S-Bank

ANNUAL REPORT

2010

S-Bank


2008 20
2010
2011

S-BANK IN 2010

FINANCIAL STATEMENTS FOR 2010

VISION

To provide co-op members with the best possible services relating to daily payment transactions, savings and the financing of purchases.

S-BANK IN BRIEF

S-Bank is the S Group's own bank. S-Bank offers its customers services relating to daily payment transactions, savings and the financing of purchases.

These services are primarily aimed at S-Etukortti card users. They also get, free of charge, the bank's best customer benefits, such as the combination card, the current account and online banking IDs.

S-Bank offers savers a wide variety of account options. The credit range includes the S-Etukortti card with a low-interest Visa credit, and other consumer credit.

S-Bank services can be used at different S Group outlets around Finland. Furthermore, online banking services and customer service by telephone are available to customers.

S-Bank is fully in Finnish ownership. It is owned by SOK Corporation (50%) and S Group's cooperatives (total 50%). S-Bank was awarded the Key Flag logo in recognition of the company's Finnish origins.

S-BANK'S KEY NUMBERS AT THE END OF 2010

2,319,000 customers

EUR **2,452** million in deposits

664,000 S-Etukortti cards issued with Visa

933,000 online banking users

20.8 % as the capital adequacy ratio

EUR **12.5** million as the result for 2010.

CO-OP MEMBERS OWN BANK

S-Bank provides us, the co-op members, with banking services free of charge. We deal with our bank transactions conveniently in connection with shopping or through online banking. And when we pay with the S-Bank card, we get a payment method-related benefit, in addition to the Bonus.

REVIEW BY THE MANAGING DIRECTOR:

BUILDING THE BANK FOR ORDINARY PEOPLE LIKE US

S-Bank has its own role in S Group, which is owned by its customers. This role may be divided into three sections, of which the most important is to offer the co-op members services that facilitate their everyday life. Secondly, the use of S Group services must be made more interesting and rewarding than ever. Thirdly, the co-op member's bank services must be developed into lucrative business from the viewpoint of the entire S Group. According to the figures for the first operating years, S-Bank has been successful in its role.

At the end of the year, approximately one third of co-op members had started to use the S-Etukortti Visa card with its interlinked S-Bank services. The interest shown by customers in the in-store bank services has been visible in the increasing use of electronic services as well. Nearly one million S-Etukortti users have S-Bank's online banking IDs.

I dare say the reasons for the growing interest are the financial benefit accrued from the use of S-Bank's services and the possibility to take care of everyday banking transactions with one card. My view is supported by a large-scale customer survey published in December last year. The survey revealed that Finnish bank customers compare customer benefits obtained by them from different banks. S-Bank was praised for its benefits more than any other bank.

The increasing use of S-Bank services is also visible in the result development. Despite the fact that low interest rates remained in effect for an exceptionally long time last year, setting their own challenges to deposit bank operations, S-Bank's result was EUR 12.5 million, which is four times better than the result for the year before last. The favourable result development provides the young bank with great potential to grow and develop.

To sum up, S-Bank has reached its goal and offered its co-op members banking services which are easy to use and well-suited to everyday life. This provides us with a solid foundation to continue building the bank for ordinary people like us.

PEKKA YLIHURULA
Managing Director, S-Bank Ltd

HIGHLIGHTS FOR 2010

FEBRUARY

S-JOUSTOLUOTTO CREDIT FOR ONLINE BANKING

In 2010, the first new product, S-Joustoluotto, was launched in February. It replaced the one-time credit S-Kertaluotto which was previously included in the product portfolio. Now S-Bank customers can apply for credit through the online bank and transfer funds to their own S-Tili accounts whenever they want. This new product allows S-Bank to offer its customers a consumer credit portfolio as extensive as the portfolio provided by competing banks.

MARCH

CITIBANK'S CUSTOMERS TRANSFERRED TO S-BANK

In December 2009, S-Bank signed an agreement, according to which Citibank's credit portfolio designed for private customers would be transferred to S-Bank at a later date.

In March 2010, outstanding credit worth approximately EUR 200 million, 23,000 credit customers and 30 employees handling credit operations were transferred to S-Bank from Citibank.

The acquisition of Citibank's credits was strategically important to S-Bank due to the balancing effect of the increased credit portfolio on the bank's balance sheet. The deal had a positive impact on last year's result for S-Bank.

NOVEMBER

ACCOUNT SELECTION ADDED WITH S-SIJOITUSTILI

in 2010, the S-Bank's bank account selection was extended with another new product, S-Sijoitustili. This credit account provides S-Bank customers with an opportunity to get a better interest rate for their savings without the fear of losing their deposit capital.

Money is deposited in the S-Sijoitustili account over a specified period. The account interest consists of fixed-rate interest and potential supplementary interest which is determined in accordance with the allocated benefits selected for the account.

Expansion of the bank account selection was crucial to S-Bank due to the increasing competition for the Finnish bank customers' deposits. S-Bank is now more capable of competing for customers who are searching for the most profitable option from among secure savings products.

The first investment account could be opened at S-Bank in late November/early December.

A SECURE OPTION FOR US, THE ORDINARY PEOPLE.

The S-Sijoitustili investment account provides us, S-Bank's customers, with a secure option for getting better interest on our savings.

CO-OP MEMBERS' OWN BANK

WE FINNS ENJOY THE BENEFITS OF COOPERATIVE ACTIVITIES

Unlike many other Finnish companies, the S Group business is based on cooperative activities. During these times characterised by quarter-based thinking, the idea of cooperative activities is no longer as familiar as it used to be a few decades ago. However, most Finns enjoy the benefits of cooperative activities nearly every day.

The idea behind cooperative activities is to make everyday life easier for the members of the co-operative society, while also running a profitable business. The S Group's co-op members, around 1.9 million Finns, benefit from these activities in the form of affordable and quality products and services, in addition to benefits paid in cash. All of our services are under constant development.

The S Group's co-op members have also had a bank of their own for over three years. Nearly all co-op members are S-Bank's customers with their own bank accounts and receive benefits that are paid in cash into these accounts. Co-op members use other bank services in accordance with their own needs.

S-Bank offers co-op members of S Group an easy and rewarding way of dealing with their daily payment transactions. Bank transactions can be dealt with either at S Group stores or through online banking. Customers can use their green S-Etukortti card as a versatile means of payment.

S-Bank services are available to all the S Group's co-op members in accordance with the principles for cooperative activities. They are the most important customers of S Group and get the same benefits, such as bank services free of charge.

S-Bank is today a vital part of co-op members' total service package. As S-Bank's customers, co-op members get all benefits available.

WE, THE CO-OP MEMBERS, GET A BENEFIT EVERY TIME WE PAY WITH THE CARD

When we pay with the S-Etukortti card, we get a half a per cent payment method benefit for nearly all the goods bought from S Group stores.

FINANCIAL STATEMENTS

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S-Bank

REPORT OF THE EXECUTIVE BOARD ON 2010

1.1.–31.12.2010

S-BANK'S DEPOSIT BANKING OPERATIONS continued to grow steadily in 2010, although the low interest rates and increasing competition in the banking market set their own challenges to operations.

The number of S-Bank services users increased by 143,000 customers during the period under review. At the end of the review period, S-Bank had 2,319,000 customers. The number of S-Bank's electronic service users increased to 933,000 customers.

The number of S-Etukortti Visa card users grew by more than 70 per cent during the year. S-Bank issued approximately 292,000 new Visa cards. By the end of the year, S-Bank had granted 664,000 S-Etukortti Visa cards.

The increase in deposits slowed down from the previous year. The total funds on deposit in S-Bank was almost the same at the end of the year as at the beginning of the year. The amount of deposits by S-Bank's private customers grew by EUR 34 million. At the end of the year, S-Bank had EUR 2,290 million in deposits from private customers. Corporate deposits included, S-Bank's total funds on deposit were EUR 2,452 million at year-end.

The amount of credit granted by S-Bank almost doubled. At the end of the year, the total amount of outstanding credit was EUR 299 million. The expansion of credit portfolio was quicker as a result of the transaction in which Citibank's private customers' credit portfolio was transferred to S-Bank in March.

S-Bank's financial performance for the year was very successful. The result, EUR 12.5 million, quadrupled from the previous year.

S-Bank improved its product range with two important products. The new credit product, S-Joustoluotto, supplemented S-Bank's credit product portfolio so that it now corresponds to competitors' offerings. The investment account, S-Sijoitustili, was added to the account portfolio at the end of the year to enable S-Bank to expand its offering to fulfil the expectations set by Finnish savers.

In addition to product innovations, two projects launched in 2009 dominated the S-Bank's operating year. The strategic cooperation with the software company SAS Institute Ltd made progress. S-Bank will implement the data flow management solutions offered by the cooperation in 2011. The second extensive project, the transfer of the management of Citibank's private customers' credit portfolio to S-Bank, was completed by the end of the year.

S-Bank's financial performance as a whole was successful. The strong result development provides S-Bank with an opportunity to further improve its banking business in the future.

FINANCIAL STANDING

FINANCIAL PERFORMANCE AND PROFITABILITY

The S-Bank's financial performance for 2010 was strong. Operating profit grew for the second successive year by more than EUR 9 million from the previous year, although the bank invested intensively in the development and expansion of operations. Operating profit totalled EUR 12.5 million (3.1).

S-Bank's good result development was, above all, due to investment business which was very successful during the review period, in spite of the challenging interest environment. The favourable development in the consumer credit business acquired from Citibank International Plc reflected positively on the performance of the retail banking business. In addition, the development shown by credit and impairment losses was positive.

The positive result decreased the S-Bank's cost/income ratio to 0.7 (0.8). Profitability improved as well, and the return on equity was 7.7 per cent (2.8 per cent). Return on assets was 0.5 per cent (0.1 per cent).

KEY FINANCIAL INDICATORS (EUR MILLION)	**12/2010**	**12/2009**	**12/2008**
Net interest income	38.3	35.4	25.6
Net fee and commission income	7.4	4.8	3.1
Other income	15.4	7.0	2.1
Net income (EUR million)	61.2	47.2	30.7
Personnel expenses	-8.1	-6.6	-5.0
Other administrative expenses	-31.6	-24.4	-24.2
Depreciation and impairment losses	-3.9	-3.7	-3.6
Other expenses	-5.1	-9.4	-4.0
Operating profit/loss (EUR million)	12.5	3.1	-6.1
Private customer deposits			
Demand deposits	1 968.3	2 082.1	1 150.6
Fixed-term	321.6	174.3	626.1
Corporate deposits	162.1	201.1	168.0
Deposits total (EUR million)	2 452.0	2 457.6	1 944.7
Debt securities	2 096.7	2 336.6	1 766.1
Central bank / credit institution receivables	198.7	151.8	163.8
Lending to the public	299.0	153.9	99.8
Receivables total	2594.4	2 642.3	2 029.8
Cost/income ratio	0.7	0.8	1.1
Return on equity	7.7%	2.8%	-11.2%
Return on assets	0.5%	0.1%	-0.4%
Equity ratio	6.1%	6.0%	2.8%

Income

Net income increased by 29.6 per cent (53.8) year-on-year, totalling EUR 61.2 million (47.2) for the financial year. The majority of the income was constituted by the net interest income, although the net fee and commission income and other income grew clearly from the previous year. The net interest income totalled EUR 38.3 million (35.4). The net interest income increased by 8.2 per cent (38.3) from the previous year. The challenging interest environment reflected on the development shown by the net interest income. Income in net interest income consisted mainly of investments in money and capital markets. As a result of purchased consumption credit operations, the interest income from card and credit products also played a significant role. Interest expenses consisted mainly of interest on deposits paid to customers.

Net fee and commission income, which is mainly generated through credit card and consumer credit operations, borrowing and payment transactions, increased 55.3 per cent year-on-year (54.8), totalling EUR 7.4 million (4.8). Other income totalled EUR 15.4 million (7.0), consisting of net income from financial assets available for sale, net income from securities trading and other operating income. Net income from financial assets available for sale increased to EUR 10.2 million (7.5). As a result of derivatives recognised at fair value through profit and loss, net income from securities trading increased to EUR 0.4 million (-2.0) Other operating income stood at EUR 4.9 million (1.4)

Expenses

Takeover of the consumer credit business resulted in increased expenses. Expenses for the period totalled EUR 48.7 million (44.2), up 10.2 per cent year-on-year. The most significant individual expense item was IT and Information Management, totalling EUR 12.5 million (10.6). Other administrative expenses totalled EUR 31.6 million (24.4), with other significant items besides IT and Information Management being expenses related to system connections, commissions paid to S Group Companies and charges invoiced to S-Bank by S-Asiakaspalvelu Oy.

The increase in personnel resulted in higher personnel expenses. Personnel expenses amounted to EUR 8.1 million (6.6). Personnel expenses were up 21.9 per cent (32.1) year-on-year. Depreciations for the period amounted to EUR 3.9 million (3.7). Other operating expenses, totalling EUR 2.2 million (2.6), consisted of leases and rents for office premises, machinery and equipment, vehicle expenses and contribution payments for the Deposit Guarantee Fund.

Impairment and credit losses developed into a positive direction and losses recognised in the period as net amounts totalled EUR 2.9 million (6.8). Recovery of credit losses amounted to EUR 3.0 million (0.1).

Balance Sheet

Total assets were EUR 2,687.6 million (2,689.0) at the end of the financial year. Competition for deposits increased in the banking market but the strong confidence in S-Bank led to an increasing amount of deposits by private customers. Customers clearly began favouring current fixed-term deposits over demand accounts. At year-end, the amount of demand deposits totalled EUR 1,968.3 million (2,082.1), and the amount of fixed-term deposits totalled EUR 321.6 million (174.3). The amount of corporate deposits fluctuated during the financial year, ending up at EUR 162.1 million. The amount of corporate deposits decreased by EUR 39.1 million year-on-year.

S-Bank's equity grew by EUR 4.4 million during the period under review, ending up at EUR 162.9 million (158.5). S-Bank's equity was increased by the good result, but the fair value reserve decreased due to realisations. The fair value reserve was EUR 4.8 million (12.8) at the end of the financial year.

S-Bank mainly invested its capital in the money and capital markets. At the end of the financial period, S-Bank's debt securities amounted to a total of EUR 2,096.7 million (2,336.6), of which the debt securities eligible for refinancing with central banks accounted for EUR 1,774.3 million (1,892.4). All debt securities were categorised as available-for-sale financial assets. Credit card and consumer credit receivables as well as account and working capital credit facilities increased by EUR 145.1 million during the financial period, ending up at EUR 299.0 million. The growth was strongest in consumer credit products due to a business acquisition, but other items also grew steadily. Receivables from the central bank and credit institutions totalled EUR 198.7 million (151.8).

The positive financial result increased S-Bank's equity ratio to 6.1 per cent (6.0).

CAPITAL ADEQUACY

DISCLOSURE OF CAPITAL ADEQUACY INFORMATION

In Finland, banking operations and related risks are regulated through the monitoring of capital adequacy, for instance. The capital adequacy framework is comprised of three interlinked entities, or pillars. Pillar I defines the minimum capital requirement; Pillar II requires the bank to make an overall estimate of its risk profile and the adequacy of its capital in proportion to these risks; and Pillar III defines the disclosure requirements regarding the bank's risks. Pillar III stipulates that information concerning capital adequacy must be published at least once a year, taking into account the principle of materiality. S-Bank observes the disclosure requirement by publishing the own funds information on its capital adequacy at least once a year in the Report of the Executive Board. In respect of different types of risks and risk management, the information is published in the Notes to the Financial Statements.

In special circumstances, capital adequacy-related information is also disclosed in an Interim Report. Such a special situation realises if the company is capitalised outside the capital plan. An Interim Report is published once per year, for the period covering the first six months of the year.

On the closing date, there is no information regarding capital adequacy that is not published due to business secrets or non-disclosure obligation.

S-Bank does not disclose information regarding the capital adequacy requirement for market risk as S-Bank does not hold a trading portfolio pursuant to minimum capital adequacy requirements.

OWN FUNDS

Own funds can be divided into Tier I, Tier II and other own funds. S-Bank's own funds consist of Tier I and Tier II funds and items deducted from Tier I own funds. S-Bank does not have items categorised as other own funds.

Tier I own funds are freely and immediately available for covering unexpected losses. S-Bank's Tier I own funds consist of restricted and unrestricted equity items and retained earnings.

Restricted equity within Tier I funds consists of share equity and the share premium reserve. In addition, S-Bank's Tier I funds consist of the invested non-restricted equity reserve and voluntary provisions with the deferred tax liability deducted. S-Bank's Tier I own funds are categorised as non-restricted own funds in full, which means that the bank has full power of decision over the repayment of the funds and over the dividends to be distributed on them.

Owing to the start-up of operations, S-Bank showed a loss for financial periods preceding the financial period 2009. For this reason, the losses from financial periods preceding the financial period 2009 and the profits for the financial periods 2010 and 2009 constitute the retained earnings, and as a negative item they are to be deducted from Tier I own funds. Deferred tax assets attributable to confirmed losses are not included in own funds. The unamortised portion of the acquisition costs of intangible assets is deducted from Tier I own funds.

S-Bank's Tier II own funds consist of the fair value reserve and two loans on debenture terms. The fair value reserve is fully included in upper Tier II own funds less deferred taxes in accordance with the corporate tax rate.

S-Bank does not have items categorised as deductible from Tier II own funds or jointly from Tier I and Tier II own funds.

MANAGEMENT OF CAPITAL REQUIREMENTS

The management of S-Bank's capital requirements is described in the risk management policy that has been confirmed by the bank's Executive Board. It is updated annually or whenever changes calling for an update take place in the bank's operations.

Management of capital adequacy is part of S-Bank's annual strategy process. The process of managing capital adequacy is based on comprehensive identification of risks, taking into consideration the nature and extent of business and changes in the external operating environment. The required amount of own funds is deduced from the identified and analysed risks within the limits of the risk-taking bias and level of risk-taking specified in the strategy.

The management of capital adequacy is based on risk analyses conducted on credit, market and operational risks in accordance with minimum capital requirements. In addition, risk analyses include risks that are accounted for only partially under Pillar I (calculation of minimum capital adequacy) or fall completely outside Pillar I. On the basis of profound risk analysis of the bank's operational concept, the bank's strategic objectives and the risk-taking bias derived therefrom, the Executive Board annually confirms the need for risk-based capital in its capital plan. In addition to the capital requirement, the capital plan describes the acquisition of any supplementary capital that may be needed, as well as measures to be taken in dealing with unexpected situations that affect capital adequacy.

The minimum capital adequacy for own funds under Pillar I is mainly attributable to credit risk. In the calculation of the minimum capital adequacy for own funds, S-Bank applies the standard method for credit and market risk and the basic method for operational risks. Owing to the nature of operations, the bank did not allocate own funds to market risk during the financial year 2010, and the requirement for operational risk was minor, but on the increase annually, due to the start-up of operations.

In respect of credit risk and market risk, S-Bank considers that its operations are of such a nature that the risk-based capital requirement under Pillar II corresponds to the capital requirement under Pillar I. The same applies to operational risks, as the net income-based capital requirement for operational risks increases with the increase in operations.

As regards risks in the external operating environment, interest rate risk in the banking book, concentration risk and liquidity risk, the bank considers that the bank's own funds cover the risk-based capital requirement relating to these risks. S-Bank's minimum capital adequacy target is 15 per cent. The calculation of the capital adequacy ratio is presented at the end of the report. S-Bank closely monitors the development of its balance sheet structure and undertakes measures immediately if its capital adequacy is in danger of falling below the minimum capital adequacy target which the bank has set for itself. In the start-up stage of operations, meeting the target is ensured by weighting the balance sheet towards low-risk counterparties. Secondarily, the Executive Board proposes to the General Meeting measures for increasing own funds as appropriate to the situation.

OWN FUNDS (EUR MILLION)	**12/2010**	**12/2009**	**12/2008**
Tier I own funds without deduction items	160.5	148.0	65.4
Share capital	33.5	33.5	16.8
Share premium reserve	21.2	21.2	21.2
Invested non-restricted equity reserve	104.4	104.4	41.6
Voluntary provisions	2.4	2.3	2.1
Retained earnings			
Profits/losses from previous periods	-13.4	-16.3	-10.2
Profit/loss for the financial year	12.4	2.9	-6.1
Deduction items			
Intangible assets	12.6	13.3	14.6
Tier I own funds total	**147.9**	**134.7**	**50.7**
Tier II own funds	**23.5**	**29.5**	**12.3**
Fair value reserve	3.5	9.5	-7.7
Debentures	20.0	20.0	20.0
Own funds total	**171.5**	**164.1**	**63.0**
Capital adequacy ratio	**20.8%**	**25.8%**	**12.7%**
Capital adequacy ratio for Tier I own fundse	**17.9%**	**21.2%**	**10.2%**

S-Bank's capital adequacy ratio fell during the financial period due to changes in the risk profile. The risk profile changed because S-Bank's balance sheet remained at the previous year's level and the share of retail receivables with higher risk weighting increased due to a business acquisition. Finally, the capital adequacy ratio was 20.8 per cent (25.8). Capital adequacy increased due to favourably increased own funds.

At the close of the financial year, the bank's own funds totalled EUR 171.5 million (164.1), whereas the minimum requirement of own funds was EUR 66.1 million (50.9). The bank's own funds were most significantly tied by the credit risk capital adequacy requirement and the included items of "Receivables from credit institutions and investment firms" as well as "retail receivables" and "Receivables from companies".

MINIMUM AMOUNT OF OWN FUNDS (EUR MILLION)	12/2010		12/2009	
Minimum capital adequacy requirement for credit risk	**Exposure value**	**Own funds**	**Exposure value**	**Own funds**
Receivables from governments and central banks	327.4	0.2	255.6	0.1
Receivables from regional administration and local authorities	16.2	0.0	14.1	0.0
Receivables from international development banks	5.2	0.0	10.2	0.0
Receivables from credit institutions and investment firms*	1 627.5	28.0	1 883.8	29.0
Receivables from companies	145.9	10.8	132.0	9.4
Retail receivables	205.9	12.4	68.7	4.1
Receivables with real estate securities	3.8	0.1	0.0	0.0
Overdue receivables	8.3	1.0	6.8	0.8
Covered bonds	262.8	2.1	276.1	2.2
Investments in investment funds	56.2	4.5	8.6	0.1
Other items	16.4	0.2	20.0	0.2
Off-balance sheet commitments	560.6	2.7	424.4	2.6
Total	**3 236.3**	**61.9**	**3 100.3**	**48.7**
Minimum capital adequacy requirement for credit risk, total		**61.9**		**48.7**
Minimum capital adequacy requirement for market risk		Noth. to report		Noth. to report
Minimum capital adequacy requirement for operational risks		**4.2**		**2.2**
Minimum amount of own funds, total		**66.1**		**50.9**

*For derivatives, the exposure value takes into account the exposure value of the counterparty credit risk.

S-ASIAKASPALVELU OY

S-Asiakaspalvelu Oy is a wholly-owned subsidiary of S-Bank. Established on 8 August 2007, S-Asiakaspalvelu provides data processing and other services related to a credit institution's core operations as a service company pursuant to the Credit Institutions Act (9.2.2007/121).

S-Asiakaspalvelu's turnover for 2010 was EUR 4.0 million (3.9). Intra-group revenue accounted for EUR 2.6 million of the turnover (2.7), and other revenue consisted of customer-owner telephone services offered to the cooperatives. Expenses were mainly personnel-related, and the number of employees was 78 (65) at year-end. S-Asiakaspalvelu's operating profit was EUR 0.0 million (0).

Because of the limited extent of S-Asiakaspalvelu's operations and the minor level of the balance sheet, S-Bank does not consolidate the company in its financial statements.

ADMINISTRATION

GENERAL MEETINGS

The Annual General Meeting was held on 12 March 2010. The meeting adopted the financial statements of the previous year and released the Executive Board and Managing Director from liability. The meeting resolved not to distribute dividend. The number of Executive Board members was confirmed as six, and the members were nominated. Tomi Englund, Authorised Public Accountant, Helsinki, was elected as the auditor, and Ernst & Young Oy, Authorised Public Accountants, the deputy auditor.

EXECUTIVE BOARD

The General Meeting of Shareholders confirms the number of members in the Executive Board and nominates the Executive Board for a term of one year. The Executive Board elects a chairman and a vice chairman from amongst its number. The Executive Board has rules of procedure, duly confirmed, according to which the Executive Board is responsible for strategic development of the bank, the steering and control of its operations and for deciding on the company's main operating principles and general values in accordance with the applicable legislation and regulations.

The Executive board shall manage the bank in a professional manner in compliance with healthy and good banking practices. The Board meets at least eight times per year.

At the Annual General Meeting, the following persons were elected the members of the S-Bank Executive Board: Jari Annala, Senior Vice President, SOK Administrative Division; Folke Lindström, Managing Director; Matti Niemi, Managing Director; Veli-Matti Puutio, Managing Director; Juha Ahola, Senior Vice President, SOK Finance; and Arto Piela, Managing Director, as a new member. Taavi Heikkilä, Managing Director, resigned from the Executive Board. The Executive Board elected Jari Annala as the Chairman and Folke Lindström as the Vice Chairman.

The Executive Board convened 13 (15) times during the financial year, and the average rate of attendance was 91.0 per cent (91.1). The Board members received no meeting fees.

MANAGING DIRECTOR

The bank's Executive Board appoints the Managing Director. The Managing Director is responsible for the bank's routine management duties in accordance with instructions and regulations issued by the Executive Board, applicable legislation and regulations, the Articles of Association and the Managing Director's Charter. The Managing Director acts as chairman of the Management Team appointed by the Executive Board. The Management Team is a body that assists the Managing Director in exercising his decision-making power. If the Managing Director is prevented from attending to his duties, they are carried out by the Managing Director's deputy.

From 22 June 2006, Pekka Ylihurula has acted as S-Bank Ltd's Managing Director. General Counsel Veli-Matti Parmala is the Deputy Managing Director.

STAFF

The number of S-Bank employees grew by 33 from the previous year, totalling 136 (103) at year-end. The number of personnel was affected by the business acquisition implemented in March. Salaries and fees paid to the personnel amounted to EUR 6.6 million (5.4).

S Group's cooperative enterprises operate as S-Bank's agents. Training of S-Bank agents was arranged in accordance with the approved training programme. Training focused on ensuring the competence and quality of service required in banking business, active customer service and additional sales operations. The competence of S-Asiakaspalvelu Oy's personnel is ensured through continuous training at work. On the basis of the surveys carried out at the end of 2010, the competence and service levels of the agent network and S-Asiakaspalvelu Oy's personnel are good.

MAIN EVENTS AFTER THE CLOSE OF THE FINANCIAL YEAR

No main events after the close of the financial year.

OUTLOOK FOR 2011

In 2011, the result of banking operations is forecast to fall behind the level for 2010. However, low (but possibly rising) interest rates pose a challenge to investment business. However, the growth in retail banking business is expected to continue.

EXECUTIVE BOARD'S PROPOSAL FOR THE DISPOSAL OF DISTRIBUTABLE FUNDS

The Executive Board proposes that the profit for the financial year, EUR 12,350,812.74, be entered in the retained earnings account and that no dividend be distributed.

CALCULATION OF KEY INDICATORS

Net interest income:

Interest income – interest expenses

Net fee and commission income

Fee and commission income – fee and commission expenses

Other income:

Net income from dealing in securities and foreign exchange + net income from available-for-sale financial assets + other operating income

Other expenses:

Other operating expenses + impairment losses from credits and other receivables

Cost-income ratio:

Administrative expenses + depreciation and impairment losses on tangible and intangible assets + other operating expenses (excluding impairment losses)

Net interest income + income from equity investments + net fee and commission income + vnet income from dealing in securities and foreign exchange + net income from available-for-sale financial assets + net result from hedge accounting + net income from investment properties + other operating income + share of equity earnings in associated companies (net)

Return on equity (ROE), %

Operating profit/loss - income taxes

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equity and minority interest + accumulated appropriations less (deferred tax liability (the average of the beginning and end of year)

x 100

Return on assets (ROA), %

Operating profit/loss - income taxes

Balance sheet sum total on average (the average of the beginning and end of year)

x 100

Equity ratio, %

Equity and minority interest + accumulated appropriations less deferred tax liability

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Balance sheet sum total

x 100

Capital adequacy ratio, %

Own funds total

Minimum requirement for own funds, total

x 8 %

Capital adequacy ratio for Tier I own funds, %

Tier I own funds total

Minimum requirement for own funds, total

x 8 %

BALANCE SHEET

ASSETS, 1 000 €	NOTE	31.12.2010	31.12.2009
Cash	18	7 118	20 901
Debt securities eligible for refinancing with central banks	3.18		
Other		1 774 268	1 892 361
Receivables from credit institutions	1.18	191 583	130 892
Repayable on demand		1 043	892
Other		190 540	130 000
Receivables from the public and public sector entities	2.18	299 047	153 911
Repayable on demand		9 141	6 879
Other		289 907	147 031
Debt securities	3.18		
Other		322 473	444 208
Shares and participations	5	56 248	8 604
Shares and participations in associated companies	5	3	3
Shares and participations in companies belonging to the same group	5	50	50
Derivative contracts	6	604	0
Intangible assets	7.1	12 579	13 308
Other assets	11	3 077	2 742
Accrued income and prepayments	12	20 531	22 068
ASSETS, TOTAL		**2 687 582**	**2 689 048**

LIABILITIES, 1000 €	NOTE	31.12.2010	31.12.2009
LIABILITIES			
Liabilities to the public and public sector entities	18	2 481 641	2 487 620
Deposits		2 452 022	2 457 550
Payable on demand		2 130 385	2 283 221
Other		321 637	174 330
Other liabilities		29 619	30 070
Payable on demand		26 334	26 296
Other		3 285	3 774
Derivatives and other liabilities held for trading	6	669	510
Other liabilities	15		
Other liabilities		11 392	14 910
Accruals, deferred income and advances received	16	7 751	4 433
Subordinated liabilities	17		
Capital loans		20 000	20 000
LIABILITIES TOTAL		2 521 454	2 527 474
ACCUMULATED APPROPRIATIONS			
Accelerated depreciation		3 249	3 057
ACCUMULATED APPROPRIATIONS TOTAL		3 249	3 057
EQUITY			
Share capital	26	33 540	33 540
Share premium reserve		21 180	21 180
Other restricted reserves			
Fair value reserve			
On measurement at fair value		4 794	12 784
Non-restricted reserves			
Invested non-restricted equity reserve		104 448	104 448
Profit (loss) from previous financial periods		-13 435	-16 307
Profit (loss) for the financial period		12 351	2 872
EQUITY, TOTAL	25	162 879	158 518
LIABILITIES, TOTAL		**2 687 582**	**2 689 048**
OFF-BALANCE SHEET COMMITMENTS			
Commitments given on behalf of a customer	46		
Irrevocable		66 390	64 506
Other		494 205	359 943

INCOME STATEMENT

1 000 €	NOTE	31.12.2010	31.12.2009
Interest income	29	59 667	65 174
Interest expenses	29	-21 328	-29 748
NET INTEREST INCOME		38 339	35 426
Fee and commission income	32	9 407	6 105
Fee and commission expenses	32	-1 965	-1 313
Net income from securities trading and currency operations	33		
Net income from securities trading		408	-1 951
Net income from available-for-sale financial assets	34	10 166	7 539
Other operating income	37	4 852	1 407
Administrative expenses		-39 671	-31 053
Personnel expenses			
Salaries, wages and remuneration		-6 600	-5 374
Indirect personnel expenses			
Pension expenses		-1 149	-859
Other indirect personnel expenses		-335	-397
Other administrative expenses		-31 586	-24 422
Depreciation, amortisation and impairment losses on tangible and intangible assets	39	-3 887	-3 732
Other operating expenses	38	-2 158	-2 588
Impairment losses on loans and other receivables	40	**-2 949**	**-6 782**
OPERATING PROFIT (LOSS)		**12 543**	**3 057**
Appropriations		**-192**	**-185**
PROFIT (LOSS) FOR THE FINANCIAL PERIOD		**12 351**	**2 872**

CASH FLOW STATEMENT

1 000 €	1.1.–31.12.2010	1.1.–31.12.2009
CASH FLOW FROM OPERATING ACTIVITIES		
Interest, fee and commission income	78 663	73 121
Interest, fee and commission expenses	-20 921	-38 768
Payments received on loans recorded as credit losses	213	102
Other income	14 581	8 946
Payments to suppliers of goods and services and personnel	-41 901	-33 680
	30 634	9 721
Increase (-) or decrease (+) in operating assets:		
Current assets	-46 989	-6 982
Net increase in credit card and overdraft receivables	-148 102	-60 726
Increase (+) or decrease (-) in operating liabilities:		
Deposits from customers	-5 528	512 883
Current liabilities	-2 622	14 914
Net cash provided by (used in) operating activities before income taxes	-172 608	469 810
Income taxes	0	0
Net cash from operations	**-172 608**	**469 810**
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of intangible assets	-3 159	-2 391
Net cash provided by (used in) investing activities	**-3 159**	**-2 391**
CASH FLOW FROM FINANCING ACTIVITIES		
Increase in equity	0	79 600
Net cash provided by (used in) financing activities	**0**	**79 600**
Net increase in cash and cash equivalents	-175 766	547 019
Cash and cash equivalents at the beginning of the financial period	2 474 395	1 927 375
Cash and cash equivalents at the end of the financial period	2 298 628	2 474 395

NOTES TO THE FINANCIAL STATEMENTS

THE COMPANY

S-Bank Ltd is a deposit bank that engages in credit institution operations pursuant to the Credit Institutions Act (9.2.2007/121), providing its customers with services related to saving, payment transactions and the financing of purchases.

S-Bank's headquarters are located at Fleminginkatu 34, 00510 Helsinki, Finland. The bank does not have other branch offices. Under agency agreements, customer service is also provided by the S Group cooperative enterprises at their outlets.

The Executive Board approved the financial statements for the period 1 January – 31 December 2010 on 14 February 2011.

ACCOUNTING POLICIES

The financial statements have been prepared in accordance with the Accounting Act and, as applicable, with the provisions of the Credit Institutions Act and the Ministry of Finance Decree on Financial Statements and Consolidated Financial Statements of Credit Institutions and Investment Firms (MFD) as well as the Finnish Financial Supervisory Authority's regulations concerning the income statement, balance sheet and notes to the financial statements, effective as of 1 December 2005 and updated on 18 November 2008. In preparing the financial statements, the general instructions issued by the Finnish Accounting Standards Board (KILA) have also been taken into account as applicable.

The financial statements have been prepared pursuant to the Financial Supervisory Authority's regulations concerning the market disclosure of capital adequacy information.

CONSOLIDATION

S-Asiakaspalvelu Oy is a wholly-owned subsidiary of S-Bank. Established on 8 August 2007, S-Asiakaspalvelu provides data processing and other services related to a credit institution's core operations as a service company pursuant to the Credit Institutions Act (9.2.2007/121). The company is domiciled in Helsinki.

S-Asiakaspalvelu Oy's financial year is within 1 January – 31 December.

Because of the limited extent of S-Asiakaspalvelu's operations and the minor level of the balance sheet, S-Bank does not consolidate the company in its financial statements. S-Bank has applied for and received a permission for this from the Financial Supervisory Authority.

S-Bank Ltd and S-Asiakaspalvelu Oy have been presented in SOK Corporation's financial statements as associated companies.

ITEMS DENOMINATED IN FOREIGN CURRENCY

TThe financial statements are presented in euro. S-Bank does not have items denominated in foreign currency.

FINANCIAL ASSETS AND LIABILITIES

S-Bank Ltd applies settlement date practice in recording financial assets and liabilities in the balance sheet. An item belonging to financial assets or liabilities is initially recognised in the accounts at fair value, including transaction costs.

On initial recognition, financial assets and liabilities are classified as financial assets or liabilities at fair value through profit and loss, financial assets held to maturity, available-for-sale financial assets, loans and other receivables and other financial liabilities. Financial assets and liabilities are measured at fair value or amortised cost using the effective interest method in accordance with their classification.

The fair value of a financial instrument is determined on the basis of prices quoted in active markets or by using measurement methods that are generally applied in the markets. The fair value of certificates of deposit, commercial papers or interest rate swaps is determined by discounting future cash flows to the present value, applying market interest rates on the balance sheet date. Bonds and notes are measured at market prices. Financial assets at fair value are measured using the bid price and financial liabilities at fair value are measured using the asked rate.

Financial assets or liabilities at fair value through profit and loss include bonds and notes and other domestic and foreign securities and participations that are traded actively and have been acquired for short-term gain. Derivative contracts to which hedge accounting has not been applied are also included. Derivative contracts are taken out primarily for hedging, but hedge accounting is not applied to them.

Financial assets or liabilities at fair value through profit and loss are measured at market price. The change in fair value is entered in the income statement. The difference between the value on the balance sheet date of the financial instruments recognised at fair value in the income statement and the carrying value on the previous balance sheet is entered as the income or expense for the period. If the financial instrument recognised at fair value was acquired during the financial period, the difference between the value of the financial instrument on the balance sheet date and its acquisition cost is entered as the income or expense for the period.

Held-to-maturity investments include bonds and notes and other non-derivative investments that are connected to fixed or determinable payments, mature on a certain date or are held to maturity. Held-to-maturity investments are measured at amortised acquisition cost using the effective interest method. Any impairment loss is recognised through profit and loss and the accrual of interest is continued on the lowered balance at the original effective interest rate of the contract.

Loans and other receivables include financial assets that are not quoted on the active financial market, for which the payments are fixed or determinable and which do not fall under financial assets at fair value through profit or loss, financial assets held to maturity or available-for-sale financial assets. The transaction costs related to loans and other receivables are included in the amortised acquisition cost measured using the effective interest method and amortised through profit and loss over the term-to-maturity of the receivable. After the initial recognition, loans and other receivables are measured at amortised acquisition cost using the effective interest method.

An item belonging to other financial liabilities is recognised in the financial statements at its nominal value when its fair value is the nominal value. If the amount of the debt differs from the nominal value of the liability, the liability is entered at the amount received. The amount of the difference between the nominal value of the debt and the cost recognised as expense or income for the period is amortised and recognised as an increase or decrease in the cost of debt. The difference between the nominal value and cost, or a fee or other expense that is associated with the debt and is included in the interest expense related to the debt, is amortised using the effective interest method as an expense for the term-to-maturity of the debt. Other financial liabilities are measured at the amortised cost on the balance sheet date using the effective interest method.

Debt securities and other domestic and foreign securities not recorded in financial assets at fair value through profit and loss, investments held to maturity or loans and other receivables are recorded in available-for-sale financial assets. Financial assets available for sale are measured at fair value. The fair value of publicly traded investments is defined on the basis of their market values. Investments that are not publicly quoted are measured by means of generally approved valuation methods in the market. If even this does not yield a fair value that can be reliably defined, the acquisition cost is used. The change in fair value is recorded directly in equity in the Fair value reserve. When the financial instrument is sold, the cumulative change in fair value recorded in equity, together with accrued interest and capital gains or losses, is recognised in the income statement.

Impairment of financial assets

On each balance sheet date, the Corporation assesses whether there is any objective evidence that the value of an item other than those classified as financial assets at fair value through profit and loss is impaired. Objective evidence is considered to be, for example, a customer's delay in payment, insolvency or bankruptcy, reorganisation or consolidation of debt, as well as a major change in the credit rating. If there is objective evidence of impairment, an impairment loss is recorded.

The amount of an impairment loss on financial assets recorded at amortised cost is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows from the asset, including the fair value of any collateral. The discount rate applied is the original effective interest rate of the receivable. The difference is recognised as an impairment loss in the income statement, and the accrual of interest is continued on the lowered balance at the original effective interest rate of the contract. If the amount of an impairment loss subsequently decreases and the change can be attributed to an event that has taken place after the recognition of the impairment loss, the impairment loss is reversed. Notwithstanding what is mentioned above, S-bank estimates credit card and consumer credit receivables group-specifically but based on the above-mentioned criteria for evaluation of impairment.

If there is objective evidence of the impairment of debt securities or shares included in available-for-sale financial assets, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in the income statement as an impairment loss. The impairment loss of a share that is not publicly quoted is determined as being the difference between the carrying amount and the present value of estimated future cash flows discounted at the market yield of a similar item on the reporting date. If the fair value of notes or bonds classified as available-for-sale later increases and the increase can be objectively related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised through profit and loss. If the fair value of a share later increases, the increase in value is recognised in equity.

LINKED DERIVATIVE

A linked derivative is part of a hybrid instrument that also contains a non-derivative main contract. Because of this, part of the cash flows of the hybrid instrument fluctuate in a manner similar to the cash flows of a standalone derivative. A linked derivative must be separated from the main contract and considered to be a derivative in accounting, provided that the requirements for separation stated in the standards issued by the Financial Supervision Authority are met. One such requirement is, for example, that the financial characteristics and risks of the linked derivative and the main contract are not closely linked.

During the previous financial periods, S-Bank has acquired subordinated debenture loans that can be categorised as above-mentioned hybrid instruments due to options included in the contracts and entitling to repayment of debt before the maturity date. In addition, S-Bank has itself issued two debenture loans with similar terms. During the financial year now ended, S-Bank has also acquired a digital option linked to a bond as part of the hedging transaction relating to the investment deposit.

S-Bank does not separate linked derivatives from the main contracts in the case of the above-mentioned debenture loans. The financial characteristics and risks are considered to be closely linked with the main contracts as the option exercise prices correspond to the amortised cost of the debt contracts at all exercise periods. However, S-Bank separates the digital option from the main contract and handles it as a derivative in accounting.

PRINCIPLES OF INCOME RECOGNITION

Interest income and expenses

Interest on financial assets and liabilities is periodised as interest income and interest expenses for the financial periods to which they are to be allocated over time.

Fee and commission income and expenses

Fee and commission income and expenses arise from services offered to customers and from the resources needed to provide these services. Fee and commission income and expenses are recognised when the services have been rendered. Income and expenses for services that are provided over several years are allocated to the appropriate years.

INTANGIBLE ASSETS

Intangible assets consist of licence fees for software as well as connection charges. The capitalised expenses of software also include the costs arising from modification of the software licensed to S-Bank. Intangible assets are measured at cost and amortised over their estimated economic lives using the straight line method.

Amortisation periods for intangible assets

Software licence fees: 5 years
Connection charges: 5 years

INCOME TAXES

Income taxes include current taxes for the financial period and corrections to taxes for previous periods. The tax effect of items directly recognised in equity is correspondingly recognised in equity. Taxes are calculated using the tax rates valid on the balance sheet date and, if there is a change in tax rates, at the enacted tax rate.

Deferred tax assets or liabilities are not presented in S-Bank Ltd's income statement and balance sheet. Deferred tax assets and liabilities that are material in amount are presented in the specification of taxes in the notes to the financial statements.

RISK MANAGEMENT

Risk is an integral part of a banking business endeavour. Risk management supports the achievement of business objectives by ensuring that risks are identified and their impacts analysed, and by supervising to ensure that the risks assumed are in correct proportion to the bank's risk-bearing capability.

S-Bank has a risk management policy confirmed by the bank's Executive Board. It defines risk management purposes, principles, roles and responsibilities, as well as the risk management organisation. In addition, the policy defines S-Bank's main types of risks and their management, limitation and reporting. In accordance with the policy, risks are measured and reported in a manner that gives decision-makers sufficient and relevant information on operational risks and their management.

Organisation of risk management

The highest decision-making power is exercised by S-Bank's Executive Board. In accordance with the risk management policy, the Executive Board confirms the risk management principles and guidelines. The Executive Board also decides on risk strategies and the way in which risk management and internal audit are organised within S-Bank. In addition, the Executive Board confirms the risk limits and decides on the level of the bank's risk-taking bias and risk-bearing capability, along with the necessary amount of risk capital.

The Executive Board has set up a Credit and Risk Management Committee to monitor risks. The main responsibility of the Credit and Risk Management Committee is to maintain risk management and its development within S-Bank. The Credit and Risk Management Committee is also responsible for allocating risk capital and limits to different types of risks in accordance with the instructions issued by the Executive Board.

The adopted risk management policy specifies that line managers are responsible for attending to S-Bank's on-going operations in accordance with the risk management principles and methods set out in the policy. The Managing Director is responsible for ensuring that the responsibilities and authorisations set out in the organisational structure are defined clearly and appropriately. The head of each business unit is responsible for ensuring that the business is carried on in accordance with S-Bank's guidelines and principles. In addition, they are responsible for risks in their respective business areas within the provided limits.

S-Bank's risk monitoring function is a unit that is independent from business operations. According to the tasks defined in the risk management policy, it maintains, develops and prepares risk management principles and formulates methods for measurement and assessment of risks and reporting of risks to the Credit and Risk Management Committee and the Executive Board. Furthermore, the risk monitoring function oversees the observance of risk management principles and limits and reports on risks to the management, the Credit and Risk Monitoring Committee, the Executive Board and the authorities. The risk monitoring function also supports the business areas in identifying new risks.

The internal audit assists the Executive Board and the Managing Director in overseeing and securing the operations of the bank by performing

Risk concepts

S-Bank's risk management divides risks into three main categories as follows: strategic and business risks, financing risks and operational risks.

Strategic risks refer to variation in actual performance compared with performance targets, resulting from the choice and execution of strategy. Business risk is defined as uncertainty related to income formation, caused by changes in the operating environment, such as market and competitive conditions, economic fluctuations, changes in customer behaviour and development of technology.

Financing risks comprise market, credit and banking book risks. Market risk refers to trading portfolio-related risk from fluctuations in market prices in the bank's own investments either in the balance sheet items or off-balance sheet financial instruments. Credit risk is the risk of a debtor, issuer or other counterparty not fulfilling its contractual obligations. Banking book risks are caused by the exposure of the balance sheet structure to market changes. Banking book risks are divided into two risk areas: liquidity risks and market price risks.

- Liquidity risk is the risk of S-Bank not being able to fulfil its obligations.
- The banking book market price risks refer to the interest rate risk of the impacts on the balance sheet being asymmetric due to changes in the interest curve.

Operational risks refer to the risk of the materialisation of a loss due to insufficient or defective internal processes, personnel, systems, external factors or legal risks.

BUSINESS RISKS

Business risks and the associated reputation risks and risks of changes in the operating environment are managed through self-assessment. Probabilities and degrees of significance are defined for the risks in relation to strategic objectives. The financial impact of risks thus identified is assessed, and measures for managing risks are defined. In addition, business risks are managed by making annual scenario analyses based on business plans and profit and loss statements, assessing the impacts of changes in the business environment on the bank's balance sheet, profitability and capital adequacy.

The risk control function reports to the bank's Executive Board and the Credit and Risk Management Committee on identified business risks and measures for managing them and on the results of scenario analyses. The Executive Board approves the measures for managing the risks.

FINANCING RISKS

Credit risks

In S-Bank, credit risks arise primarily from the card and consumer credit business, lending to S Group companies and investment activities.

Credit risk management

Credit risk is managed within the framework of the principles and limits of the granting of credit, which are defined in the credit policy and risk management policy. The Executive Board is responsible for monitoring S-Bank's lending. The risk monitoring function oversees the implementation of credit policy and risk management policy, as well as credit risk exposures. The risk monitoring function reports on the credit risks to the Executive Board, the Credit and Risk Management Committee and the management.

The customer-owners of S Group's cooperative enterprises are regarded as the chief target group for S-Bank's deposit banking operations. In the granting of credit for lending purposes, particular attention is paid to the prospective borrowers' repayment ability. The assessment of private customers' creditworthiness is carried out by dividing them into risk categories on the basis of different characteristics, using a scoring system. The assessment of corporate customers' creditworthiness is based, among other things, on financial statements and their Trade Register and Credit Register information. If necessary, a credit rating given by a credit rating company is used.

In investment activities, S-Bank's counterparties are well-known, highly reputable and financially solid banks, brokerages, companies or other professionally operating institutions in the financial markets. Furthermore, the counterparties include companies belonging to the S Group and other counterparties approved by S-Bank's Executive Board, for whom a separate credit-line decision has been made. Concentration risk is managed through counterparty limits. In defining the counterparty limits, the credit risk of possible counterparties is assessed, mainly on the basis of credit ratings given by credit rating companies. Investment activities have been markedly cautious, and assets have been invested in instruments offering the highest possible safety, having a good credit rating and which are as liquid as possible.

The bank's credit control function is responsible for daily credit monitoring. If customers fail to meet their obligations according to the agreed schedule, the credit control will initiate payment reminder and collection measures.

Receivables matured on the balance sheet date provide the most significant evidence when assessing impairments in the S Bank. The amount recognised as impairment loss is the amount corresponding to the best estimate after all relevant information on the situation on the balance sheet date has been considered. If the amount of the impairment loss, according to objective estimates, decreases during a subsequent financial period, the impairment loss is reduced by a corresponding sum.

In the financial statements, S-Bank evaluates its impairments only by product, since a single liability is not significant by itself in the bank's current product range. The impaired receivables in the financial statements totalled EUR 7.1 million (4.6). All of the impairment losses were group-specific. S-Bank did not record impairment losses on investment activities. Impairments are presented under Impairment losses from credit and other receivables in the financial statements

Capital adequacy assessment

S-Bank uses a standard method in the capital adequacy requirement assessment. In the standard method, first the exposure value is defined for the asset items, subject to the capital adequacy requirement, after which the exposure values are multiplied by risk weighting factors and then by the capital adequacy requirement, which yields the total amount of own funds required to cover the credit risk.

In determining the risk weightings to be used in assessing capital adequacy, S-Bank uses credit rating institutions approved by the Financial Supervision Authority. The counterparty's Standard & Poor's credit rating is primarily notified. If it is not available, the credit rating of Moody's Investors Service or, if there is not one, the Fitch Ratings credit rating will be used.

The ratings of the above-mentioned credit rating institutions are used in determining the risk weightings for governments and central banks, international development banks, credit institutions, investment service companies and other companies. If, however, the asset item in question belongs to a special issuance programme or arrangement for which a specific credit rating is available, this credit rating is used in determining the risk weighting. These items are reviewed when purchasing financial instruments and subsequently, when necessary, should there be indications of changes in the credit rating.

Calculating capital adequacy for counterparty risk is part of the standard method in credit risk assessment. The capital adequacy requirement due to counterparty risk is calculated for derivative instruments, credit derivative instruments included in the trading book, transactions with a long settlement time and transactions connected with the asset-backed trading book.

The positive fair value of derivatives held by S-Bank on the balance sheet date was EUR 0.6 million (0). Credit risk mitigation techniques, such as real collateral, guarantees, credit derivatives and netting contracts, can be used when the capital adequacy requirement is calculated for the credit risk with the standard method. During the financial year now ended, the bank's capital adequacy requirement for credit risk was decreased by the use of guarantees given by states to banks' funding and covered bonds included in receivables. In addition, real estate securities have been utilised in the calculation of the adequacy requirement for credit risk.

S-Bank's risk exposure in 2010

The maximum amount of S-Bank's exposure at the end of the financial period was EUR 3,235.6 million (3,100.2), including off-balance sheet commitments. Owing to the nature of operations, by far the most significant item was receivables from credit institutions and investment service companies, totalling EUR 1,627.5 million (1,883.6). Receivables from the government and the central bank totalled EUR 327.4 million (255.6), and covered bonds totalled EUR 262.8 million (276.1). Retail receivables increased to a great extent. The same applies to investments in investment funds. Retail receivables totalled EUR 205.9 million (68.7), while investments in investment funds totalled EUR 56.2 million (8.6). Receivables from companies totalled EUR 145.9 million (132.0). Furthermore, S-Bank had receivables from regional administration amounting to EUR 16.2 million (14.1) and from international development banks totalling EUR 5.2 million (10.2). Receivables due constituted an item of EUR 8.3 million (6.8), while receivables with real estate securities constituted an item of EUR 3.8 million (0). Other items totalled EUR 16.4 million (20.0). Off-balance sheet items amounted to EUR 560.6 million (424.4).

Analysed by risk weighting, S-Bank's exposure fell predominantly into the 20 per cent risk weight category, where S-Bank mainly recorded receivables from other credit institutions. In the category with a risk weighting of 100 per cent, the bank primarily recorded receivables from companies, and investments in investment funds, whereas the lowest category consisted of receivables from central banks, credit institutions' bonds guaranteed by governments, receivables from international development banks and off-balance sheet items. Covered bonds constituted an item of 10 per cent and retail receivables an item of 75 per cent. Receivables with real estate securities were mainly recorded in the 35% item. Receivables from credit institutions in the countries included in category 2 or receivables from companies with at least the rating A were recorded in the 50% item. Receivables due were recorded in the 150% item.

EXPOSURES (EUR MILLION)	TOTAL AMOUNT OF EXPOSURES		AVERAGE VALUE OF EXPOSURES DURING THE FINANCIAL PERIOD	
	2010	**2009**	**2010**	**2009**
Receivables from government and central banks	327.4	255.6	291.5	208.6
Receivables from regional administration	16.2	14.1	15.1	7.1
Receivables from international development banks	5.2	10.2	7.7	5.1
Receivables from credit institutions and investment firms	1 626.7	1 883.6	1 755.2	1 793.7
Receivables from companies	145.9	132.0	138.9	114.2
Retail receivables	205.9	68.7	137.3	57.0
Receivables with real estate securities	3.8	0.0	1.9	0.0
Overdue receivables	8.3	6.8	7.6	5.5
Covered bonds	262.8	276.1	269.5	149.6
Investments in investment funds	56.2	8.6	32.4	6.4
Other items	16.4	20.0	18.2	16.6
Off-balance sheet items	560.6	424.4	492.5	337.7
Total	**3 235.6**	**3 100.2**	**3 167.9**	**2 701.3**

MATURITY DISTRIBUTION OF RECEIVABLES (EUR MILLION) FOR 2010	Less than 3 mos.	3–12 mos.	1–5 yrs	5–10 yrs	Total
Receivables from government and central banks	197.2	20.9	109.3	0.0	**327.4**
Receivables from regional administration	9.1	0.0	7.1	0.0	**16.2**
Receivables from international development banks	0.0	0.0	5.2	0.0	**5.2**
Receivables from credit institutions and investment firms	30.6	128.5	1 460.7	6.9	**1 626.7**
Receivables from companies	47.8	31.0	67.1	0.0	**145.9**
Retail receivables	10.1	21.3	84.1	90.4	**205.9**
Receivables with real estate securities	0.0	0.0	1.0	2.8	**3.8**
Overdue receivables	8.3	0.0	0.0	0.0	**8.3**
Covered bonds	27.0	76.0	159.8	0.0	**262.8**
Investments in investment funds	0.0	0.0	56.2	0.0	**56.2**
Other items	5.7	10.6	0.0	0.1	**16.4**
Off-balance sheet items	494.2	0.0	59.4	7.0	**560.6**
Total	**830.1**	**288.5**	**2 009.8**	**107.3**	**3 235.6**

MATURITY DISTRIBUTION OF RECEIVABLES (EUR MILLION) FOR 2009	Less than 3 mos.	3–12 mos.	1–5 yrs	5–10 yrs	Total
Receivables from government and central banks	150.9	0.0	104.7	0.0	**255.6**
Receivables from regional administration	0.1	0.0	14.0	0.0	**14.1**
Receivables from international development banks	0.0	0.0	10.2	0.0	**10.2**
Receivables from credit institutions and investment firms	290.1	406.4	1 178.1	9.1	**1 883.6**
Receivables from companies	50.2	51.9	29.8	0.0	**132.0**
Retail receivables	14.1	40.2	14.3	0.0	**68.7**
Overdue receivables	6.8	0.0	0.0	0.0	**6.8**
Covered bonds	89.4	63.3	123.5	0.0	**276.1**
Investments in investment funds	0.0	0.0	8.6	0.0	**8.6**
Other items	8.7	11.3	0.0	0.1	**20.0**
Off-balance sheet items	359.9	0.0	64.5	0.0	**424.4**
Total	**970.1**	**573.2**	**1 547.8**	**9.1**	**3 100.2**

OVERDUE RECEIVABLES (EUR MILLION) FOR 2010	less than 30 days	30–90 days	more than 90 days	Of which impaired	Total
Balance sheet item					
Receivables from the public and public sector entities	1.7	0.8	8.3	-7.1	**3.7**

OVERDUE RECEIVABLES (EUR MILLION) FOR 2009	less than 30 days	30–90 days	more than 90 days	Of which impaired	Total
Balance sheet item					
Receivables from the public and public sector entities	1.5	1.0	6.8	-4.6	**4.7**

RECEIVABLES BY LOAN CATEGORY (EUR MILLION)	Exposure value	
Loan category	**2010**	**2009**
0%	836.4	816.0
10%	266.7	277.5
20%	1 571.9	1 677.4
35%	3.7	0.0
50%	89.1	76.5
75%	207.1	68.7
100%	252.3	177.2
150%	8.3	6.8
	3 235.6	**3 100.2**

Geographically, Finland was the most significant country with regard to exposures. In addition to Finland, the exposures mainly concerned other Nordic countries and EU member states. The exposures have been categorised geographically according to the issuer's country of origin. For affiliates, the geographical division is based on the parent company's country of origin. With regard to retail banking exposures, the bank's clientele is very much spread out, so no concentrations of risk exposure emerge for it, either.

GEOGRAPHIC DISTRIBUTION OF RECEIVABLES (EUR MILLION) FOR 2010	Finland	Nordic countries	Other EU member states	Other countries *
Receivables from government and central banks	208.2	0.0	119.2	0.0
Receivables from regional administration	14.1	0.0	2.0	0.0
Receivables from international development banks	0.0	0.0	0.0	5.2
Receivables from credit institutions and investment firms	97.7	439.5	903.8	185.8
Receivables from companies	129.6	9.1	7.2	0.0
Retail receivables	205.9	0.0	0.0	0.0
Receivables with real estate securities	3.8	0.0	0.0	0.0
Overdue receivables	8.3	0.0	0.0	0.0
Covered bonds	87.5	108.7	63.5	3.0
Investments in investment funds	35.8	0.0	20.4	0.0
Other items	16.4	0.0	0.0	0.0
Off-balance sheet items	560.6	0.0	0.0	0.0
Total	**1 368.1**	**557.3**	**1 116.1**	**194.0**

* Other countries include receivables from Switzerland, the United States and Australia. In addition, other countries include receivables from international development banks.

GEOGRAPHIC DISTRIBUTION OF RECEIVABLES (EUR MILLION) FOR 2009	Finland	Nordic countries	Other EU member states	Other countries *
Receivables from government and central banks	161.6	0.0	94.1	0.0
Receivables from regional administration	14.1	0.0	0.0	0.0
Receivables from international development banks	0.0	0.0	0.0	10.2
Receivables from credit institutions and investment firms	296.3	587.5	778.1	221.7
Receivables from companies	120.2	9.7	2.0	0.0
Retail receivables	68.7	0.0	0.0	0.0
Overdue receivables	6.8	0.0	0.0	0.0
Covered bonds	91.1	160.0	25.1	0.0
Investments in investment funds	0.0	0.0	8.6	0.0
Other items	2.2	7.8	7.5	2.4
Off-balance sheet items	424.4	0.0	0.0	0.0
Total	**1 185.5**	**765.1**	**915.4**	**234.2**

* Other countries = Switzerland, Canada and Australia

In terms of branch categories, the majority of exposures fell in counterparts engaging in financing activities. The breakdown of exposures by branch of business in the table includes receivables from credit institutions and investment service companies, receivables from companies and covered bonds.

BREAKDOWN OF EXPOSURES BY BRANCH OF BUSINESS (EUR MILLION)	31.12.2010	31.12.2009
Financial and insurance activities	2 148.6	2 358.0
Wholesale and retail trade	58.5	67.9
Real estate activities	24.7	9.9
Electricity, gas and water supply, cooling business	19.4	11.2
Manufacturing	18.1	6.2
Mining and quarrying	0.0	0.0
Construction	0.2	0.1
Information and communication	23.9	7.6
Public administration and defence; compulsory social security	146.4	118.9
Other	0.6	0.4
No branch category*	795.1	519.9
Total	**3 235.6**	**3 100.2**

* Exposures not falling into branch categories include retail receivables, overdue receivables, other items and off-balance sheet items.

BANKING BOOK INTEREST RATE RISK

The purpose of banking book risk management at S-Bank is to manage unexpected changes in the bank's net interest income and maximise return on equity within the specified limits. In accordance with the confirmed risk management policy, interest rate risk in the banking book is monitored monthly by means of interest rate gap analysis, in which liabilities and receivables are grouped into time periods on the basis of their interest rate maturities. The effects of changes in parallel interest rate curves on the bank's interest rate risk exposure are monitored regularly with the net present value method and the income risk method. The effect of changes in the interest rate on the market value of balance sheet items is also monitored. Internal transfer pricing is used to support the management of the interest rate risk in the banking book.

INTEREST-BEARING FINANCIAL ASSETS AND LIABILITIES (EUR MILLION) FOR 2010

Balance sheet item / Next interest rate fixing date	0–1 mos.	1–3 mos.	3–6 mos.	6–9 mos.	9–12 mos.	1–2 yrs	2–5 yrs	Total
Cash	7.1	0.0	0.0	0.0	0.0	0.0	0.0	7.1
Receivables from credit institutions	191.6	0.0	0.0	0.0	0.0	0.0	0.0	191.6
Receivables from the public and public sector entities	159.2	109.2	15.1	6.5	2.0	0.0	7.0	299.0
Debt securities	443.9	777.5	101.8	69.7	33.0	272.8	389.9	2 088.6
Receivables total	**801.9**	**886.8**	**116.9**	**76.2**	**35.0**	**272.8**	**396.9**	**2 586.4**
Liabilities to the public and public sector entities	-2 219.9	-35.0	-29.3	-31.7	-55.7	-97.8	-12.3	-2 481.6
Subordinated liabilities	-15.0	-5.0	0.0	0.0	0.0	0.0	0.0	-20.0
Liabilities total	**-2 234.9**	**-40.0**	**-29.3**	**-31.7**	**-55.7**	**-97.8**	**-12.3**	**-2 501.6**
Receivables and liabilities total	**-1 433.0**	**846.8**	**87.6**	**44.5**	**-20.7**	**175.0**	**384.6**	**84.8**

INTEREST-BEARING FINANCIAL ASSETS AND LIABILITIES (EUR MILLION) FOR 2009

Balance sheet item / Next interest rate fixing date	0–1 mos.	1–3 mos.	3–6 mos.	6–9 mos.	9–12 mos.	1–2 yrs	2–5 yrs	Total
Cash	20.9	0.0	0.0	0.0	0.0	0.0	0.0	20.9
Receivables from credit institutions	130.9	0.0	0.0	0.0	0.0	0.0	0.0	130.9
Receivables from the public and public sector entities	97.1	28.1	16.3	4.0	8.5	0.0	0.0	153.9
Debt securities	415.1	1 161.5	35.9	57.3	38.5	295.7	332.6	2 336.6
Receivables total	**663.9**	**1 189.6**	**52.2**	**61.3**	**47.0**	**295.7**	**332.6**	**2 642.3**
Liabilities to the public and public sector entities	-2 344.5	-38.2	-38.0	-19.5	-14.1	-21.4	-11.8	-2 487.6
Subordinated liabilities	-15.0	-5.0	0.0	0.0	0.0	0.0	0.0	-20.0
Liabilities total	**-2 359.5**	**-43.2**	**-38.0**	**-19.5**	**-14.1**	**-21.4**	**-11.8**	**-2 507.6**
Receivables and liabilities total	**-1 695.6**	**1 146.3**	**14.2**	**41.8**	**32.8**	**274.3**	**320.7**	**134.7**

S-Bank uses derivative instruments as part of its risk management. During the financial year 2010, the bank entered into interest rate swaps and contracts of futures and forwards as part of its balance sheet management. The counterparts were specifically selected banks. S-Bank does not apply hedge accounting.

MATURITY DISTRIBUTION OF DERIVATIVES (EUR MILLION) 31 DEC 2010	Less than 1 year	1-5 yrs	More than 5 yrs
Futures and forwards	105.0	0.0	0.0
Interest rate swaps	14.0	146.5	0.0
Option agreements	0.0	3.5	0.0

MATURITY DISTRIBUTION OF DERIVATIVES (EUR MILLION) 31 DEC 2009	Less than 1 year	1-5 yrs	More than 5 yrs
Interest rate swaps	5.0	31.5	0.0

DERIVATIVE INSTRUMENTS 31 DEC 2010 NOT FOR HEDGING PURPOSES (EUR MILLION)	Nominal value	Negative Fair value	Positive Fair value
Futures and forwards	150.0	0.0	0.1
Interest rate swaps	160.5	-0.7	0.5
Option agreements	3.5	0.0	0.0

DERIVATIVE INSTRUMENTS 31 DEC 2009 KUIN NOT FOR HEDGING PURPOSES (EUR MILLION)	Nominal value	Negative Fair value	Positive Fair value
Interest rate swaps	36.5	0.5	0.0

LIQUIDITY RISKS

The objective of liquidity risk management is to ensure that S-Bank is able, with a sufficient probability, to meet its payment obligations even in critical situations. An additional objective is to ensure that the funding required for S-Bank's operations is obtained as cost-effectively as possible. Liquidity risk is divided into short-term liquidity risk and longer-term refinancing risk.

Under the risk management policy, the amount of liquidity risk is assessed using several scenarios, and liquidity limits are set in such a way that the bank is able to cover its liquidity needs even when disturbances emerge.

Liquidity and refinancing risks are monitored monthly in a gap analysis, in which assets and liabilities are grouped into time periods according to maturity. Liquidity is managed with a liquidity portfolio, and S-Bank's Executive Board has set its target amount at EUR 250 million. At the end of the financial period, the liquidity portfolio amounted to EUR 328 million. Furthermore, liquidity risk is managed by ensuring that the portfolios contain a sufficient quantity of debt securities eligible for refinancing with central banks.

MATURITY DISTRIBUTION OF FINANCIAL ASSETS AND LIABILITIES (EUR MILLION) FOR 2010

Balance sheet item	0–1 mos.	1–3 mos.	3–6 mos.	6–9 mos.	9–12 mos.	1–2 yrs	2–5 yrs	>5 yrs	Total
Cash	7.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.1
Receivables from credit institutions	191.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	191.6
Receivables from the public and public sector entities*	53.0	2.7	19.9	14.1	10.6	28.1	77.8	92.9	299.0
Debt securities	47.0	23.1	88.6	91.0	47.7	811.5	980.9	6.9	2 096.7
Receivables total	**298.7**	**25.7**	**108.5**	**105.2**	**58.3**	**839.6**	**1 058.7**	**99.8**	**2 594.5**
Liabilities to the public and public sector entities**	-2 219.9	-35.0	-29.3	-31.7	-55.7	-97.8	-12.3	0.0	-2 481.6
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-20.0	-20.0
Liabilities total	**-2 219.9**	**-35.0**	**-29.3**	**-31.7**	**-55.7**	**-97.8**	**-12.3**	**-20.0**	**-2 501.6**
Receivables and liabilities total	**-1 921.2**	**-9.2**	**79.2**	**73.5**	**2.6**	**741.8**	**1 046.3**	**79.8**	**92.8**

* Receivables due and non-performing assets are reported under the shortest maturity
** Demand deposits reported under the shortest maturity

DISTRIBUTION OF MATURITY OF FINANCIAL ASSETS AND LIABILITIES (EUR MILLION) FOR 2009

Balance sheet item	0–1 mos.	1–3 mos.	3–6 mos.	6–9 mos.	9–12 mos.	1–2 yrs	2–5 yrs	>5 yrs	Total
Cash	20.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	20.9
Receivables from credit institutions	130.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	130.9
Receivables from the public and public sector entities*	42.6	24.2	28.5	16.2	20.7	9.2	12.3	0.0	153.9
Debt securities	80.7	301.8	157.3	169.9	157.5	747.0	713.4	9.1	2 336.6
Receivables total	**275.1**	**326.0**	**185.8**	**186.1**	**178.2**	**756.2**	**725.7**	**9.1**	**2 642.3**
Liabilities to the public and public sector entities**	-2 344.5	-38.2	-38.0	-19.5	-14.1	-21.4	-11.8	0.0	-2 487.6
Subordinated liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-20.0	-20.0
Liabilities total	**-2 344.5**	**-38.2**	**-38.0**	**-19.5**	**-14.1**	**-21.4**	**-11.8**	**-20.0**	**-2 507.6**
Receivables and liabilities total	**-2 069.4**	**287.8**	**147.9**	**166.6**	**164.1**	**734.8**	**713.8**	**-10.9**	**134.7**

* Receivables due and non-performing assets are reported under the shortest maturity
** Demand deposits reported under the shortest maturity

OPERATIONAL RISKS

The aim of operational risk management is cost-efficient optimisation of operational risks and unforeseen losses that jeopardise the achievement of business objectives and to ensure disturbance-free and continuous operations.

S-Bank has specified four key elements in the management of operational risks for identifying, analysing, managing, tracking and monitoring operational risks arising in the bank's operations.

- An approval process of a new product or service is used to assess the risks associated with the new product or service prior to its implementation.
- Self-assessment and monitoring of operational risks aim to identify and assess the main operational risks, the probabilities and impacts of their occurrence as well as to define tools for mitigating, transferring or eliminating risk.
- Incident reporting on operational risks gathers information on anomalous events, materialised risks and "close call" situations.
- The self-assessment of risks also involves identifying risk indicators that forecast the level of operational risks, and these are monitored by the heads of the bank's functions.

S-Bank has outsourced part of its operational risk management to SOK's Risk Management unit. It has a special supervisory focus on operational risks that are detected in the S Group companies acting as agents for S-Bank. S-Bank's risk control function co-ordinates the entire management of operational risks and reports on risks to S-Bank's Executive Board and Risk Management Committee.

S-Bank calculates the capital adequacy requirement for operational risks according to the basic method. In the basic method, the capital adequacy requirement is calculated from the confirmed financial statements for the three previous financial years by means of a yield indicator.

Expenses arising from operational risks were minor during the 2010 financial period.

Legal risks

In order to manage legal risks, S-Bank's Legal Affairs -Compliance unit takes part in the preparation of significant agreements and legal acts binding on the bank. In 2010, the bank entered into nearly sixty non-customer agreements, drafted by the bank's legal affairs staff for the bank. In 2010, the bank was not a party to any court proceedings.

Agreements are archived in electronic and physical form. Prior to their implementation, the standard terms and conditions of customer agreements have been approved by the Financial Supervision Authority with regard to their terms of account-use and presented to the Financial Supervision Authority with regard to the other terms. The need to revise the terms and conditions is reviewed regularly and the terms are updated to correspond to the comments on proposed changes received from the Financial Supervision Authority. Before publishing, the bank's legal affairs staff reviews all brochures and advertising material issued by the bank. Changes in legislation are monitored by means of an electronic basic service purchased from an external supplier and, furthermore, changes relating to disbursements and payment systems are monitored by participating in the Federation of Finnish Financial Services' joint activities concerning this.

INVESTMENTS IN NON-LISTED COMPANIES

S-Bank holds shares in the following non-listed companies: S-Crosskey Ab and S-Asiakaspalvelu Oy, which is the bank's wholly-owned subsidiary. The shareholding in S-Crosskey Ab is strategic by nature.

Investments are recorded at cost in the balance sheet. Subsequently, the investments are measured at fair value. As the investments are in non-listed companies, the fair value is derived from the net asset value.

The investments totalled EUR 0.1 million (0.1) in the financial statements, and the fair value of the investments was EUR 0.1 million (0.1).

There are no unrealised profits or losses or hidden profits or losses not recorded in the balance sheet and profit or loss in these investments.

NOTES TO BALANCE SHEET ITEMS, EUR 1,000

1. Receivables from credit institutions	31.12.2010 Repayable on demandt	Other than repayable on demand	Total
From the central bank	0	190 000	190 000
From Finnish credit institutions	777	0	777
From foreign credit institutions	265	540	805
Receivables from credit institutions, total	1 043	190 540	191 583

	31.12.2009 Repayable on demand	Other than repayable on demand	Total
From the central bank	0	130 000	130 000
From Finnish credit institutions	846	0	846
From foreign credit institutions	46	0	46
Receivables from credit institutions, total	892	130 000	130 892

2. Receivables from the public and public sector entities	31.12.2010	31.12.2009
Companies and housing associations	87 452	82 122
Financial and insurance institutions	528	1 063
Public sector entities	101	100
Households	210 857	70 615
Non-profit organisations serving households	100	11
Foreign countries	9	0
Total	**299 047**	**153 911**
There are no allocated credit loss provisions.		
Impairment losses at beginning of year	**4 644**	**2 112**
Group-specific impairment losses recorded in the period	7 089	4 644
Group-specific impairment losses reversed in the period	-4 644	-2 112
Impairment losses at end of year	**7 089**	**4 644**

3. Debt securities	31.12.2010	31.12.2009
	Other	Other
Available-for-sale	**2 096 741**	**2 336 570**
Treasury bonds and notes	78 147	104 741
Other bonds and notes issued by public sector entities	16 070	14 011
Other debt securities	2 002 523	2 217 817
Debt securities, total	**2 096 741**	**2 336 570**
– eligible for refinancing with central banks	1 774 268	1 892 361
– subordinated	6 901	9 062

4. Assets leased under finance leases

Nothing to report

5. Shares and participations		31.12.2010	
Shares and participations	**Publicly quoted**	**Other**	**Total**
Available-for-sale	45 310	10 937	56 248
Shares and participations in companies belonging to the same Group		50	50
Shares and participations in associated companies		3	3
Total	**45 310**	**10 990**	**56 301**
– of which at acquisition cost	43 750	10 938	54 688
– of which in credit institutions	3 012		

		31.12.2009	
Shares and participations	**Publicly quoted**	**Other**	**Total**
Available-for-sale		8 604	8 604
Shares and participations in companies belonging to the same Group		50	50
Shares and participations in associated companies		3	3
Total	**0**	**8 657**	**8 657**
– of which at acquisition cost		8 657	8 657

No holdings in credit institutions

6. Derivative contracts	31.12.2010 Nominal value	 Positive fair value	 Negative fair value
Non-hedging purposes			
Interest rate derivatives			
Futures and forwards	105 000	62	
Interest rate swaps	160 500	531	-669
Equity derivatives			
Option agreements			
Bought	3 540	11	0

Of the nominal value of derivatives, EUR 119,000,000 mature in less than one year and EUR 150,040,000 in 1–5 years.

Non-hedging purposes	31.12.2009 Nominal value	 Positive fair value	 Negative fair value
Interest rate swaps	36 500	-	-510

Of the nominal value of derivatives, EUR 5,000,000 mature in less than 1 year and EUR 31,500,000 in 1–5 years.

7. Intangible assets	31.12.2010	31.12.2009
Capitalised IT expenditure	11 385	11 433
Other intangible assets	1 194	1 875
Total	**12 579**	**13 308**

8. Tangible assets

Nothing to report

9. Investment property measured at fair value

Nothing to report

10. Changes in intangible and tangible assets during the financial year	31.12.2010	31.12.2009
Prepayments for intangible assets		
Acquisition cost, 1 Jan	1 988	1 260
Increase	3 147	2 389
Deductions	0	0
Transfers between items	-1 378	-1 661
Acquisition cost; 31 Dec	3 757	1 988
Carrying amount; 31 Dec	3 757	1 988
Intangible assets		
Acquisition cost; 1 Jan	20 218	18 555
Increase	11	2
Deductions	0	0
Transfers between items	1 378	1 661
Acquisition cost; 31 Dec	21 608	20 218
Accumulated depreciation, amortisation and impairment, 1 Jan	-8 899	-5 167
During the period	-3 887	-3 732
Accumulated depreciation and amortisation; 31 Dec	-12 786	-8 899
Carrying amount; 31 Dec	8 822	11 320
Intangible assets, total, 31 Dec	**12 579**	**13 308**

11. Other assets	31.12.2010	31.12.2009
Other	3 077	2 742
Total	**3 077**	**2 742**

12. Accrued income and prepayments	31.12.2010	31.12.2009
Interest income	19 299	21 437
Other accrued income	1 232	631
Total	**20 531**	**22 068**

13. Deferred tax assets and liabilities	31.12.2010	31.12.2009
Deferred tax assets attributable to losses	1 118	4 329
Deferred tax assets/liabilities arising from the fair value reserve	-1 247	-3 324
Deferred taxes on depreciation difference	845	795

14. Debt securities issued to the public by the credit institution

Nothing to report

15. Other liabilities	31.12.2010	31.12.2009
Payables arising from payment transactions	7 435	10 832
Other	3 957	4 078
Other liabilities, total	**11 392**	**14 910**

16. Accruals, deferred income and advances received	31.12.2010	31.12.2009
Interest expenses	4 468	2 097
Other accrued expenses	3 283	2 337
Total	**7 751**	**4 433**

	31.12.2010			
17. Subordinated liabilities	**Carrying amount ***	**Nominal value**	**Interest**	**Maturity date**
Loan on debenture terms I/2008	15 048	15 000	Euribor 3 kk + 0.5%	15.1.2018
Loan on debenture terms II/2008	5 004	5 000	Euribor 3 kk + 0.75%	15.9.2018

*) includes transferred interests

Terms of both loans: The issuer reserves the right to repurchase the loan before the maturity date. The issuer or an affiliated company may repurchase the loan only to a minor extent before the end of the loan period without the approval of the Financial Supervision Authority. The repurchase requires that the loans can be resold to a new investor within a short period. The noteholder does not have the right to require that the loan be repaid prematurely. The loan is subordinated to the bank's other debt obligations The loans on debenture terms I/2008 and II/2008 are included in full in lower Tier II own funds in S-Bank's capital adequacy assessment.

18. Distribution of maturity of financial assets and liabilities	31.12.2010 Less than 3 mos.	3–12 mos.	1–5 yrs	5–10 yrs	Total
Cash	7 118	0	0	0	7 118
Debt securities eligible for refinancing with central banks	43 079	221 251	1 509 938	0	1 774 268
Receivables from credit institutions	191 583	0	0	0	191 583
Receivables from the public and public sector entities	52 732	45 244	107 767	93 305	299 047
Debt securities	27 007	6 176	282 389	6 901	322 473
Liabilities to the public and public sector entities	2 254 822	116 687	110 132	0	2 481 641
Subordinated liabilities	0	0	0	20 000	20 000

	31.12.2009 Less than 3 mos.	3–12 mos.	1–5 yrs	5–10 yrs	Total
Cash	20 901	0	0	0	20 901
Debt securities eligible for refinancing with central banks	96 552	438 309	1 357 501	0	1 892 361
Receivables from credit institutions	130 892	0	0	0	130 892
Receivables from the public and public sector entities	60 517	70 442	22 936	16	153 911
Debt securities	285 964	46 346	102 836	9 062	444 208
Liabilities to the public and public sector entities	2 382 713	71 638	33 269	0	2 487 620
Subordinated liabilities	0	0	0	20 000	20 000

19. Breakdown of balance sheet items into domestic amounts and where counterparty is a group entity	31.12.2010 Domestic currency	31.12.2010 From group entities	31.12.2009 Domestic currency	31.12.2009 From group entities
Balance sheet item				
Cash	7 118		20 901	
Receivables from credit institutions	191 583		130 892	
Receivables from the public and public sector entities	299 047		153 911	
Debt securities	2 096 741		2 336 570	
Derivative contracts	604		0	
Shares and participations	56 301	50	8 657	50
Intangible assets	12 579		13 308	
Other assets	23 609	8	24 810	214
Total	**2 687 582**	**58**	**2 689 048**	**264**
Liabilities to the public and public sector entities	2 481 641	370	2 487 620	768
Derivative contracts	669		510	
Other liabilities	39 144	25	39 343	0
Total	**2 521 454**	**395**	**2 527 474**	**768**

The balance sheet items contain no items in foreign currencies

20. Securities lending

Nothing to report

21. Securities repurchase agreements

Nothing to report

22. Fair value measurement on a basis other than market value, and fair value changes recognised in the income statement

If the fair value of a financial instrument cannot be determined on the basis of prices quoted in active markets, fair value can be determined using valuation methods that are generally accepted in the markets. The fair value of financial assets and liabilities is determined by discounting future cash flows to the present value, applying market interest rates at the balance sheet date. Such changes in fair value for the 2010 and 2009 financial periods have not been entered in the income statement.

23. Financial assets measured at cost instead of fair value

Nothing to report

24. Fair values and carrying amounts of financial assets and liabilities	**31.12.2010** Carrying amount	**31.12.2010** Fair value	**31.12.2009** Carrying amount	**31.12.2009** Fair value
Financial assets				
Cash	7 118	7 118	20 901	20 901
Receivables from credit institutions	191 583	191 583	130 892	130 892
Receivables from the public and public sector entities	299 047	300 660	153 911	154 388
Debt securities*	2 096 741	2 096 741	2 336 570	2 336 570
Shares and participations	56 248	56 247	8 604	8 604
Shares and participations in associated companies	3	9	3	8
Shares and participations in companies belonging to the same Group	50	50	50	50
Derivative contracts	604	604	0	0
Financial liabilities				
Liabilities to the public and public sector entities	2 481 641	2 487 155	2 487 620	2 490 574
Derivatives and other liabilities held for trading	669	669	510	510
Subordinated liabilities	20 000	19 168	20 000	17 593

* The fair value of bonds does not include accrued interest.

25. Equity items	31.12.2010	31.12.2009
Share capital on 1 January	33 540	16 770
Increase	0	16 770
Share capital on 31 December	**33 540**	**33 540**
Share premium reserve on 1 January	21 180	21 180
Share premium reserve on 31 December	**21 180**	**21 180**
Fair value reserve on 1 January	12 784	-7 693
Increase (+)/decrease(-)	-7 990	20 477
Fair value reserve on 31 December	**4 794**	**12 784**
Invested non-restricted equity reserve on 1 January	104 448	41 618
Increase	0	62 830
Invested non-restricted equity reserve on 31 December	**104 448**	**104 448**
Loss from previous periods on 1 January	-13 435	-16 307
Loss from previous periods on 31 December	-13 435	-16 307
Profit/loss for the financial year	12 351	2 872
Total	**162 879**	**158 518**
Non-distributable items included in non-restricted equity	0	0

26. Share capital

6,708 shares at EUR 5,000 each, totalling EUR 33,540,000. No share classes entitling their holders to a different number of votes or a different sized dividend.

27. Share issues and issues of warrants and convertible bonds

Nothing to report

28. Shareholders and distribution of shareholdings	Ownership
Shareholder	
SOK Corporation	50.0%
Helsinki Cooperative Society Elanto, Helsinki	10.0%
Cooperative Society Hämeenmaa, Lahti	3.9%
Cooperative Society OSLA, Porvoo	0.6%
Cooperative Society Varuboden, Kirkkonummi	0.9%
Cooperative Society Keskimaa, Jyväskylä	3.3%
Cooperative Society Ympäristö, Kouvola	1.4%
Cooperative Society Suur-Savo, Mikkeli	1.8%
Cooperative Society Ympyrä, Hamina	1.0%
Southern Karelia Cooperative Society, Lappeenranta	1.3%
Cooperative Society PeeÄssä, Kuopio	2.9%
Cooperative Society Maakunta, Kajaani	1.0%
Cooperative Society Jukola, Nurmes	0.2%
Northern Karelia Cooperative Society, Joensuu	1.6%
Koillismaa Cooperative Society, Kuusamo	0.4%
Cooperative Society Arina, Oulu	3.3%
Pirkanmaa Cooperative Society, Tampere	3.6%
Cooperative Society Keula, Rauma	0.8%
Satakunta Cooperative Society, Pori	1.5%
Suur-Seutu Cooperative Society SSO, Salo	2.3%
Turku Cooperative Society, Turku	3.0%
Southern Ostrobothnia Cooperative Society, Seinäjoki	2.4%
Cooperative Society KPO, Kokkola	2.9%
Lappajärvi Cooperative Society, Lappajärvi	0.0%
Total	**100.0%**

NOTES TO INCOME STATEMENT ITEMS, EUR 1,000

29. Interest income and interest expenses	31.12.2010	31.12.2009
Interest income		
Receivables from credit institutions	571	760
Receivables from the public and public sector entities	19 979	5 169
Debt securities	39 046	57 067
Derivative contracts	34	2 155
Other interest income	38	24
Total	**59 667**	**65 174**
of which intra-group items	0	8
Interest expenses		
Liabilities to credit institutions	0	0
Liabilities to the public and public sector entities	20 202	28 971
Derivative contracts	853	328
Other interest expenses	3	4
Subordinated liabilities	271	445
Total	**21 328**	**29 748**
of which intra-group items	0	0

30. Net income from leasing activities

Nothing to report

31. Income from equity investments

Nothing to report

32. Fee and commission income and expenses	31.12.2010	31.12.2009
Fee and commission income		
from lending	4 461	2 434
from borrowing	1 396	1 064
from payment transactions	3 012	2 325
from insurance brokerage	162	0
from other activities	377	282
	9 407	6 105
Fee and commission expenses		
Other	1 965	1 313

	31.12.2010		
33. Net income from securities trading	Gains and losses on sales (net)	Changes in fair value (net)	Total
From derivative instruments	-38	445	408

	31.12.2009		
	Gains and losses on sales (net)	Changes in fair value (net)	Total
From derivative instruments	0	-1 951	-1 951

34. Net income from available-for-sale financial assets	31.12.2010	31.12.2009
Net income from disposal of financial assets	10 166	7 539

35. Net income from hedge accounting

Nothing to report

36. Net income from investment property

Nothing to report

37. Other operating income	31.12.2010	31.12.2009
Other income	4 852	1 407

38. Other operating expenses	31.12.2010	31.12.2009
Rental expenses	794	569
Other expenses	1 364	2 019
Total	**2 158**	**2 588**

39. Depreciation, amortisation and impairment of tangible and intangible assets	31.12.2010	31.12.2009
Intangible assets		
Depreciation according to plan	3 887	3 732

There are no impairment losses on tangible and intangible assets

	31.12.2010			
40. Impairment losses on loans, other commitments and other financial assets	**Realised contract-specific credit losses, gross**	**Group-specific impairment losses, gross**	**Deductions**	**Total**
Receivables from the public and public sector entities	3 552	7 089	7 692	2 949

	31.12.2009			
	Realised contract-specific credit losses, gross	**Group-specific impairment losses, gross**	**Deductions**	**Total**
Receivables from the public and public sector entities	4 353	4 644	2 214	6 782

41. Income and expenses from other than ordinary activities

Nothing to report

42. Information on business areas and geographical market areas

Nothing to report

NOTES ON COLLATERAL AND CONTINGENT LIABILITIES, EUR 1,000

	Other collateral	
43. Collateral provided	**31.12.2010**	**31.12.2009**
Liabilities to credit institutions*	540	
Other liabilities**	10 937	8 604

* S-Bank has provided collateral on the basis of agreements relating to derivative trading (ISDA/CSA)
** As a company that is launching card operations, S-Bank has deposited funds in escrow for the benefit of Visa Europe Services Inc to cover transactions related to payment transactions outside Finland.

44. Pension liabilities

The statutory pension security for the personnel has been arranged through Tapiola General Mutual Insurance Company

45. Leasing and other rental liabilities	**31.12.2010**	**31.12.2009**
Due in one year	129	72
Due in more than one year and less than five years	104	31
Due in more than five years		
Total	233	103

The lease liabilities relate to vehicles. The agreements are not cancellable in mid-term.

46. Off-balance sheet commitments	**31.12.2010**	**31.12.2009**
Undrawn credit facilities	560 595	424 449

Off-balance sheet commitments have not been given on behalf of companies included in the Group.

47. Collateral received in transfer as referred to in the Financial Collateral Act

Nothing to report

48. Broking receivables and payables

Nothing to report

49. Other off-balance sheet arrangements

Nothing to report

NOTES ON STAFF AND MANAGEMENT NOTES

50. Staff	2010 Average number	2010 Number on 31 Dec 2010	2009 Average number	2009 Number on 31 Dec 2009
Permanent full-time staff	118	124	96	95
Permanent part-time staff	6	8	2	4
Fixed-term staff	8	4	3	4
Total	132	136	101	103

Salaries and fees paid to management (EUR 1,000)	2010	2009
Managing director and his deputy	318	346
Executive Board	No fees paid	

The amount of loans granted to Managing Director, his deputy and the Executive Board is stated in the note on related-party lending.

RELATED PARTY TRANSACTIONS, EUR 1,000

51. Loans and other financial receivables from related parties of the credit institution, investments made in such entities and guarantees and collateral provided by third parties on behalf of such entities for repayment of loans	31.12.2010 Receivables from the public and public sector entities	31.12.2009 Receivables from the public and public sector entities
Basis for classification as a related party		
Ownership	13	39
Management	19	17
Management of holding company	26	14
Total	**58**	**70**

No contract-specific impairment losses associated with related-party lending. The terms of card loans granted to the company's related parties comply with the standard terms and conditions of lending to the public.

NOTES ON SHARE OWNERSHIP

52. Holdings in other companies	
S-Asiakaspalvelu Oy, domiciled in Helsinki	
Shareholding 100%	
Equity (1 000 €)	50
Result for the period (1 000 €)	0
S-Crosskey Ab	
domiciled in Maarianhamina (Mariehamn)	
Shareholding 40%	
Equity (1 000 €)	21
Result for the period (1 000 €)	0

OTHER NOTES

53. Note on trustee services and total amount of customer funds

Nothing to report

NOTE ON AUDIT FEES, EUR 1,000

54. Information on the auditors' fees	31.12.2010	31.12.2009
Audit	97	126
Other services	35	83

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