SAVINGS BANKS GROUP'S

Half-year Report 1 January-30 June 2018

SAVINGS BANKS GROUP'S HALF-YEAR REPORT 1 JANUARY – 30 JUNE 2018

Table of contents

REPORT OF THE SAVINGS BANK GROUP 1 JANUARY–30 JUNE 2018

Review by the Managing Director of the Savings Banks' Union Coop:

The Savings Banks Group's (hereinafter also "the Group") strategic goal is to offer the best combination of digital and personal finance and asset management services on the market. A key operational performance indicator for the Group is customer satisfaction, and related measurements show that the Group is clearly one of the market leaders.

In banking, routine matters are quickly moving into a digital environment. During the first months of the year, the Savings Banks Group launched many significant new digital services and continues to develop its digital services further. When it comes to more complex financial advisory and coaching services, customers prefer personal face-to-face service. The Savings Banks Group is the best expert in personal services and continues to invest significantly in developing its expertise and making its services more accessible. When providing advisory services, the Savings Banks Group always acts fairly and is on the customer's side.

During the first half of the year, the Savings Banks Group grew in line with its goals. The primary focus of the Savings Banks Group's operations has constantly been the comprehensive development of the customer experience, referred to as the Savings Bank Experience.

To complement its ranges of products and services according to customer needs and to make the best use of its efficient production and distribution network, the Savings Banks Group announced several strategic partnerships during the first half of the year. In the future, too, the Savings Banks Group will compile product and service packages that are optimally suited to the customer, some of which the Group will provide itself and some in seamless cooperation with its partners.

The Savings Banks Group's revenue amounted to EUR 124.9 million (EUR 136.3 million). The Group's business environment was challenging in many regards. Due to the change in the accounting standards, the Group reduced risk-taking in its investment activities, which led to lower investment income. Even though interest rates were still extremely low, the Group's net interest income improved by 8.1 %, to EUR 74.7 million, boosted by both higher lending volumes and lower refinancing costs. Net fee and commission income grew by 6.2 % to EUR 41.5 million, with greatest growth in asset management fees and commissions. Asset management services are one of the most important strategic focus areas for the Group.

The Savings Banks Group invests significantly in developing its services. As a result, the Group's expenses increased by 15.3 to EUR 102.3. As the Savings Banks Group intends to make significant investments in developing its customer business operations in the future, too, the balancing of income and expenses will continue to be a key issue in the Group's strategic planning.

In June 2018, the Board of Supervisors of the Savings Banks' Union Coop approved a new business strategy for the Group, with the entire Group committed to it. In many of its aspects, the new strategy is built on the traditional strengths of the savings banks that especially highlight being customer-driven, operating locally and ethically and promoting thrift.

Savings Banks Group and the Savings Banks Amalgamation

The Savings Banks Group is the most long-standing 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, Sp Mortgage Bank Plc, the Central Bank of Savings Banks Finland Plc and the companies within the consolidation groups of the above-mentioned entities as well as Sp-Fund Management Company Ltd and Savings Bank Services Ltd. The coverage 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 notable of these are Sb Life Insurance Ltd and Sp-Koti Oy.

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

Description of the operational environment

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 "mini-cycles" 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 expextations 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.

The housing market in Finland

The factors that influence housing transactions (employment rate, interest rates and consumer confidence) remain optimal for the housing market. In spite of the favourable conditions, the transaction volume for old dwellings is down by approximately 3% compared to the corresponding period last year. The transaction volume for second-hand housing was previously predicted to increase by 3–5% this year, but the current estimates suggest that this is now unlikely. The tightening of loan cap regulations is one of the factors behind this development.

The demand for residential investments has remained strong despite certain cities having an excess supply of rental apartments. The excess supply is partly due to the high level of investment activity among housing funds.

The prices of old dwellings have increased in the Helsinki Metropolitan Area, while prices have decreased elsewhere in Finland. The price differential between the Helsinki Metropolitan Area and the rest of the country increased by approximately 5% during the first half of the year. The polarisation of the housing market is reflected in significant differences in prices between different cities. The prices of old dwellings are predicted to increase by approximately 1–2% in 2018 in Finland as a whole.

The Savings Banks Group's profit and balance sheet

Savings Banks Group's financial highlights (EUR 1,000)	1-6/2018	1-12/2017	1-6/2017
Revenue	146,750	331,366	162,613
Net interest income	74,714	142,176	69,116
% of revenue	50.9 %	42.9 %	42.5 %
Profit before taxes	29,106	88,210	40,488
% of revenue	19,8 %	26,6 %	24,9 %
Total operating revenue	124,945	282,191	136,229
Total operating expenses *	-102,325	-182,693	-89,563
Cost to income ratio %	81.9 %	64.7 %	65.7 %
Total assets	11,405,191	11,326,105	10,488,692
Total equity	1,031,548	1,017,520	988,673
Return on equity %	2.4 %	7.3 %	3.4 %
Return on assets %	0.2 %	0.7 %	0.3 %
Equity/assets ratio %	9.0 %	9.0 %	9.4 %
Solvency ratio %	18.5 %	19.1 %	19.3 %
Impairment losses on loans and other receivables *	5,566	-13,266	-7,240

*Actual credit losses are presented under Other operating expenses in accordance 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 4.4 million and for the comparison periods EUR 4.0 million 12/2017 and EUR 2.0 million 6/2018.

Profit trends (comparison figures 1–6/2017)

Profit before tax of the Savings Banks Group was EUR 29,1 million (EUR 40,5 million). Profit for the period was EUR 25,0 million, of which the share of the owners of the Group was EUR 24,5 million (EUR 32,1 million).

Net interest income totaled EUR 124.9 million (EUR 136,2 million). There was growth in net interest income, net fee and commission income and net income from Life Insurance.

Regardless of the low level of market interest the net interest income grew by 8.1 % being EUR 74,7 million (EUR 69,1 million). The increase in net interest income can be explained by the decrease in procurement expenses related to refinancing and the continued increase in lending. The share of derivatives used for the management of interest rate risks of net interest income was EUR 11,8 million (EUR 10,7 million).

Net fee and commission income and expenses grew by 6.2 % to EUR 41,5 million (EUR 39,0 million). In particular, fees received from funds, lending fees and payment transactions experienced growth.

Net investment income totalled EUR 3,5 million (EUR 19,4 million). Net investment income declined by EUR 15,9 million. Due to IFRS9 coming into affect, the Group reduced risk-taking in its investment activities, which led to lower investment income. Net trading income was EUR -4,4 million (EUR 1.0 million). As a result of the change in the IFRS9 standard, some of the items are presented in net trading income, which was included in the net investment income from investment activities for the comparative period.

The net income from Life Insurance totalled EUR 7,7 million (EUR 6,4 million). Premiums written decreased by 3.5 % on comparison period. The net investment income of the Life Insurance segment was 6.9 million (EUR 23,7 million) while the change in insurance premium decreased by 36.8 per cent to EUR 44,7 million.

Other operating income was EUR 1,9 million (EUR 1,2 million).

Operating expenses increased by 15.3 % to EUR 102,3 million (EUR 89,6 million).Other administrative expenses grew by 11% to EUR 38,2 million (EUR 35,0 million). There was increase especially in IT-expenses and development costs. Personnel expenses grew by 8.9 % to EUR 42.8 million (EUR 39.3 million). The number of personnel as of 30 June 2018 was 1 428 (1 399).

The Group's cost to income ratio was 81.9 % (65.7 %).

Depreciation and impairments on tangible and intangible assets stood at EUR 6,0 million (EUR 6,0 million) in the financial year.

The Group's impairments on loans and other receivables totalled positive EUR 5,6 million (-7.2 million) Impairments on loans and receivables have been calculated in 2018 in accordance with IFRS 9 -standard and therefore are not fully comparable with the previous IAS 39 -standard. Loan losses for the review period totaled EUR 4,4 million, which reduces impairment losses on loans and receivables. No significant changes occurred in the Group's risk position with regard to the comparison period, and the non-performing receivables remained at the level of the comparison period or 2.77 % (1.01 %) of the credit portfolio.

The Group's effective income tax percentage was 14.0 % (19.2 %).

Balance sheet and financing (comparison figures 31 December 2017)

The balance sheet of the Savings Banks Group totalled EUR 11,4 billion on 30 June 2018 (EUR 11,3 billion), representing growth of 0.7 % from the turn of the year. The Group's return on assets was 0.2 % (0.3 %).

Loans and advances to customers amounted to EUR 8,1 billion (EUR 7,8 billion), growing by 4.9 % from the turn of the year. Loans and advances to credit institutions amounted to EUR 21,7 million (EUR 33,2 million). The Savings Banks Group's investment assets stood at EUR 1,2 billion (EUR 1,3 billion). Life insurance assets amounted to EUR 900,8 million (EUR 855,4 million).

Liabilities to customers amounted to EUR 6,7 billion (EUR 6,4 billion), showing a growth of 4.2 %. Liabilities to credit institutions amounted to EUR 221.4 million (EUR 228,5 million). Debt securities issued stood at EUR 2.4 billion (EUR 2,6 billion). During the review period Central Bank of Savings Banks Finland belonging to the Savings Banks Group issued a three-year bond with variable interest rate, amounting to EUR 300 million. Life insurance liabilities were at EUR 851.4 million (EUR 803,1 million), representing growth of 5.9 %.

The Savings Banks Group's equity totalled EUR 1.0 billion (EUR 1.0 billion)The share on non-controlling interests of own funds was EUR 26,5 million (EUR 26,5 million). The growth of Group equity is mainly due to the profit for the period. The change in the fair value recorded under other comprehensive income was EUR 3,9 million during the review period. The impact of cash flow hedging on equity was EUR -5,6 million. During the review period, other comprehensive income after tax totalled EUR -0,2 million (1-6/2016: EUR 5,6 million). The Group's return on equity was 2.4 % (3.4 %).

Capital adequacy and risk position

Capital adequacy and leverage ratio

At the end of June 2018, the Savings Banks Amalgamation had a strong capital structure, consisting primarily of CET1 capital. Own funds totalled EUR 987,8 million (EUR 984,6 million), of which CET1 capital accounted for EUR 950,1 million (EUR 939,1 million). The growth of CET1 capital was due to the profit for the period. During the review period, Tier 2 (T2) capital accounted for EUR 37,7 million (EUR 45,5 million), comprised of debentures. Risk-weighted assets amounted to EUR 5,330.5 million (EUR 5,165.7 million), i.e. they were 3.2 % higher than at the end of the previous year. The most significant change related to the increase in risk-weighted assets was growth in the mortgage portfolio. The capital ratio of the Savings Banks Amalgamation was 18.5 % (19.1 %) and the CET1 capital ratio was 17.8 % (18.2 %).

The capital requirement of Savings Banks Amalgamation was EUR 587,6 million (EUR 569,4 million) that equals to 11.0 % of risk-weighted assets. 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) that include capital ratio of 8 %,
- 2.5 % CET1 capital conservation buffer of according to the Act on Credit Institutions,
- 0.5 % CET1 pillar 2 requirement of set by the Financial Supervisory Authority 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 on 1 July 2019.

The standard method is used to calculate the capital requirement to the credit risk of the Savings Banks Amalgamation. The capital requirement to the operational risk is calculated by the basic method. The capital requirement relating to the market risk is calculated by the basic method on the foreign exchange position.

Savings Banks Group's capital adequacy's main items

Own funds (EUR 1,000)	30.6.2018	31.12.2017
Own Funds	984,046	969,674
Common Equity Tier 1 (CET1) capital before regulatory adjustments	-33,907	-30,591
Total regulatory adjustments to Common Equity Tier 1 (CET1)	**950,139**	**939,082**
Additional Tier 1 (AT1) capital before regulatory adjustments	0	0
Total regulatory adjustments to Additional Tier 1 (AT1) capital	0	0
Additional Tier 1 (AT1) capital	**0**	**0**
Tier 1 capital (T1 = CET1 + AT1)	**950,139**	**939,082**
Tier 2 (T2) capital before regulatory adjustments	37,761	45,483
Total regulatory adjustments to Tier 2 (T2) capital	0	0
Tier 2 (T2) capital	**37,761**	**45,483**
Total capital (TC = T1 + T2)	**987,810**	**984,565**
Risk weighted assets	**5,330,525**	**5,165,694**
of which: credit and counterparty risk	4,769,463	4,601,921
of which: credit valuation adjustment (CVA)	69,317	72,541
of which: market risk	40,392	39,879
of which: operational risk	451,354	451,354
Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.8 %	18.2 %
Tier 1 (as a percentage of total risk exposure amount)	17.8 %	18.2 %
Total capital (as a percentage of total risk exposure amount)	18.5 %	19.1 %
Capital requirement		
Own Funds	987,810	984,565
Capital requirement total*	587,589	569,379
of which: Pillar 2 additional capital requirement	26,653	25,828
Capital buffer	400,222	415,186

* The capital requirement is formed by the statutory minimum capital adequacy requirement of 8%, the capital conservation buffer of 2.5 % according to the Act on Credit Institutions, 0.5 % Pillar 2 requirement set by the Financial Supervisory Authority and the country-specific countercyclical capital requirements of foreign exposures.

Leverage ratio

The leverage ratio of the Savings Banks Amalgamation was 8.9 % (8.8 %). The leverage ratio has been calculated according to the known regulation, and it describes the ratio of the Amalgamation's Tier 1 capital to total liabilities. The Savings Banks Amalgamation monitors excessive indebtedness as part of the ICAAP process.

(EUR 1,000)	30.6.2018	31.12.2017
Tier 1 capital	950,139	939,082
Total leverage ratio exposures	10,692,980	10,639,424
Leverage ratio	8.9 %	8.8 %

The Savings Banks Amalgamation's capital adequacy management is described in more detail in the Savings Banks Group's financial statements of 31 December 2017.

Risk position

Risk management and internal control of the Savings Banks Group is a part of the internal control framework applied within the Group and the Amalgamation. It is also at the core of the Group's operational activities. The board of the Central Institution approves the main operating principles and risk strategies. It also decides on the use of necessary means of control in accordance with the operating principles of the Savings Banks Group. It is the responsibility of the Central Institution's Board of Directors to steer the operation of the Amalgamation and, in order to safeguard liquidity and capital adequacy, issue instructions to the member companies on risk management, corporate governance, internal control and compliance with harmonised accounting principles in the preparation of the consolidated financial statements.

The Central Institution approves the principles for the Group's internal control framework. The following functions, which are independent of business operations, have been established within the Central Institution to ensure effective and compre-hensive internal control in all the member companies within the Amalgamation and the Group:

• Independent risk control

• Compliance function

• Internal audit

The Central Institution's Risk control function maintains and develops methods for managing risks within the Group. This ensures that all, even new, fundamental but previously unidentified risks are covered by the risk management of the Group's business lines.

All significant loans or commitments including significant risk are made in accordance with collegial decision-making processes, and there is a lending authority limit structure in place. Internal operational guidelines are used to steer business operations and processes. Compliance with the internal guidelines as well as the updating process of the guidelines is monitored. All decisions and significant business operations are documented and archived. An essential part of risk management is executed in daily supervision. The execution of decisions made is monitored through an approval and verification process, controls and reconciliations together with adequate monitoring and reporting.

The most significant risks affecting the operation of the Group are credit risk, liquidity risk, interest rate risk, operational risk, real estate risk, as well as various business risks.

The Savings Banks Group's risk position has remained at a good level. The solvency of the Savings Banks Amalgamation has remained good, with non-performing loans at a low level. The Group's risks and risk management are described in more detail in the Savings Banks Group's financial statements of 31 December 2017.

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.

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.

Credit rating

S&P Global Ratings (S&P) upgraded long-term counterparty credit rating for Central Bank of Savings Banks Finland Plc belonging to the Savings Banks Group, 28.4.2017 to 'A-' from 'BBB+' . The outlook is stable. At the same time, the 'A-2' short-term counterparty credit rating on Central Bank of Savings Banks Finland Plc was affirmed. The previous credit rating assessment by S&P was made in November 2016.

Material events after the closing date

The Board of Directors of the Savings Banks' Union Coop is not aware of any factors which would materially influence the financial position of the Savings Banks Group after the Half-year Report date.

Outlook for the year

The Savings Bank Group's annual profit for 2018 is expected to remain at a good level but remain below record levels last year. The estimate is based on the development of the current outlook and may change significantly during the financial year.

Operations and profit by business segment

Banking

The Banking segment includes the member Savings Banks, the Central Bank of Savings Banks Finland Plc and Sp Mortgage Bank Plc. The Savings Banks provide retail banking services. The Central Bank of Savings Banks acts as the central credit institution for its member banks. Sp Mortgage Bank are engaged in mortgage banking.

Profit trends (comparison figures 1–6/2017)

Profit before tax of Banking segment stood at EUR 17,8 million (EUR 28,5 million). Net interest income stood at EUR 74,7 million (EUR 69,1 million), representing growth of 8.2 %. The growth was due to more affordable funding costs than during the comparison period, as well as an increase in the volume of lending. Net fee and commission income and expenses amounted to EUR 28,9 million (EUR 28,0 million), showing an increase of 3.4 per cent. The net income from investments and transactions increased to EUR 90,3 thousand (EUR 20.2 million). Due to IFRS9 coming into affect, the Group reduced risk-taking in its investment activities, which led to lower investment income. Other operating income amounted to EUR 1.5 million (EUR 1,0 million).

Personnel expenses increased moderately to EUR 32,7 million (EUR 32,0 million). The number of personnel in the Banking segment was 1 135 (1 159) at the end of the period. Other operating expenses and depreciations grew by 19.3 % to EUR 60,4 million (EUR 50.6 million).

The balance sheet for banking operations amounted to EUR 10,5 billion (31 Dec. 2017: EUR 10,5 billion), representing growth of 0.3 per cent.

Loans and advances to customers grew by 4.9 per cent to EUR 8,1 billion (31 Dec. 2017: EUR 7,8 billion).

Asset management and life insurance segment

The Asset Management and Life Insurance segment comprises Sb-Fund Management Company Ltd and Sb Life Insurance Ltd. Sp-Fund Management Company Ltd offers investment fund and asset management services, while Sb Life Insurance Ltd provides life insurance policies. The fund capital managed by the Savings Banks Group's asset management operations totaled EUR 2,4 billion (EUR 2,1 billion) at the end of the year, representing a growth of 14.3 % on the previous year. Taking into account the assets managed in accordance with asset management agreements, the total assets managed amounted to EUR 3,3 billion (EUR 2,9 billion).

The number of fund unit holders grew by 6.3 % and was 184 243 unit holders (173 357 unit holders) at the end of the review period.

On 30 June 2018, the Asset Management and Life Insurance segment managed a total of 22 investment funds.

Net subscriptions to the Savings Bank investment funds were a total of EUR 43 million during 2018.

At the end of the review period, the largest of the Savings Banks investment funds was Savings Bank Interest Plus investment fund with capitals of EUR 595 million. With 39 300 unit holders, the investment fund was also the largest in terms of the number of unit holders. Savings Banks collected most of the new capital from the Savings Banks' Korkopainoinen -special investment fund, whose net subscriptions were EUR 40 million.

In terms of life insurance operations, the premium income was EUR 81 million (EUR 84 milllion). The development of savings products was moderate, sales of savings insurance fell, but at the same time the demand for asset management increased by 17 %.

In June, sales co-operation with the POP Banks was started. The POP Banks initiate the sale of the products of Sp Life Insurance and Sp-Fund Management companies in stages. The co-operation started with life insurance products and co-operation will later expand into mutual funds as well.

In June, co-operation with Taaleri Oyj was announced. The first investment solution aims to be launched by the end of 2018. The management of the special purpose fund, built around the environmental theme, is managed by Sp-Rahastoyhtiö Oy. A significant proportion of the fund's assets will be invested in the fund units of the alternative funds managed by Taaleri Pääomarahastot Oy.

Profit trends (comparison figures 1–6/2017)

Profit before tax for the Asset Management and Life Insurance segment was EUR 11,9 million (EUR 11,8 million).

Net life insurance income was EUR 7.7 million (EUR 6.4 million), representing an increase of 20.3 % from the comparison period. Life insurance premiums written was EUR 80,6 million (EUR 83,5 million). Claims incurred totalled EUR 34,9 million (EUR 29,9 million), showing growth of 16.6 %. The net investment income of the Life Insurance segment was EUR 6,9 million (EUR 23,7 million).

Net fee and commission income and expenses amounted to EUR 12,6 million (EUR 11,2 million), representing growth of 16.8 %. The amount of net fee and commission income rose due to increases in customer assets and managed fund capital.

Operating expenses increased by 25.8 % to EUR 8,2 million (EUR 6,5 million). Personnel expenses remained at the same level as in the comparison period at EUR 3,7 million (EUR 3,6 million). Other operating expenses and depreciation increased to EUR 4,5 million (EUR 3,0 million). Growth was mainly due to development investments. The number of segment personnel at the end of the period was 79 (80).

Life insurance assets amounted to EUR 885,4 million (31 Dec. 2017: EUR 840,1 million), representing growth of 5.4 % Unit-linked insurance savings at the end of the period totalled EUR 724,0 million (31 Dec. 2017: EUR 671,2 million), growing 7.9 %.

The balance sheet of Asset Management and Life Insurance operations grew by 7.4 % during the period, amounting to EUR 897,1 million (31 Dec. 2017: EUR 851,0 million).

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

Releases and other corporate information are available on the Savings Banks Group's website at *www.saastopankki.fi/saastopankkiryhma*

Formulas used in calculating the financial highlights:

Revenues	Interest income, fee income, net trading income, net investment income, net life insurance income, other operating revenue
Total operating revenue	Net interest income, net fee and commission income, net trading income, net investment income, net life insurance income, other operating revenue
Total operating expenses	Personnel expenses, other operating expenses, depreciation and impairment charges on tangible and intangible assets
Cost to income ratio %	$\frac{\text{Total operating expenses}}{\text{Total operating revenue}}$
Return on equity %	$\frac{\text{Profit}}{\text{Equity, incl. non-controlling interests (average)}}$
Return on assets %	$\frac{\text{Profit}}{\text{Total assets (average)}}$
Equity/assets ratio %	$\frac{\text{Equity (incl. non-controlling interests)}}{\text{Total assets}}$

Alternative Performance Measures

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.

Savings Bank Group 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.

RELEASE OF FINANCIAL STATEMENT

Savings Banks Group's income statement

(EUR 1,000)	Note	1-6/2018	1-6/2017
Interest income		91,665	90,905
Interest expense		-16,951	-21,789
Net interest income	4	**74,714**	**69,116**
Net fee and commission income	5	41,485	39,047
Net investment income		-4,407	1,031
Net trading income	6	3,514	19,410
Net life insurance income	7	7,692	6,394
Other operating revenue		1,947	1,232
Total operating revenue		**124,945**	**136,229**
Personnel expenses		-42,784	-39,275
Other operating expenses		-53,590	-44,333
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets		-5,951	-5,954
Total operating expenses		**-102,325**	**-89,563**
Net impairment loss on financial assets		5,566	-7,240
Associate's share of profits		920	1,062
Profit before tax		**29,106**	**40,488**
Income tax expense		-4,072	-7,787
Profit		**25,034**	**32,701**

*Net impairment loss on financial assets have been calculated under IFRS 9 in 2018.

Profit attributable to:			
Equity holders of the Group		24,480	32,060
Non-controlling interests		554	641
Total		**25,034**	**32,701**

Savings Banks Group's statement of comprehensive income

(EUR 1,000)	1-6/2018	1-6/2017
Profit	**25,034**	**32,701**
Items that are or may be reclassified to profit or loss		
Changes in fair value reserve		
Fair value measurements	-5,595	3,896
Cash flow hedges	-227	-626
Total	**-5,822**	**3,270**
Total comprehensive income	**19,211**	**35,971**
Attributable to:		
Equity holders of the Group	18,953	34,628
Non-controlling interests	258	1,343
Total	**19,211**	**35,971**

Savings Banks Group's statement of financial position

(EUR 1,000)	Note	30.6.2018	31.12.2017
Assets			
Cash and cash equivalents		834,781	1,118,938
Financial assets at fair value through profit or loss		72,928	34,694
Loans and advances to credit institutions	9	21,731	33,181
Loans and advances to customers	9	8,136,946	7,753,391
Derivatives	10	52,374	53,220
Investment assets	11	1,225,663	1,260,677
Life insurance assets	12	900,789	855,422
Investments in associates and joint ventures		7,891	7,952
Property, plant and equipment		52,592	51,341
Intangible assets		33,471	28,725
Tax assets		6,334	3,009
Other assets		59,693	125,555
Total assets		**11,405,191**	**11,326,105**
Liabilities and equity			
Liabilities			
Financial liabilities at fair value through profit or loss		25,240	25,369
Liabilities to credit institutions	14	221,442	228,458
Liabilities to customers	14	6,686,191	6,419,543
Derivatives	10	3,364	5,584
Debt securities issued	15	2,374,836	2,563,128
Life insurance liabilities	16	851,408	803,130
Subordinated liabilities		91,536	100,284
Tax liabilities		55,356	62,907
Provisions and other liabilities		64,270	100,181
Total liabilities		**10,373,643**	**10,308,585**
Equity			
Basic capital		20,338	20,338
Reserves		260,585	285,435
Retained earnings		724,104	685,279
Total equity attributable to equity holders of the Group		**1,005,027**	**991,053**
Non-controlling interests		26,521	26,467
Total equity		**1,031,548**	**1,017,520**
Total liabilities and equity		**11,405,191**	**11,326,105**

Savings Banks Group's statement of cash flows

(EUR 1,000)	1-6/2018	1-6/2017
Cash flows from operating activities		
Profit	25,034	32,701
Adjustments for items without cash flow effect	1,920	-5,043
Income taxes paid	-12,878	-8,974
Cash flows from operating activities before changes in assets and liabilities	**14,076**	**18,684**
Increase (-) or decrease (+) in operating assets	**-363,928**	**-510,487**
Financial assets at fair value through profit or loss	30,442	319
Loans and advances to credit institutions	1,669	-5,009
Loans and advances to customers	-382,875	-474,138
Investment assets, at fair value through other comprehensive income	-38,568	
Investment assets, at amortized cost	-882	
Available-for-sale financial assets		24,314
Decrease in held-to-maturity financial assets		500
Life insurance assets	-40,056	-48,697
Other assets	66,342	-7,775
Change in cash and cash equivalents	**78,814**	**143,655**
Cash and cash equivalents at the beginning of the period	-7,039	51,119
Cash and cash equivalents at the end of the period	270,088	50,799
Cash and cash equivalents comprise the following items:	-194,511	-20,505
Cash	48,278	72,913
Receivables from central banks repayable on demand	-38,003	-10,672
Total cash and cash equivalents	**-271,038**	**-348,148**
Cash flows from investing activities		
Investments in investment property and in property, plant and equipment and intangible assets	-15,698	-10,267
Disposals of investment property and property, plant and equipment and intangible assets	2,990	973
Total cash flows from investing activities	**-12,708**	**-9,294**
Cash flows from financing activities		
Increase in subordinated liabilities	0	8,561
Decrease in subordinated liabilities	-8,148	-16,464
Distribution of profits	-2,471	-1,970
Total cash flows from financing activities	**-10,619**	**-9,873**
Change in cash and cash equivalents	**-294,365**	**-367,316**
Cash and cash equivalents at the beginning of the period	**1,150,758**	**1,117,616**
Cash and cash equivalents at the end of the period	**856,393**	**750,301**
Cash and cash equivalents comprise the following items:		
Cash	834,781	721,479
Receivables from central banks repayable on demand	21,611	28,821
Total cash and cash equivalents	**856,393**	**750,301**

(EUR 1,000)	1-6/2018	1-6/2017
Adjustments for items without cash flow effect		
Impairment losses on financial assets	-5,712	7,322
Changes in fair value	2,314	-3,014
Depreciation, amortisation and impairment of property, plant and equipment and intangible assets	6,718	6,948
Effect of associates on profit	-920	-1,062
Adjustments for life insurance operations	-4,561	-23,065
Gain or loss on sale of investment property and property, plant and equipment and intangible assets	9	42
Income taxes	4,072	7,787
Total Adjustments for items without cash flow effect	**1,920**	**-5,043**
Interest received	100,353	101,497
Interest paid	17,169	24,399
Dividends received	2,824	4,075

Savings Banks Group's statement of changes in equity

(EUR 1,000)	Basic capital	Share premium	Primary capital	Fair value reserve	Reserve for hedging instruments	Reserve fund	Other reserves	Total reserves	Retained earnings	Total equity attributable to equity holders of the Group	Non-controlling interests	Total equity
Equity 1 January 2017	**20,338**	**60,354**	**34,475**	**37,523**	**3,905**	**69,669**	**85,435**	**291,361**	**617,709**	**929,408**	**23,994**	**953,402**
Comprehensive income												
Profit									32,060	32,060	641	32,701
Other comprehensive income				3,193	-626			2,567		2,567	702	3,269
Total comprehensive income		0	0	3,193	-626	0	0	2,567	32,060	**34,627**	**1,343**	**35,970**
Transactions with owners												
Distribution of profits									-1,970	-1,970		-1,970
Other changes									1,276	1,276	-4	1,271
Total equity 30 June 2017	**20,338**	**60,354**	**34,475**	**40,716**	**3,280**	**69,669**	**85,435**	**293,928**	**649,075**	**963,341**	**25,332**	**988,673**
Equity 1 January 2017	**20,338**	**60,354**	**34,475**	**37,523**	**3,905**	**69,669**	**85,435**	**291,361**	**617,709**	**929,408**	**23,994**	**953,402**
Comprehensive income												
Profit									70,424	70,424	1,471	71,894
Other comprehensive income				-4,913	-1,038			-5,951	-1,097	-7,048	998	-6,049
Total comprehensive income		0	0	**-4,913**	**-1,038**	0	0	-5,951	69,327	**63,376**	**2,469**	**65,845**
Transactions with owners												
Distribution of profits									-2,177	-2,177		-2,177
Other changes						25		25	421	445	5	450
Total equity 31 December 2017	**20,338**	**60,354**	**34,475**	**32,611**	**2,867**	**69,694**	**85,435**	**285,435**	**685,279**	**991,053**	**26,467**	**1,017,520**
Effect of IFRS 9 transition 1 January 2018				**-19,612**				**-19,612**	**17,688**	**-1,925**	**0**	**-1,925**
Equity 1 January 2018	**20,338**	**60,354**	**34,475**	**12,998**	**2,867**	**69,694**	**85,435**	**265,823**	**702,967**	**989,128**	**26,467**	**1,015,595**
Comprehensive income												
Profit									24,480	24,480	554	25,034
Other comprehensive income				-5,452	-227			-5,679	-1,048	-6,727	-295	-7,023
Total comprehensive income		0	0	**-5,452**	**-227**	0	0	-5,679	23,432	**17,753**	**258**	**18,011**
Transactions with owners												
Distribution of profits									-2,476	-2,476		-2,476
Other changes						74	368	442	181	623	-204	418
Total equity 30 June 2017	**20,338**	**60,354**	**34,475**	**7,546**	**2,640**	**69,768**	**85,803**	**260,585**	**724,104**	**1,005,027**	**26,521**	**1,031,548**

BASIS OF PREPARATION

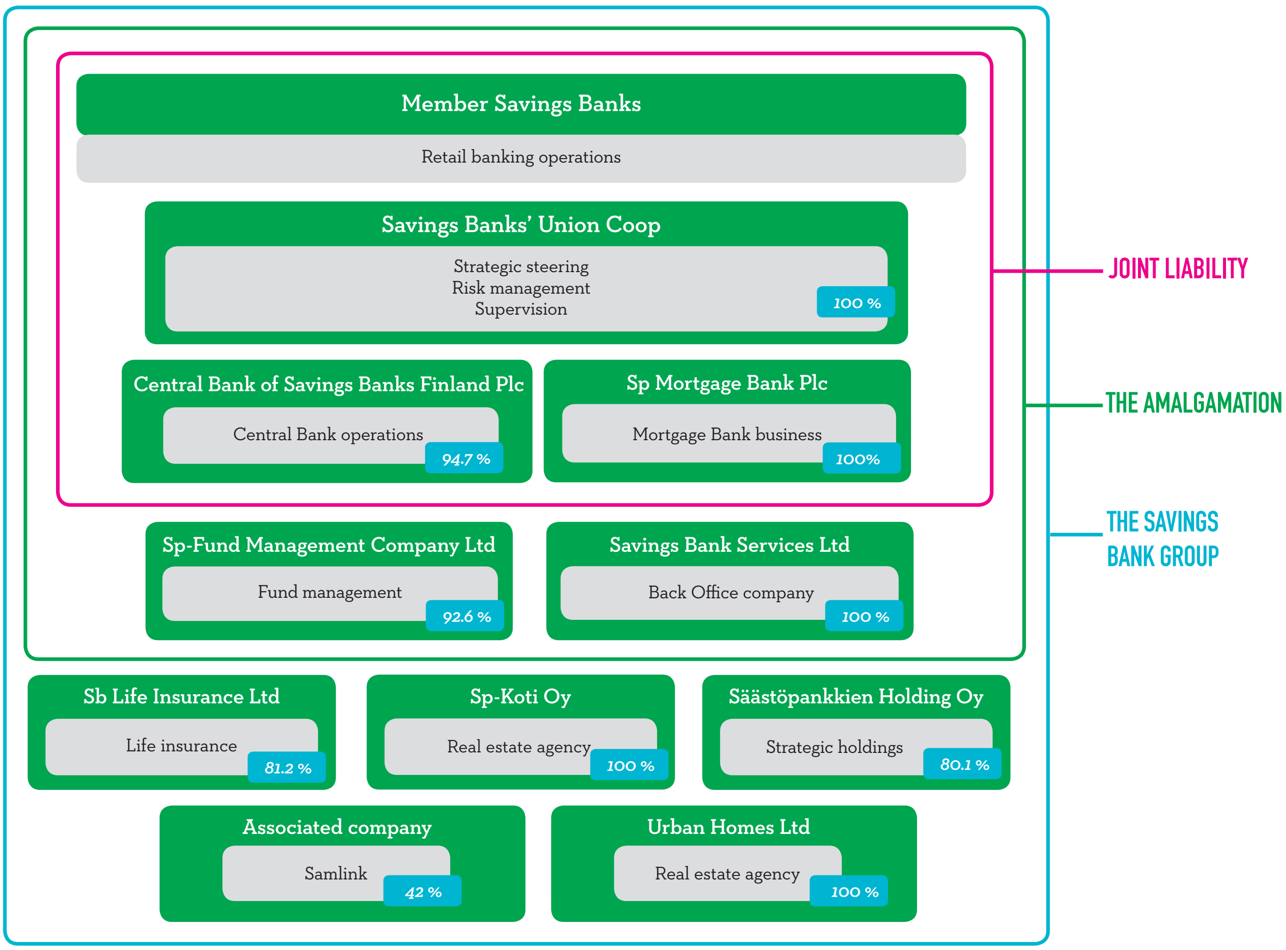
NOTE 1: DESCRIPTION OF THE SAVINGS BANKS GROUP AND THE SAVINGS BANKS AMALGAMATION

The Savings Banks Group (hereafter 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. Together the Savings Banks form a banking group that oper-ates locally as well as nationally. The basic objective of the Savings Banks is to promote thrift, the financial well-being of their customers and to operate near their customers. The Savings Banks operate in the retail banking business, especially in daily banking, saving and investment products and lending. The service and product range offered is complemented with the other financial services and products provided in cooperation with the service and product companies within the Group. The service and product companies within the Group support and promote the operations of the Group via producing centralised services or having responsibility for certain products. The most significant service and product companies of the Group are Central Bank of Savings Banks Finland Plc, Sp Mortgage Bank Plc, Sb Life Insurance Ltd, Sp-Fund Management Company Ltd, Savings Bank Services Ltd and Sp-Koti Oy.

The member organisations 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 as well as the companies within the consolidation groups of the above-mentioned entities and Sp-Fund Management Company Ltd.

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

The structure of the Amalgamation and the Group are described in the chart below (the red section represents the joint and several liability, the green section represents the Amalgamation and the blue section represents 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 obliged to prepare consolidated financial statements for the Group. 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 Savings Banks Group. All figures presented hereafter are Group's figures unless otherwise stated.

Savings Banks' Union Coop's registered office is in Helsinki and its registered address is Teollisuuskatu 33, FI-00510 Helsinki.

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

NOTE 2: ACCOUNTING POLICIES

General

The Group's consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS) as implemented within the EU.

The half-year report of 1.1.-30.6.2018 has been prepared in accordance with the IAS 34 Interim Financial Reporting -standard. Changes in accounting policies during the financial year are described below. The financial statement 2017 contain the full accounting principles.

The figures of the half-year report have not been audited.

The Group's consolidated financial statements are prepared in euros, which is the accounting and operational currency of the Group. The half-year report is presented in thousand euros unless otherwise stated.

Critical accounting estimates and judgments

IFRS-compliant half-year report requires the Group's management to exercise judgment and make estimates and assumptions that affect the reported amounts of assets and liabilities and other information such as the amounts of income and expense. Although these estimates are based on the management's best knowledge at the time, it is possible that actual results differ from the estimates used in the half-year reports.

The critical estimates of the Group 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, life insurance liabilities, recognition of deferred tax on confirmed tax losses, and the present value of pension obligations.

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

Changes in accounting policies during the reporting period:

Amendments of the IFRS 9 standard to 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. Changes in other IFRS standards affecting the half-year report have been described in the adoption of new and amended standards and interpretations applicable in future financial years section of the 2017 financial statements.

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. The adoption of IFRS 9 changed the classification and valuation of financial assets and liabilities and affected the accounting treatment of financial instruments.

The Group did not early adopt any of IFRS 9 in previous periods. As permitted by the transitional provisions of IFRS 9, the Group 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 significant change in the calculation of expected loan losses. The Group 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 us-ing 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 insolvency, taking into account the collateral available for the contract.

The Group categorize contracts in three different 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 the Savings Bank Group on 1 January 2018 were 43,9 million EUR and 30 June 2018 38,3 million EUR. The expected credit losses presented in the 2017 Financial Statements for the period of 1 January 2018 have been corrected due to an error in the credit rating model. The effect of expected credit losses on the January 1 presented in 2017 Financial Statements was EUR 50,5 million and after the calculation model has refined the effect was EUR 43,9 million. Due to the refine of the calculation model, the change was EUR 6,7 million to reduce expected credit losses to the opening balance sheet presented on January 1 2018.

IFRS 15 Revenue from Contracts with Customers:

IFRS 15 Revenue from Contracts with Customers standard came into effect 1 January 2018. Standard had no significant effect on Savings Banks Group's income or financial statements.

Changes in presentation:

Actual credit losses are presented in income statement within "Other operating expenses" 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.

PROFIT FOR THE PERIOD

NOTE 3: OPERATING SEGMENTS

The Savings Banks Group reports information about its operating segments in compliance with IFRS 8. According to IFRS 8, the financial information regularly provided to the chief operating decision maker forms the basis for segment reporting. Thus the segment division of the information presented in the half-year report is based on the same division as is applied in management reporting.

The chief operating decision maker of the Savings Banks Group is the Board of Directors of Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation of Savings Banks. According to the rules of Savings Banks' Union Coop, the Board of Directors of the Central Institution bears the primary responsibility for allocating the resources and evaluating the performance of the Savings Banks Group.

The reportable segments of the Savings Banks Group include Banking as well as Asset Management and Life Insurance. Operations not included in the reportable segments are presented in the reconciliations.

The Banking segment comprises the member Savings Banks, the Central Bank of Savings Banks Finland Plc and Sp Mortgage Bank Plc. Savings Banks practice retail banking. The Central Bank of Savings Banks acts as the central bank of the Savings Banks. Sp Mortgage Bank Plc is engaged in mortgage banking. The most significant income items of Banking are net interest income, fee and commission income as well as investment income. The most significant expense items consist of personnel expenses and other operating expenses.

The Asset Management and Life Insurance segment comprises Sp- Fund Management Company Ltd and Sb Life Insurance Ltd. Sp-Fund Management Company Ltd is engaged in administration of mutual funds and asset management, whereas Sb Life Insurance Ltd practises life insurance operations. The most significant income items of the Asset Management and Life Insurance segment are fee and commission income, insurance premiums and investment income. The most significant expense items consist of fee and commission expenses, claims incurred, personnel expenses and other operating expenses.

Segment reporting is prepared in compliance with the accounting policies of the financial statements of the Savings Banks Group, which are presented in Note 2.

Internal transactions of the reportable segments are eliminated within and between the segments. Acquisition cost eliminations, non-controlling interests and other intra-group arrangements are included in the eliminations presented in reconciliations.

Pricing between the segments is based on market prices.

In accordance with IFRS 8, Savings Banks Group is required to disclose business with a single external customer that generates 10% or more of the combined revenue. The Group has no such customers for which revenue would exceed 10%.

Income statement 1-6/2018 (EUR 1,000)	Banking	Asset Management and Life Insurance	Reportable segments in total
Net interest income	74,746	-23	74,723
Net fee and commission income	28,903	12,629	41,532
Net trading income	90	-236	-145
Net life insurance income		7,692	7,692
Other operating revenue	1,542	81	1,623
Total operating revenue	**105,281**	**20,144**	**125,424**
Personnel expenses	-32,689	-3,708	-36,397
Other operating expenses	-60,398	-4,526	-64,925
Total operating expenses	**-93,087**	**-8,235**	**-101,322**
Net impairment loss on financial assets	5,566		5,566
Profit before tax	**17,760**	**11,909**	**29,669**
Taxes	-1,718	-2,298	-4,016
Profit	**16,042**	**9,611**	**25,653**
Statement of financial position 30.6.2018			
Cash and cash equivalents	834,781		834,781
Financial assets at fair value through profit or loss	47,689		47,689
Loans and advances to credit institutions	21,735		21,735
Loans and advances to customers	8,137,894		8,137,894
Derivatives	52,374		52,374
Investment assets	1,263,566		1,263,566
Life insurance assets		885,372	885,372
Other assets	143,662	11,737	155,399
Total assets	**10,501,701**	**897,109**	**11,398,810**
Liabilities to credit institutions	221,632		221,632
Liabilities to customers	6,689,469		6,689,469
Derivatives	3,364		3,364
Debt securities issued	2,374,835		2,374,835
Life insurance liabilities		857,033	857,033
Subordinated liabilities	91,452		91,452
Other liabilities	105,301	9,354	114,656
Total liabilities	**9,486,054**	**866,387**	**10,352,441**
Number of emplyees at the end of the period	**1,135**	**79**	**1,214**

Reconciliations: (EUR 1,000)	1-6/2018	1-6/2017
Revenue		
Total revenue for reportable segments	125,424	136,631
Non allocated revenue, other operations	-479	-402
Total revenue of the Group	**124,945**	**136,229**
Profit		
Total profit or loss for reportable segments	25,653	32,577
Non allocated amounts	-619	124
Total profit of the Group	**25,034**	**32,701**

	30.6.2018	30.6.2017
Assets		
Total assets for reportable segments	11,398,810	11,321,572
Non allocated assets, other operations	6,381	4,533
Total assets of the Group	**11,405,191**	**11,326,105**
Liabilities		
Total liabilities for reportable segments	10,352,441	10,290,034
Non allocated liabilities, other operations	21,202	18,551
Total liabilities of the Group	**10,373,643**	**10,308,585**

Income statement 1-6/2017 (EUR 1,000)	Banking	Asset Management and Life Insurance	Reportable segments in total
Net interest income	69,091	-11	69,080
Net fee and commission income	27,959	11,192	39,152
Net trading income	20,217	732	20,949
Net life insurance income		6,394	6,394
Other operating revenue	1,016	40	1,056
Total operating revenue	**118,283**	**18,347**	**136,631**
Personnel expenses	-31,951	-3,585	-35,536
Other operating expenses	-50,610	-2,961	-53,571
Total operating expenses	**-82,560**	**-6,546**	**-89,106**
Net impairment loss on financial assets	-7,240		-7,240
Profit before tax	**28,483**	**11,801**	**40,284**
Taxes	-5,335	-2,372	-7,707
Profit	**23,148**	**9,429**	**32,577**
Statement of financial position 31.12.2017			
Cash and cash equivalents	1,118,938		1,118,938
Financial assets at fair value through profit or loss	9,325		9,325
Loans and advances to credit institutions	32,961		32,961
Loans and advances to customers	7,754,952		7,754,952
Derivatives	53,220		53,220
Investment assets	1,298,390		1,298,390
Life insurance assets		840,060	840,060
Other assets	202,796	10,931	213,727
Total assets	**10,470,581**	**850,991**	**11,321,572**
Liabilities to credit institutions	228,458		228,458
Liabilities to customers	6,422,745		6,422,745
Derivatives	5,584		5,584
Debt securities issued	2,563,128		2,563,128
Life insurance liabilities		812,963	812,963
Subordinated liabilities	100,200		100,200
Other liabilities	149,128	7,829	156,956
Total liabilities	**9,469,243**	**820,791**	**10,290,034**
Number of emplyees at the end of the period	**1,077**	**79**	**1,156**

NOTE 4: NET INTEREST INCOME

(EUR 1,000)	1-6/2018	1-6/2017
Interest income		
Debts eligible for refinancing with Central Bank	1,974	2,089
Loans and advances to credit institutions	287	1,035
Loans and advances to customers	68,813	66,552
Debt securities	6,735	7,700
Derivative contracts		
Hedging derivatives	13,171	11,945
Other than hedging derivatives		111
Other	686	1,474
Total	**91,665**	**90,905**
Interest expense		
Liabilities to credit institutions	-1,987	-3,330
Liabilities to customers	-7,641	-9,830
Derivative contracts		
Hedging derivatives	-1,413	-1,359
Other than hedging derivatives		-1
Debt securities issued	-4,745	-5,819
Subordinated liabilities	-1,042	-1,316
Other	-123	-135
Total	**-16,951**	**-21,789**
Net interest income	**74,714**	**69,116**

NOTE 5: NET FEE AND COMMISSION INCOME

(EUR 1,000)	1-6/2018	1-6/2017
Fee and commission income		
Lending	10,822	10,321
Deposits	193	462
Payment transfers	16,149	15,344
Securities brokerage	457	1,094
Mutual fund brokerage	13,074	11,200
Asset management	240	71
Legal services	1,771	1,710
Custody fees	764	620
Vakuutusten välityksestä	829	844
Guarantees	732	652
Other	1,307	1,324
Total	**46,339**	**43,642**
Fee and commission expense		
Payment transfers	-1,629	-1,541
Securities	-619	-695
Mutual fund brokerage	-109	
Asset management	-361	-346
Other*	-2,136	-2,013
Total	**-4,854**	**-4,595**

*of which the most significant expenses are the shared ATM expenses amounting to EUR 929 thousand (EUR 886 thousand).

Net fee and commission income	**41,485**	**39,047**

NOTE 6: NET INVESTMENT INCOME

(EUR 1,000)	1-6/2018	1-6/2017
Net income from financial assets at fair value through other comprehensive income (Net income from available-for-sale financial assets)		
Debt securities		
Capital gains and losses	-83	-187
Transferred from fair value reserve during the financial year	2,248	1,504
Impairment losses and their reversal		-18
Total Debt securities	**2,165**	**1,298**
Shares and participations		
Capital gains and losses		959
Transferred from fair value reserve during the financial year		12,781
Impairment losses		-64
Dividend income	-14	4,048
Total shares and participations	**-14**	**17,723**
Total	**2,151**	**19,022**
Net income from investment property		
Rental and dividend income	3,500	3,531
Capital gains and losses	990	304
Other income from investment property	134	34
Maintenance charges and expenses	-2,476	-2,462
Depreciation and amortisation of investment property	-767	-994
Rental expenses arising from investment property	-17	-23
Total	**1,364**	**389**
Net investment income	**3,514**	**19,410**

NOTE 7: NET LIFE INSURANCE INCOME

(EUR 1,000)	1-6/2018	1-6/2017
Premiums written		
Group's share	80,680	83,609
Insurance premiums ceded to reinsurers	-72	-87
Net investment income	6,864	23,744
Claims incurred		
Claims paid	-32,299	-27,243
Change in provision for unpaid claims	-2,581	-2,673
Change in insurance contract liabilities		
Change in life insurance provision	-44,035	-69,755
Other	-865	-1,201
Net life insurance income	**7,692**	**6,394**

Net investment income		
Net interest	64	127
Dividend income	428	422
Realised capital gains and losses	813	
Unrealised gains and losses	5,438	22,848
Other investments	233	3
Net income from foreign exchange operation	119	-63
Net income from unit-linked customer assets	-231	406
Total	**6,864**	**23,744**

ASSETS

NOTE 8: CLASSIFICATION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

30.6.2018 (EUR 1,000)	Amortized costs	Fair value through other comprehensive income	Fair value through profit or loss	Other financial liabilities	Non-financial assets/	Total
Cash and cash equivalents	17,156		817,626			834,781
Financial assets at fair value through profit or loss			72,928			72,928
Loans and advances to credit institutions	21,731					21,731
Loans and advances to customers	8,135,924		509			8,135,924
Derivatives			52,374			52,374
hedging derivatives			52,374			
cash flow			4,280			
fair value			48,094			
other than hedging derivatives						
Investment assets	42,357	614,415	524,742		44,149	1,225,663
Life insurance assets*		166,447	724,815		9,526	900,789
Total assets	**8,217,168**	**780,862**	**2,192,994**		**53,675**	**11,244,190**

Financial liabilities at fair value through profit or loss			25,240			25,240
Liabilities to credit institutions				221,442		221,442
Liabilities to customers				6,686,191		6,686,191
Derivatives			3,364			3,364
hedging derivatives			3,364			
fair value			3,364			
other than hedging derivatives						
Debt securities issued				2,374,836		2,374,836
Life insurance liabilities*			725,168	123,141	3,100	851,408
Subordinated liabilities				91,536		91,536
Total liabilities			**728,532**	**9,497,145**	**3,100**	**10,254,017**

* Items at fair value through profit or loss include investments covering unit-linked contracts and related liabilities.

31.12.2017 (EUR 1,000)	Loans and receivables	Availab-le-for-sale	Held-to-maturity	Held-for-trading	Designated as at fair value on initial recogni-tion	Other financial liabilities	"Non-fi-nancial assets/	Total
Cash and cash equiva-lents	1,118,938							1,118,938
Financial assets at fair value through profit or loss					34,694			34,694
Loans and advances to credit institutions	33,181							33,181
Loans and advances to customers	7,753,391							7,753,391
Derivatives				53,220				53,220
hedging derivatives				53,220				
cash flow				4,383				
fair value				48,837				
other than hedging derivatives								
Investment assets		1,175,920	41,763				42,994	1,260,677
Life insurance assets*		181,178			672,980		1,264	855,422
Total assets	**8,905,510**	**1,357,098**	**41,763**	**53,220**	**707,674**		**44,258**	**11,109,522**

Financial liabilities at fair value through profit or loss					25,369			25,369
Liabilities to credit institutions						228,458		228,458
Liabilities to customers						6,419,543		6,419,543
Derivatives				5,584				5,584
hedging derivatives				5,584				
fair value				5,584				
other than hedging derivatives								
Debt securities issued						2,563,128		2,563,128
Life insurance liabilities*					671,784	128,764	2,582	803,130
Subordinated liabilities						100,284		100,284
Total liabilities				**5,584**	**697,153**	**9,440,178**	**2,582**	**10,145,497**

* Items at fair value through profit or loss include investments covering unit-linked contracts and related liabilities.

NOTE 9: LOANS AND ADVANCES

(EUR 1,000)	30.6.2018	31.12.2017
Loans and advances to credit institutions		
Deposits	21,654	32,221
Loans and other receivables	77	960
Total	**21,731**	**33,181**
Loans and advances to customers		
Used overdrafts	86,723	83,759
Loans	7,623,790	7,282,472
Interest subsidized housing loans	360,129	329,265
Loans granted from government funds	1,956	3,064
Credit cards	98,566	93,441
Guarantees	520	503
Other receivables	74	550
Impairment losses		-39,661
Expected credit losses	-34,813	
Total	**8,136,946**	**7,753,391**
Loans and advances total	**8,158,678**	**7,786,572**

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	6 263	4 841	31 137	42 241
New assets originated or purchased	1 717	708	741	3 166
Assets derecognised or repaid (excluding write offs)	-1 925	-1 922	-2 193	- 6 040
Transfers from Stage 1 to Stage 2		808		808
Transfers from Stage 1 to Stage 3			808	808
Transfers from Stage 2 to Stage 1	-198			-198
Transfers from Stage 2 to Stage 3			619	619
Transfers from Stage 3 to Stage 1	-95			-95
Transfers from Stage 3 to Stage 2		-48		-48
Amounts written off			-4 375	-4 375
Expected Credit Losses 30 June 2018*	**5 762**	**4 387**	**26 737**	**36 886**

* from which the off-balance sheet expected credit losses 2,073. These have been booked to the group provisions and other liabilities.

Impairment losses on loans and receivables (EUR 1,000)	Measured by individual contract	Measured by group	Total
Impairments 1 January 2017	**24,856**	**6,298**	**31,155**
+ increase in impairment losses	10,286	6,087	16,373
- reversal of impairment losses	-1,657	-1,302	-2,959
- final write-offs	-4,908		-4,908
Impairments 31 December 2017	**28,577**	**11,084**	**39,661**

NOTE 10: DERIVATIVES AND HEDGE ACCOUNTING

The Savings Banks Group hedges its interest rate risk against changes both in fair value and in cash flows and applies hedge accounting on hedging relationships. Fair value hedging is applied when fixed interest rate deposits are hedged. Cash flow hedging is applied when hedging the future interest cash flow from variable rate lending.

Changes in the fair value of derivatives in fair value hedging are recognised in the income statement under Net trading income. In 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 on hedging derivatives are presented as interest income and expense depending on their nature.

The effective part of changes in the fair value of derivatives hedging cash flows are recognised in equity in the reserve for hedging instruments after adjustments for deferred taxes. The ineffective part of changes in fair value are recognised in the income statement under Net trading income. Interests on hedging derivatives are presented as interest income and expense depending on their nature.

30.6.2018	Nominal value / remaining maturity				Fair value	
(EUR 1,000)	less than 1 year	1 - 5 years	more than 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging	205,959	1,752,758	344,000	2,302,717	48,094	3,364
Interest rate derivatives	170,000	1,700,000	344,000	2,214,000	44,557	208
Equity and index derivatives	35,959	52,758		88,717	3,537	3,156
Cash flow hedging	15,000	30,000	20,000	65,000	4,280	
Interest rate derivatives	15,000	30,000	20,000	65,000	4,280	
Total	**220,959**	**1,782,758**	**364,000**	**2,367,717**	**52,374**	**3,364**
Derivatives total					**52,374**	**3,364**

In the financial period 1-6 2018, EUR -284 thousand of effective cash flow hedging was recognised in other comprehensive income. The ineffective part of cash flow hedging totalled EUR -102 thousand and was recognised in Net trading income.

Hedged cash flows are expected to affect profit during the following periods:

(EUR 1,000)	less than 1 year	1 - 5 years	more than 5 years	Total
Interest rate derivatives	1,574	2,415	240	4,229
Total	**1,574**	**2,415**	**240**	**4,229**

31.12.2017	Nominal value / remaining maturity				Fair value	
(EUR 1,000)	less than 1 year	1 - 5 years	more than 5 years	Total	Assets	Liabilities
Hedging derivative contracts						
Fair value hedging	174,480	1,827,209	309,000	2,310,689	48,837	5,584
Interest rate derivatives	105,000	1,755,000	309,000	2,169,000	44,651	2,475
Equity and index derivatives	69,480	72,209		141,689	4,186	3,109
Cash flow hedging	15,000	20,000	30,000	65,000	4,383	
Interest rate derivatives	15,000	20,000	30,000	65,000	4,383	
Total	**189,480**	**1,847,209**	**339,000**	**2,375,689**	**53,220**	**5,584**

Derivatives total	**53,220**	**5,584**

In the financial year 2017, EUR -1,298 thousand of effective cash flow hedging was recognised in other comprehensive income. The ineffective part of cash flow hedging totalled EUR 67 thousand was recognised in Net trading income.

Hedged cash flows are expected to affect profit during the following periods:

(EUR 1,000)	less than 1 year	1 - 5 years	more than 5 years	Total
Interest rate derivatives	1,629	2,551	457	4,637
Total	**1,629**	**2,551**	**457**	**4,637**

NOTE 11: INVESTMENT ASSETS

(EUR 1,000)	30.6.2018	31.12.2017
At fair value through other comprehensive income (Available-for-sale investments)		
Debt securities	614,055	623,796
Shares and participations	525,102	552,125
Total	**1,139,157**	**1,175,920**
Fair value through profit or loss		
Shares and participations	524,742	
Total	**524,742**	**0**
Amortized cost investments		
Debt securities	42,357	41,763
Total	**42,357**	**41,763**
Investment property	44,149	42,994
Investment assets	**1,225,663**	**1,260,677**

Expected Credit Losses (ECL), Investment assets (EUR 1,000) *	Stage 1	Stage 2	Stage 3	Total
	12 month ECL	Lifetime ECL	Lifetime ECL	
Expected Credit Losses 1 January 2018	1,614			1,614
New assets originated or purchased	313			313
Assets derecognised or repaid (excluding write offs)	-498			-498
Transfers from Stage 1 to Stage 2				0
Transfers from Stage 1 to Stage 3				0
Transfers from Stage 2 to Stage 1				0
Transfers from Stage 2 to Stage 3				0
Transfers from Stage 3 to Stage 1				0
Expected Credit Losses 30 June 2018	**1,429**	**0**	**0**	**1,429**

* The expected credit losses (ECL) table includes all ECLs relating to investment assets. The effect of ECLs booked for debt security investment debt securities diminishes the balance sheet value and the effect of the ECLs relating to debt securities at fair value through comprehensive income is booked to other comprehensive income.

Impairment loss on available-for-sale financial assets (EUR 1,000)	Debt securities	Shares and participations	Total
Impairment losses 1 January 2017	**1,239**	**778**	**2,017**
+ increase in impairment loss	145	160	305
- reversal of impairment loss	-1,256	-138	-1,394
Impairment losses 31 December 2017	**128**	**800**	**928**

NOTE 12: LIFE INSURANCE ASSETS

(EUR1,000)	30.6.2018	31.12.2017
Investments covering for unit-linked policies		
At fair value through profit or loss		
Investment funds	406,962	390,543
Asset management portfolio	131,266	123,027
Other unit-linked covering assets	185,748	157,613
Total	**723,975**	**671,183**
Other investments		
At fair value through profit or loss		
Debt securities	840	1,797
Total	**840**	**1,797**
Available-for-sale financial assets		
Debt securities	3,269	3,403
Shares and participations	163,178	177,775
Total	**166,447**	**181,178**
Other investments total	**167,287**	**182,975**
Total life insurance investments	**891,263**	**854,158**
Other assets		
Premium receivables		
Other receivables	8,635	962
Accrued income	891	302
Total	**9,526**	**1,264**
Life insurance assets	**900,789**	**855,422**

Breakdown of Life Insurance debt securities recognised at fair value through profit or loss, shares and participations as well as derivatives by issuer of quotation

(EUR 1,000)	30.6.2018			31.12.2017		
	Debt securities	Shares and participations	Derivatives	Debt securities	Shares and participations	Derivatives
Quoted	840	723,975		1,797	671,183	
From Others	840	723,975		1,797	671,183	
Total	**840**	**723,975**	**0**	**1,797**	**671,183**	**0**

Available-for-sale life insurance financial assets

30.6.2018	Available-for-sale debt securities	Available-for-sale shares and participations
(EUR 1,000)	At fair value	At fair value
Quoted	3,269	158,303
From others	3,269	158,303
Other than quoted	0	4,875
From others		4,875
Total	**3,269**	**163,178**

Available-for-sale life insurance financial assets

31.12.2017	Available-for-sale Debt securities	Available-for-sale shares and participations
(EUR 1,000)	At fair value	At fair value
Quoted	3,403	172,900
From others	3,403	172,900
Other than quoted	0	4,875
From others		4,875
Total	**3,403**	**177,775**

LIABILITIES

NOTE 13: 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	183,442	190,458
Total	**221,442**	**228,458**
Liabilities to customers		
Deposits	6,641,049	6,375,524
Other financial liabilities	6,964	2,401
Change in the fair value of deposits	38,178	41,618
Total	**6,686,191**	**6,419,543**
Liabilities to credit institutions and customers	**6,907,632**	**6,648,001**

NOTE 14: DEBT SECURITIES ISSUED

(EUR 1,000)	30.6.2018	31.12.2017
Measured at amortised cost		
Bonds*	1,136,165	1,270,313
Covered bonds	996,761	996,430
Other		
Certificates of deposit	241,909	296,386
Debt securities issued	**2,374,836**	**2,563,128**
Of which		
Variable interest rate	389,647	608,858
Fixed interest rate	1,985,189	1,954,270
Total	**2,374,836**	**2,563,128**

* During the review period Central Bank of Savings Banks Finland belonging to the Savings Banks Group issued a three-year bond with variable interest rate, amounting to EUR 300 million.

The Group has not had any delays or defaults in respect of its issued debt securities.

NOTE 15: LIFE INSURANCE LIABILITIES

(EUR 1,000)	30.6.2018	31.12.2017
Other than unit-linked contract liabilities		
Guaranteed-interest insurance contracts	123,141	128,764
Unit-linked contract liabilities		
Liabilities for unit-linked insurance contracts	521,046	515,265
Liabilities for unit-linked investment contracts	204,122	156,519
Reserve arising from liability adequacy test		
Other liabilities		
Accrued expenses and deferred income	1,167	1,944
Other	1,932	638
Life insurance liabilities	**851,408**	**803,130**

Liabilities related to insurance policies are measured in compliance with the Finnish Accounting Standards. In liability adequacy test, the adequacy of liabilities for insurance policies is compared to the liabilities derived from the internal model. The adequacy test is described in more detail in the accounting policies of the financial statements.

OTHER NOTES

NOTE 16: FAIR VALUES BY VALUATION TECHNIQUE

Fair value measurement

Financial instruments are presented in the Group's balance sheet at fair value or at amortized cost. The classification of financial assets and liabilities by valuation technique as well as the criteria for measurement methods and for determining fair value are described in the accounting policies.

The fair values of financial instruments are primarily determined using quotations on a publicly traded market or market prices received from third parties. If quoted market prices are not available, balance sheet items are mainly measured by discounting future cash flows using market interest rates at the balance sheet date. In respect of cash and deposits payable on demand, the nominal value is considered equivalent to the fair value.

Investment property in the Group's financial statements is measured at cost less depreciation and impairment. The fair value of investment property is presented in the notes. Fair values are determined on the basis of market prices which are as comparable as possible or a valuation model which is based on net income from investment property. An independent appraiser's opinion on the valuation is sought for the most material properties.

The Savings Banks Group does not have assets measured at fair value on a non-recurring basis.

Fair value hierarchy

Level 1 consists of financial assets, for which the value is determined based on quotes on a liquid market. Market is considered liquid if the prices are available easily and regularly enough. Level 1 includes quoted bonds as well as other securities and listed shares and derivatives which are quoted on public.

Level 2 includes financial assets for which there is no quotation directly available on an active market and whose fair value is estimated using valuation techniques or models. These are based on assumptions which are supported by verifiable market information such as the listed interest rates or prices of similar instruments. This group includes e.g. currency and interest rate derivatives as well as commercial papers and certificates of deposit.

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. Furthermore, level 3 includes the fair value determined for the Group's investment property.

Transfers between levels

Transfers between the levels of the fair value hierarchy are considered to take place on the date when an event causes such a transfer or when circumstances change.

In the period 1-6/2018, there were no transfers between levels 1, 2 and 3.

30.6.2018	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					
Banking	1,390,566	1,371,049		19,517	**1,390,566**
Asset Management and Life Insurance*	724,815	723,975		840	**724,815**
Other operations**	25,240	25,240			**25,240**
Derivative contracts					
Banking	52,374		52,374		**52,374**
Fair value through other comprehensive income					
Banking	614,415	590,054	13,475	11,190	**614,719**
Asset Management and Life Insurance*	166,447	159,736		6,711	**166,447**
Measured at amortised cost					
Banking, Loans and other advances	8,174,811		9,862,284		**9,862,284**
Banking, Investment assets	42,357	43,169		1,000	**44,169**
Total financial assets	**11,191,024**	**2,913,223**	**9,928,132**	**39,258**	**12,880,613**

* including fair value of investments covering unit-linked policies, which are reported on level 1.
** The other investors' share of the consolidated mutual funds.

30.6.2018	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					
Asset Management and Life Insurance*	725,168	725,168			**725,168**
Other operations**	25,240	25,240			**25,240**
Derivative contracts					
Banking	3,364		3,364		**3,364**
Measured at amortised cost					
Banking	9,374,004	2,054,639	6,711,759	603,536	**9,369,934**
Total financial liabilities	**10,127,776**	**2,805,047**	**6,715,123**	**603,536**	**10,123,706**

* Includes liabilities for unit-linked insurance and investments contracts which are reported on level 1 in accordance of the underlying investment.
** The other investors' share of the consolidated mutual funds.

Changes at level 3

Reconciliation of changes in financial instruments at level 3

Tuloksen kautta arvostettavat rahoitusvarat (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 31 December 2017	**8,772**	**6 682**	**10 569**
Effect of the IFRS 9 transition to the opening balance	**10,629**		**10,629**
Carrying amount 1 January 2018	**19,401**	**1 797**	**21 198**
Purchases	222	2,647	2,869
Sales	-162	-3,620	-3,782
Changes in value recognised in income statement, realised	-27		-27
Changes in value recognised in income statement, unrealised	-52	16	-36
Transfers from level 1 and 2	135		135
Carrying amount 30 June 2018	**19,517**	**840**	**20 357**

Changes in value recognised in the income statement are presented in the item "Net trading income" and "Net life insurance income".

Derivatives (net) (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 1 January 2018	**0**	**0**	**0**
Carrying amount 30 June 2018	**0**	**0**	**0**

Changes in value recognised in the income statement are presented in the item "Net trading income".

Fair value through other comprehensive income (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 31 December 2017	**29,817**	**6,682**	**36,499**
Effect of the IFRS 9 transition to the opening balance	**-10,551**		**-10,551**
Carrying amount 1 January 2018	**19,266**	**6,682**	**25,948**
Purchases	2,753		2,753
Sales	-1,306		-1,306
Matured during the period	-5,084		-5,084
Changes in value recognised in income statement, realised	9	29	38
Changes in value recognised in comprehensive income statement	267		267
Transfers from level 1 and 2	1,574		1,574
Transfers to level 1 and 2	-6,289		-6,289
Carrying amount 30 June 2018	**11,190**	**6,711**	**17,901**

Changes in fair value recognized in the income statement during the year are included in the item "Net investment income" and "Net life insurance income". Unrealized changes in fair value are booked in the equity fair value reserve through the other comprehensive income.

Sensitivity analysis of financial instruments at level 3 (EUR 1,000)		
30.6.2018	Carrying amount	Effect of hypothetical changes' on profit, negative
At fair value through profit or loss		
Banking	19,517	-606
Asset Management and Life Insurance	840	-126
Total	**20,357**	**-732**
Fair value through other comprehensive income		
Banking, liabilities	11,190	-1,833
Asset Management and Life Insurance	6,711	-1,007
Total	**17,901**	**-2,839**
Total	**38,258**	**-3,571**

The above table shows the sensitivity of fair value for level 3 instruments in the event of market changes. Interest-bearing securities have been tested by assuming 1 percentage points parallel shift of the interest rate level in all maturities. For non-interest sensitive instrumetns the market prices are assumed to change by -15 percentage. For derivatives it is assumed that the possible change in value equals to the fair value of the derivative.

31.12.2017	Carrying amount	Fair value by hierarchy level			
Financial instruments (EUR 1,000)		Level 1	Level 2	Level 3	total
Measured at fair value					
At fair value through profit or loss					
Banking	9,325	552		8,772	**9,325**
Asset Management and Life Insurance*	672,980	671,183		1,797	**672,980**
Other operations**	25,369	25,369			**25,369**
Derivative contracts					
Banking	53,220		53,220		**53,220**
Asset Management and Life Insurance					
Available-for-sale financial assets					
Banking	1,175,920	1,136,538	9,986	29,817	**1,176,341**
Asset Management and Life Insurance	181,178	174,496		6,682	**181,178**
Measured at amortised cost					
Investments held-to-maturity					
Banking	41,763	43,828			**43,828**
Loans and receivables					
Banking	8,905,510		10,463,054	4,245	**10,467,298**
Total financial assets	**11,065,265**	**2,051,967**	**10,526,260**	**51,312**	**12,629,539**

* including fair value of investments covering unit-linked policies, which are reported on level 1.
** The other investors' share of the consolidated mutual funds.

31.12.2017	Carrying amount	Fair value by hierarchy level			
Financial liabilities (EUR 1,000)		Level 1	Level 2	Level 3	total
Measured at fair value					
At fair value through profit or loss					
Asset Management and Life Insurance*	671,784	671,784			**671,784**
Other operations**	25,369	25,369			**25,369**
Derivative contracts					
Banking	5,584		5,584		**5,584**
Measured at amortised cost					
Banking	9,311,414	2,190,258	6,605,525	523,591	**9,319,374**
Total financial liabilities	**10,014,150**	**2,887,411**	**6,611,109**	**523,591**	**10,022,111**

* Includes liabilities for unit-linked insurance and investments contracts which are reported on level 1 in accordance of the underlying investment.
** The other investors' share of the consolidated mutual funds.

Changes at level 3

Reconciliation of changes in financial instruments at level 3.

Financial instruments at fair value through profit or loss (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 1 January 2017	**8,811**	**1,537**	**10,347**
Purchases			
Sales			
Matured during the period	-300		-300
Changes in value recognised in income statement, realised	257		257
Changes in value recognised in income statement, unrealised	4	260	264
Carrying amount 31 December 2017	**8,772**	**1,797**	**10,568**

Changes in value recognised in the income statement are presented in the item "Net trading income" and "Net life insurance income".

Derivatives (net) (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 1 January 2017	**1,239**		**1,239**
Changes in value recognised in income statement, unrealised	-172		-172
Transfers to level 1 and 2	-1,067		-1,067
Carrying amount 31 December 2017	**0**	**0**	**0**

Changes in value recognised in the income statement are presented in the item "Net trading income".

Available-for-sale financial assets (EUR 1,000)	Banking	Asset Management and Life Insurance	Total
Carrying amount 1 January 2017	**28,684**	**5,076**	**33,760**
Purchases	4,485	1,807	6,292
Sales	-3,040	-160	-3,200
Matured during the period	-3,884		-3,884
Changes in value recognised in income statement, realised	1	1	2
Changes in value recognised in income statement, unrealised	-113		-113
Changes in value recognised in comprehensive income statement	551	-42	509
Transfers from level 1 and 2	5,682		5,682
Transfers to level 1 and 2	-2,548		-2,548
Carrying amount 31 December 2017	**29,817**	**6,682**	**36,499**

Changes in fair value recognized in the income statement during the year are included in the item "Net investment income" and "Net life insurance income". Unrealized changes in fair value are booked in the equity fair value reserve through the other comprehensive income.

Sensitivity analysis of financial instruments at level 3 (EUR 1,000)		Effect of hypothetical changes' on profit
31.12.2017	Carrying amount	Negative
At fair value through profit or loss		
Banking	8,772	-218
Asset Management and Life Insurance	1,797	-1
Other operations		
Total	**10,569**	**-219**
Available-for-sale financial assets		
Banking	29,817	-634
Asset Management and Life Insurance	6,682	-1,272
Muut toiminnot		
Total	**36,499**	**-2,125**
Total	**47,068**	**-2,125**

The above table shows the sensitivity of fair value for level 3 instruments in the event of market changes. Interest-bearing securities have been tested by assuming 1 percentage points parallel shift of the interest rate level in all maturities. For non-interest sensitive instrumetns the market prices are assumed to change by -15 percentage. For derivatives it is assumed that the possible change in value equals to the fair value of the derivative.

NOTE 17: OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The derivative contracts of the Savings Banks Group 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.

30.6.2018				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, carrying amount in statmenets of financial position, gross	Financial instruments held/given as collateral	Cash held/given as collateral	Net amount
Assets							
Derivative contracts				52,374		29,508	22,866
Total				**52,374**	**0**	**29,508**	**22,866**
Liabilities							
Derivative contracts				3,364		399	2,965
Total				**3,364**	**0**	**399**	**2,965**

31.12.2017				Amounts which are not offset but are subject to enforceable master netting arrangements or similar agreements			
(EUR 1,000)	Recognised financial assets, gross	Recognised financial liabilities offset in balance sheet, gross	Carrying amount in balance sheet, net	Financial instruments	Financial instruments held/given as collateral	Cash held/given as collateral	Net amount
Assets							
Derivative contracts				52,143		33,588	18,555
Total				**52,143**	**0**	**33,588**	**18,555**
Liabilities							
Derivative contracts				5,584		399	5,185
Total				**5,584**	**0**	**399**	**5,185**

NOTE 18: COLLATERALS

(EUR 1,000)	30.6.2018	31.12.2017
Collateral given		
Given on behalf of Group's own liabilities and commitments		
Pledges	35,617	25,585
Loans *	1,629,994	1,485,159
Other	12,750	12,750
Collateral given	**1,678,362**	**1,523,494**
Collateral received		
Real estate collateral	7,747,163	7,372,032
Securities	33,147	38,370
Other	81,644	76,222
Guarantees received	61,318	59,162
Collateral received	**7,923,271**	**7,545,786**

* Loans that have given as collateral to Sp Mortage Bank's secured bonds.

NOTE 19: OFF BALANCE-SHEET COMMITMENTS

(EUR 1,000)	30.6.2018	31.12.2017
Guarantees	59,048	59,277
Commitments related to short-term trade transactions*	694,962	596,311
Other	7,331	7,607
Off balance-sheet commitments	**761,341**	**663,195**

NOTE 20: RELATED PARTIES

The Board of Savings Banks' Union Coop has defined the related parties of the Savings Banks Group. The related parties of the Savings Banks Group's comprise the entities consolidated in the Group's financial statements, associated companies and key management personnel as well as their close family members. In addition, related parties comprise entities which the key management personnel and/or their close family members control. The key management personnel of the Savings Banks Group comprise the members and deputy members of the Supervisory Board, the members of the Board of Directors, the Managing Director and his deputy as well as the Executive Board of Savings Banks' Union Coop.

Loans and guarantees to related parties have been granted under the terms and conditions which apply to the corresponding customer loans and guarantees.

Related party transactions consists mainly of granting of loans, deposits and guarantees. There haven't been any major changing regarding the related transactions after 31 December 2017.

CAPITAL ADEQUACY INFORMATION

NOTE 21: SUMMARY OF REGULATORY CAPITAL, RWA AND CAPITAL RATIOS

The Pillar III disclosure information regarding risk management objectives and policies of the Savings Bank Group are descriped in the Risk Management and Capital adequacy management note of the financial statement. Corporate governance disclosure ingormation and remuneration are included to the Corporate Governance note of the financial statement.

The Amalgamation comprises the Savings Banks' Union Coop, which acts as the Central Institution of the Amalgamation, Savings Banks, the Central Bank of Savings Banks Finland Plc, Sp-Fund Management Company Ltd, as well as the companies within the consolidation groups of the above-mentioned entities. Savings Banks' Union Coop acts as the central institution of the Amalgamation.

Capital requirement for the credit risk is calculated with standard method. The capital requirement for the operational risk is calculated with the basic method. The capital requirement relating to market risk is calculated with the basic method on the foreign exchange position.

Capital adequacy's main items

Own Funds	30.6.2018	31.12.2017
Common Equity Tier 1 (CET1) capital before regulatory adjustments	984,046	969,674
Total regulatory adjustments to Common Equity Tier 1 (CET1)	-33,907	-30,591
Common Equity Tier 1 (CET1) capital	**950,139**	**939,082**
Additional Tier 1 (AT1) capital before regulatory adjustments		
Total regulatory adjustments to Additional Tier 1 (AT1) capital		
Additional Tier 1 (AT1) capital	**0**	**0**
Tier 1 capital (T1 = CET1 + AT1)	**950,139**	**939,082**
Tier 2 (T2) capital before regulatory adjustments	37,671	45,483
Total regulatory adjustments to Tier 2 (T2) capital		
Tier 2 (T2) capital	**37,671**	**45,483**
Total capital (TC = T1 + T2)	**987,810**	**984,565**
Risk weighted assets	**5,330,525**	**5,165,694**
of which: credit and counterparty risk	4,769,463	4,601,921
of which: credit valuation adjustment (CVA)	69,317	72,541
of which: market risk	40,392	39,879
of which: operational risk	451,354	451,354
Common Equity Tier 1 (as a percentage of total risk exposure amount)	17.8 %	18.2 %
Tier 1 (as a percentage of total risk exposure amount)	17.8 %	18.2 %
Total capital (as a percentage of total risk exposure amount)	18.5 %	19.1 %
Capital requirement		
Total capital	987,810	984,565
Capital requirement total*	587,589	569,379
of which: Pillar 2 additional capital requirement	26,653	25,828
Capital buffer	400,222	415,186

* The capital requirement is formed by the statutory minimum capital adequacy requirement of 8%, the capital conservation buffer of 2.5% according to the Act on Credit Institutions, 0.5% Pillar 2 requirement set by the Financial Supervisory Authority and the country-specific countercyclical capital requirements of foreign exposures.

NOTE 22: MINIMUM CAPITAL REQUIREMENT

Credit and counterparty risk	30.6.2018	30.6.2018	31.12.2017	31.12.2017
Exposure class (EUR 1,000)	Risk weighted assets	Capital requirement	Risk weighted assets	Capital requirement
Exposures to central governments or central banks				
Exposures to regional governments or local authorities	478	38	498	40
Exposures to public sector entities				
Exposures to multilateral development banks	112	9	161	13
Exposures to international organisations				
Exposures to institutions	30,557	2,445	38,535	3,083
Exposures to corporates	1,084,837	86,787	1,002,963	80,237
Retail exposures	857,375	68,590	850,380	68,030
Exposures secured by mortgages on immovable property	2,042,993	163,439	1,943,450	155,476
Exposures in default	54,577	4,366	53,963	4,317
Exposures associated with particularly high risk	8,377	670	8,080	646
Exposures in the form of covered bonds	5,548	444	5,147	412
Items representing securitisation positions				
Exposures to institutions and corporates with a short-term credit assesment				
Exposures in the form of units or shares in collective investment undertakings (CIUs)	464,976	37,198	469,694	37,575
Equity exposures*)	86,958	6,957	87,942	7,035
Other items	132,674	10,614	141,109	11,289
Credit risk total	4,769,463	381,557	4,601,921	368,154
Credit valuation adjustment (CVA)	69,317	5,545	72,541	5,803
Market risk	40,392	3,231	39,879	3,190
Operational risk	451,354	36,108	451,354	36,108
Total	**5,330,525**	**426,442**	**5,165,694**	**413,256**

NOTE 23: TOTAL EXPOSURE

Credit and counterparty risk 30.6.2018

Exposure class (EUR 1,000)	Balance sheet items	Off balance sheet items	Derivatives	Total
Exposures to central governments or central banks	1,430,539	13,680		1,444,219
Exposures to regional governments or local authorities	32,057	2,426		34,483
Exposures to public sector entities				
Exposures to multilateral development banks	3,106	243		3,349
Exposures to international organisations				
Exposures to institutions	14,798	1,326	82,356	98,481
Exposures to corporates	1,059,868	220,404		1,280,272
Retail exposures	1,167,188	345,677		1,512,864
Exposures secured by mortgages on immovable property	5,861,690	174,035		6,035,725
Exposures in default	48,865	250		49,115
Exposures associated with particularly high risk	5,585			5,585
Exposures in the form of covered bonds	55,476			55,476
Items representing securitisation positions				
Exposures to institutions and corporates with a short-term credit assesment				
Exposures in the form of units or shares in collective investment undertakings (CIUs)	501,252			501,252
Equity exposures	49,084			49,084
Other items	149,687			149,687
Total	**10,379,195**	**758,041**	**82,356**	**11,219,592**

Credit and counterparty risk 31.12.2017

Exposure class (EUR 1,000)	Balance sheet items	Off balance sheet items	Derivatives	Total
Exposures to central governments or central banks	1,292,569	2		1,292,571
Exposures to regional governments or local authorities	14,449	3,607		18,056
Exposures to public sector entities				
Exposures to multilateral development banks	51,188			51,188
Exposures to international organisations				
Exposures to institutions	29,397	257	87,642	117,296
Exposures to corporates	1,022,237	140,116		1,162,353
Retail exposures	1,544,813	341,647		1,886,460
Exposures secured by mortgages on immovable property	5,585,622	144,055		5,729,677
Exposures in default	72,207	65		72,273
Exposures associated with particularly high risk	5,387			5,387
Exposures in the form of covered bonds	39,244			39,244
Items representing securitisation positions				
Exposures to institutions and corporates with a short-term credit assesment				
Exposures in the form of units or shares in collective investment undertakings (CIUs)	527,127			527,127
Equity exposures	50,068			50,068
Other items	164,227			164,227
Total	**10,398,535**	**629,749**	**87,642**	**11,115,925**

NOTE 24: RECONCILIATION OF OWN FUNDS

Reconciliation of own funds

(EUR 1,000)	30.6.2018	31.12.2017
Total shareholders' equity (IFRS)	**1,031,548**	**1,017,520**
Deductions	-47,503	-47,846
CET1 capital before statutory adjustments	**984,046**	**969,674**
Profit for the period	-1,044	-2,607
Cash flow hedging	-2,640	-2,867
Intangible assets	-27,816	-23,608
Difference in deferred tax assets	-2,407	-1,510
Total CET1 capital	**950,139**	**939,082**

Savings Bank

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