging derivatives				61		61
fair value				61		61
Debt securities issued					1,534,862	1,534,862
Total liabilities				**61**	**2,611,613**	**2,611,736**

NOTE 8. LOANS AND ADVANCES

(EUR 1 000)	30.6.2018	31.12.2017
Loans and advances to credit institutions		
Deposits	6,374	5,022
Loans and other receivables*	1,540,180	1,371,793
Expected Credit Losses	-224	
Total	**1,546,330**	**1,376,815**
Loans and advances to customers		
Used overdrafts	807	487
Credit cards	98,566	93,441
Expected Credit Losses (Impairment losses)	-1,218	-795
Total	**98,155**	**93,133**
Loans and advances total	**1,644,485**	**1,469,948**

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

Expected Credit Losses (ECL) (EUR 1,000)	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	317	213	743	1,273
New assets originated or purchased	102	3	5	110
Assets derecognised or repaid (excluding write offs)	-68	-29	-196	-292
Transfers from Stage 1 to Stage 2		109		109
Transfers from Stage 1 to Stage 3			182	182
Transfers from Stage 2 to Stage 1	0			0
Transfers from Stage 2 to Stage 3			409	409
Transfers from Stage 3 to Stage 1	0			0
Transfers from Stage 3 to Stage 2		0		0
Amounts written off			-348	-348
Expected Credit Losses 20 June 2018	**351**	**296**	**795**	**1,442**

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

NOTE 9. DERIVATIVES AND HEDGE ACCOUNTING

SB Central Bank hedges its interest rate risk against changes in fair value and applies hedge accounting on hedging relationships. Fair value hedging is applied to fixed interest rate funding transaction and to fixed-rate borrowing.

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

(EUR 1,000)	Nominal value / remaining maturity			Fair value	
30 June 2018	less than 1 year	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts					
Fair value hedging					
Interest rate derivatives	5,000	510,000	515,000	3,204	156
Total	**5,000**	**510,000**	**515,000**	**3,204**	**156**

(EUR 1,000)	Nominal value / remaining maturity			Fair value	
31 December 2017	less than 1 year	1 - 5 years	Total	Assets	Liabilities
Hedging derivative contracts					
Fair value hedging					
Interest rate derivatives		515,000	515,000	3,169	61
Total	**-**	**515,000**	**515,000**	**3,169**	**61**

NOTE 10. INVESTMENT ASSETS

(EUR 1,000)	30.6.2018 At fair value through other comprehensive income	31.12.2017 Available-for-sale investments
Debt securities*	7,988	7,988
Shares and participations	1,494	1,251
Total	**9,482**	**9,239**

(EUR 1,000)	30.6.2018 Amortized cost investments	31.12.2017 Held-to-maturity assets
Debt securities**	25,641	25,800
Expected Credit Losses	-285	
Total	**25,356**	**25,800**
Investment assets	**34,838**	**35,039**

* Credit ratings: Not rated EUR 7 988 thousand
** Credit ratings:
- A-: EUR 7 033 thousand
- BBB: EUR 18 608 thousand

30 June 2018 (EUR 1,000)	At fair value through other comprehensive income	Amortized cost investments
Quoted		25,356
From public entities	7,988	
From others		
Other	1,494	
From others	9,482	25,356
Total	**9,482**	**9,239**

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

Expected Credit Losses (ECL)	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	330			330
Assets derecognised or repaid (excluding write offs)	-45			-45
Expected Credit Losses 20 June 2018	**285**	**-**	**-**	**285**

Impairment loss on available-for-sale financial assets (EUR 1,000)	Debt securities	Shares and participations	Total
Impairment losses 1 January 2017			-
Impairment losses 31 December 2017			-

LIABILITIES

NOTE 11. LIABILITIES TO CREDIT INSTITUTIONS AND CUSTOMERS

(EUR 1,000)	30.6.2018	31.12.2017
Liabilities to credit institutions		
Liabilities to central banks	38,000	38,000
Liabilities to credit institutions	757,112	775,497
Total	**795,112**	**813,497**
Liabilities to customers		
Deposits	3	3
Other financial liabilities*	316,752	263,251
Total	**316,754**	**263,255**
Liabilities to credit institutions and customers	**1,111,866**	**1,076,752**

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

NOTE 12. DEBT SECURITIES ISSUED

(EUR 1,000)	30.6.2018		31.12.2017	
Measured at amortised cost	**Nominal value**	**Book value**	**Nominal value**	**Book value**
Bonds	1,089,000	1,093,459	1,229,000	1,232,479
Other				
Certificates of deposits	248,000	247,907	302,500	302,383
Debt securities issued	**1,337,000**	**1,341,367**	1,531,500	1,534,862
Of which				
Variable interest rate	469,000	473,623	609,000	608,857
Fixed interest rate	868,000	867,743	922,500	926,004
Total	**1,337,000**	**1,341,366**	1,531,500	1,534,862

During the review period SB Central Bank issued three-year debenture with variable interest rate, amounting to EUR 300 million, under the EMTN programme listed on the Irish Stock Exchange.

OTHER NOTES

NOTE 13. FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

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

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

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

Fair value hierarchy

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

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

Level 3 includes financial assets whose fair value cannot be derived from public market quotations or through valuation techniques or models which are based on observable market data. Level 3 comprises unquoted equity instruments, structured investments and other securities for which there is currently no binding market quotation available. The fair value at level 3 is often based on price information received from a third party.

Transfers between the levels

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

SB Central Bank has made no transfers between the levels during reporting period January to June 2018.

30 June 2018	Carrying amount	Fair value by hierarchy level			
Financial assets (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
At fair value through profit or loss	817,626	817,626			817,626
Derivative contracts	3,204		3,204		3,204
Fair value through other comprehensive income	9,482		7,988	1,494	9,482
Measured at amortised cost	1,669,841				1,683,456
Total financial assets	**2,500,152**	**817,626**	**11,191**	**1,494**	**2,513,767**

30 June 2018	Carrying amount	Fair value by hierarchy level			
Financial liabilities (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
Derivative contracts	156		156		156
Measured at amortised cost	2,453,233				2,464,652
Total financial liabilities	**2,453,389**		**156**		**2,464,808**

Changes at level 3

Reconciliation of changes in financial assets at level 3.

Fair value through other comprehensive income	
Carrying amount 31 December 2017	**1,251**
Effect of the IFRS 9 transition to the opening balance	-
Carrying amount 1 January 2018	**1,251**
Changes in value recognised in the statement of comprehensive income	243
Carrying amount 30 June 2018	**1,494**

Sensitivity analysis of financial instruments at level 3	Carrying amount	Effect of hypothetical changes	
30. June 2018		**Positive**	**Negative**
Fair value through other comprehensive income	1,494	1,718	**1,270**
Total	**1,494**	**1,718**	**1,270**

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

31 December 2017	Carrying amount	Fair value by hierarchy level			
Financial assets (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
Derivative contracts	3,169		3,169		3,169
Available-for-sale financial assets	9,239		7,988	1,251	9,239
Measured at amortised cost					
Investments held-to-maturity	25,800	25 800			25,800
Loans and receivables	2,572,202	1 107 762	1,382,955	93,156	2,583,874
Total financial assets	**2,610,410**	**1 133 562**	**1,394,113**	**94,407**	**2,622,082**

31 December 2017	Carrying amount	Fair value by hierarchy level			
Financial liabilities (EUR 1,000)		**Level 1**	**Level 2**	**Level 3**	**Total**
Measured at fair value					
At fair value through profit or loss					
Derivative contracts	61		61		61
Measured at amortised cost					
Other financial liabilities	2,611,613	755,525	1,855,743		2,611,268
Total financial liabilities	**2,611,675**	**755,525**	**1,855,804**	**-**	**2,611,329**

NOTE 14. OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The derivative contracts of the SB Central Bank are subject to ISDA Master Agreement. Based on ISDA agreement, derivative payments may be offset by payment transaction on each payment date as well as in the event of counterparty default or bankruptcy. In addition, it is possible to agree on collateral on a counterparty-specific basis in the terms and conditions of the agreement. These derivatives are presented in the statement of financial position on a gross basis.

30 June 2018				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Cash held as collateral	Net amount
Assets						
Derivative contracts				3,204	2,630	574
Total				**3,204**	**2,630**	**574**
Liabilities						
Derivative contracts				-156	-	-156
Total				**-156**	**-**	**-156**

31 December 2017				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements		
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Cash held as collateral	Net amount
Assets						
Derivative contracts				3 169	5 330	-2 161
Total				**3 169**	**5 330**	**-2 161**
Liabilities						
Derivative contracts				-61	-	-61
Total				**-61**	**-**	**-61**

NOTE 15. COLLATERAL GIVEN AND RECEIVED

(EUR 1,000)	30.6.2018	31.12.2017
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Securities	47,765	48,395
Collateral given	**47,765**	**48,395**
Collateral received		
Securities	51,087	51,750
Other	2,630	5,330
Collateral received	**53,717**	**57,080**

Collateral given and held are related to participating in ECB funding operations and margin depos-its related to derivatives.

NOTE 16. OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	30.6.2018	31.12.2017
Guarantees	10,000	6,000
Commitments related to short-term trade transactions	210,067	**204,711**
Other*	384,000	**324,500**
Off balance-sheet commitments	**604,067**	**535,211**

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

Expected Credit Losses (ECL) from loan commitments and agreements with member credit institutions mentioned above.	Stage 1	Stage 2	Stage 3	Total
(EUR 1,000)	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	47	1	0	48
New assets originated or purchased	58	0	0	58
Expected Credit Losses 20 June 2018	**105**	**1**	**0**	**106**

NOTE 17. RELATED PARTIES

Related party refers to SB Central Bank's key management personnel and their close family members. In addition, related parties comprise entities, which the key management personnel and/or their close family members control. SB Central Bank's related parties include the members of the Board of Directors, Managing Director and Deputy Managing Director.

No significant changes have taken place in key personnel compensation during the review period.

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

PILLAR III DISCLOSURES

SB Central Bank is part of the Savings Banks Amalgamation and the Savings Banks Group. SB Central Bank's capital adequacy information is included in the information concerning the capital adequacy of the Savings Banks Amalgamation, presented in the consolidated financial statements of the Savings Banks Group. The Financial Supervisory Authority has granted a permission not to deduct internal holdings of credit institutions included in the Amalgamation from own funds instruments when calculating own funds at the individual institution level and sub-consolidation group level. In addition, the Financial Supervisory Authority has granted a permission to apply a 0 per cent risk weight to internal credit institution liabilities included within the scope of the Amalgamation's joint and several liability. These permissions are based on the European Union Capital Requirements Regulation (EU 575/2013) and the Act on the Amalgamation of Deposit Banks (599/2010). A copy of the financial statement of the Savings Banks Group is available online at www.saastopankki.fi or from the Savings Banks' Union Coop offices at Teollisuuskatu 33, FI-00510 Helsinki, Finland.

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

Central Bank
of Savings Banks Finland Plc

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